

Certification of Accounts of Rural Local Bodies & Urban Local Bodies

Subjects of the Urban Local Bodies under Article 243 W

- Urban Planning including town planning
- Regulation of land use and construction of building
- Planning for economic and social development
- Roads & Bridges
- Water Supply for domestic, industrial and commercial purposes
- Public health, sanitation conservancy and solid waste management

- Fire services
- Urban forestry, protection of the environment and promotion of ecological aspects
- Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded
- Slum improvement and upgradation
- Urban poverty alleviation
- Provision of urban amenities and facilities such as parks, gardens, play-grounds
- Promotion of cultural, educational and aesthetic aspects
- Burials and burial grounds; cremations, cremation grounds and electric crematoriums
- Cattle ponds; prevention of cruelty to animals
- Vital statistics including registration of births and deaths
- Public amenities including street lighting, parking lots, bus stops and public conveniences
- Regulation of slaughter houses and tanneries

- The Commissioner shall as soon as may be after each first day of April, have prepared a detailed report of the Municipal Administration of the City, other than administration of the Transport Undertaking during the previous official year together with a statement showing the amounts of the receipt and disbursement credited and debited to the Municipal fund during the said year and the balance at the credit of the fund at the close of the said year and shall submit the same to the standing committee

Income sources & Expenses of Urban Local Bodies

- Property & Other Taxes
- Audit has to see whether Revenue realised is shown for the period in which become due and demands are ascertainable
- Whether assessment changed and shown as accrued in the month in which the demand is served
- Interest and penalties is to be recognised only on receipt
- Notice fee, warrant fee and other to be recognised on raising bills
- Properly Transfer charges to be recognised only on receipt
- Collection to be made on behalf of State Government, Education Cess Employment Cess EGS Library Cess shown as credited to a Control Account State Govt levies on Taxes Control Account

- Any Additional provision for demand outstanding (Net required to be made during the year shall be recognised as expenditure and any excess provision written back during year shall be recognised as income of ULB
- Whether refunds remission of taxes for the current year shall be adjusted against income and if pertains to previous year then it shall be treated as prior period item
- Write off of taxes shall be adjusted against the provisions made and to that extent recoverable gets reduced
- Any subsequent collection or recovery of receivables for property & other taxes which were written off whether shown as Prior period income
- Demand raised with retrospective effect will be treated as prior period income to the extent it pertains to earlier year

- Octroi & Cess
- Whether
- revenue in respect of Octroi payable on spot assessment for non current account importers is shown as receipt
- Penalties transit fees etc shown as receipt on actual realisation
- In case of Account current facility holders revenue in respect of Octroi shown as a valuation /assessment being done at the time of entry of goods in Municipal Limits
- Refund is shown as expenditure as and when amounts are determined
- Forfeited transit deposit treated as revenue and collection of transit deposit treated as revenue
- Collection of cess Income with Return(on filling of returns by the dealers)recognised as receipt.

- Water supply
- Whether Revenue in respect of Water Tax, Water Benefit Tax, Water Supply Charges, Water Meter Rent, Sewerage charge, Disposal charges is shown as receipt in the period in which they become due, i.e., when the bills are raised. Generally water tax is included in the bill raised for the property tax.
- b. Revenue in respect of Notice Fee, Warrant Fee, Other Fees is shown in revenue account when the bills for the same are raised.
- Revenue in respect of Connection Charges for Water Supply shall be recognised
- on actual receipt.
Revenue in respect of Water Tanker Charges and Road Damage Recovery Charges, Penalties is shown as revenue on actual receipt.

- Assigned Revenue
- Whether Entertainment Tax, Duty / Surcharge on transfer of Immovable properties, is accounted during the year only upon actual collection. However, at year-end alone, these shall be accrued if sanction order(or proceedings) is passed and the amount is ascertained.
- Based on the review of recoverable position of the 'Receivables of Assigned Revenues', the amount of outstanding assigned revenues to be provided or written off shall be ascertained and accounted accordingly on obtaining the relevant approval

- **Rentals, Fees and Other Sources of income**
- Whether Revenue in respect of Advertisement rights is accrued either based on
 - Demand or based on the contract.
- Revenue in respect of Trade License Fees is accrued in the year to which it
 - pertains and where the Demand is raised based on applicable Acts of the state.
- Revenues in respect of Profession Tax on Organisations / entities is accrued
 - in the year to which it pertains where the demand is raised based on applicable
 - Acts of the state.
- Revenues in respect of rents from properties is accrued based on terms of
 - agreement.
- Whether Other income, in respect of which demand is ascertainable and can be raised in
 - regular course of operations of the ULB, is recognised in the period in which they become due, i.e., when the bills are raised.
- Any subsequent collection or recovery of 'Receivables of Rental, Fees and Other Incomes' which were already written off is shown as a 'Prior Period Income'

- **Public Works**

- The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed asset, interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets and other incidental expenses incurred up to that date.
- Any addition to or improvement to the fixed asset that results in increasing the utility or capacity or useful life of the asset shall be capitalised and included in the cost of asset. Revenue expenditure in the nature of repairs and maintenance incurred to maintain the asset and sustain its functioning or the benefit of which is less than for a year, shall be charged off
- Assets under erection/installation on existing projects and capital expenditures on new projects (including advances for capital works and project stores) shall be shown as "Capital Work-in-Progress".
- The Earnest Money Deposit and Security Deposit received if forfeited shall be recognised as income when the right for claiming refund of deposit has expired.
- Deposit received under Deposit works shall be treated as a liability till such time the projects for which money is received is completed. Upon completion of the projects, the cost incurred against it shall be reduced from the liability.
- Revenues (percentage charges) in respect of Deposit works shall be accrued along with expenditure of Deposit works.

- **Health and Sanitation:**

- Revenue in respect of the following shall be recognised on actual receipt.
 - i. Hospital fees, maternity homes fees, diagnostic centre fees and dispensaries fees
 - ii. Hospital training fees
 - iii. Rent and/or hire charges in respect of ambulance, hearse, suction unit, meat van and road roller
 - iv. Sale of fertilisers and waste, sale of animals and sale of scrap.
- Revenue in respect of Trade License Fees shall be accrued in the year to which it pertains and where the Demand is raised based on applicable Acts of the state.
- Revenue in respect of rent of equipment provided to the contractors, deducted from their bills, shall be recognised as and when the deductions are made.
- All revenue expenditures incurred shall be recognised on admission of the bills for payment by the ULB.
- Provision shall be made at the year-end for all bills received upto a cut off date (30th April of next financial year). However state governments depending on practicality and materiality involved can decide on this.

- **Grants**

Whether General Grants, which are of a revenue nature, are shown as incomes on actual receipt.

- Grants towards revenue expenditure, received prior to the incurrance of the expenditure, is to be treated as a liability till such time that the expenditure is incurred.
- Grants received or receivable in respect of specific revenue expenditure shall be recognised as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.
- Grants received towards capital expenditure shall be treated as a liability till such time that the fixed asset is constructed or acquired. On construction/acquisition of a fixed asset out of the grants so received, the extent of liability corresponding to the value of the asset so constructed/acquired shall stand reduced and the amount shall be treated as a capital receipt and shall be transferred from the respective Specific Grant Account to the Capital Contribution.

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- Capital Grants received as a nodal agency or as implementing agency for an intended purpose, which does not, result in creation of assets with ownership rights for the ULB shall be treated as a liability till such time it is used for the intended purpose. Upon utilisation for the intended purpose, the extent of liability shall stand reduced with the value of such utilisation and no further treatment, as a capital receipt shall be required.
- Grants in the form of non-monetary assets (such as fixed assets given at a concessional rate) shall be accounted for on the basis of the acquisition cost. In case a non-monetary asset is received free of cost, it shall be recorded at a nominal value (e.g. Rupee One).
- Income on investments made from 'Specific Grants received in advance' shall be recognised and credited to the Specific Grant, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the 'Specific Grant received in advance' shall also be recognised and credited/debited to the Specific Grant.

- **Borrowings or Loans received**

- Interest expenditure on loan is to be recognised on accrual basis.

Interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets is to be capitalised.

A provision shall be made for the interest accrued between the date of last payment of interest and the date of financial statements and shall be charged to the current period's Income and Expenditure Statement.

- The expenses incurred while issuing debentures or Bonds (Issue Expenses) shall be deferred and amortised in equal instalments over a period of 5 years or the tenure of the loan whichever is earlier. In case, the debentures and bonds are prematurely redeemed, the amount of issue expenses outstanding during the year shall be written-off and charged to the Income and Expenditure Statement as expense of the year when this happens. However, all other expenses in respect of raising loans other than those considered, as issue expenses shall be expensed off in the year in which they are incurred.

- **Special Funds**

Special Funds is to be treated as a liability on their creation.

- Income on investments made from Special Fund is to be recognised and credited to Special Fund, whenever accrued. Profit/loss, if any, arising on disposal of
- investments made from the Special Fund is to be recognised and credited/debited
- to Special Fund Account.
- Any expenditure of a revenue nature, which is incurred specifically on
- scheme/project for which a Special Fund has been created, is to be charged to that
- Special Fund.
- On completion of the construction of a fixed asset and/or on acquisition of a fixed
- asset out of a Special Fund, the amount equivalent to the cost of such fixed asset
- Is to be transferred from the respective Special Fund to the Special Fund

- **Investments**

- Investment shall be recognised at cost of investment. The cost of investment shall include cost incurred in acquiring investment and other incidental expenses incurred for its acquisition.
- All long-term investments shall be carried / stated in the books of accounts at their cost. However in the event of any permanent diminution in their value as on the date of balance sheet, these shall be provided for.
- Short-term investments shall be carried at their cost or market value (if quoted) whichever is lower.
- Interest on investments shall be recognised as and when due. At period-ends, interest shall be accrued proportionately.
- Dividend on investments shall be recognised on actual receipt.
- Profit/loss, if any, arising on disposal of investment (net of selling expense such as commission, brokerage, etc) from the Municipal Fund shall be recognised in the year when such disposal takes place
- Income on investments made from Special Fund and Grants under specific Scheme shall be recognised and credited to Special Fund and Grants under Specific Scheme respectively, whenever accrued. Profit/loss, if any, arising on disposal of investments (net of selling expense such as commission, brokerage, etc) made from the Special Fund and Grants under specific Scheme shall be
- recognised and credited/debited to Special Fund Account and Grant under specific scheme Account respectively. However, interest or gains from an investment made from grants received as reimbursements, shall be credited to Municipal / General fund of the ULB instead of the Grant account

- **Fixed Assets**

- All Fixed Assets shall be carried at cost less accumulated depreciation. The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed asset, interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets and other incidental and indirect expenses incurred up to that month.
- Any addition to or improvement to the fixed asset that results in increasing the utility or useful life of the asset shall be capitalised and included in the cost of fixed asset.
- Any Fixed Asset, which has been acquired free of cost or in respect of which no payment has been made, shall be recorded at nominal value of Re. 1/-.
All assets costing less than Rs.5,000 (Rupees Five thousands) would be expensed/ charged to Income & Expenditure Account in the year of purchase
- An increase in net book value arising on revaluation shall be credited to a reserve account under the Municipal fund as 'Revaluation Reserve Account'.
A decrease
- in net book value arising on revaluation of fixed assets is charged to Income and
- Expenditure accounts.
- Revaluation of a class of assets shall not result in the

- Revaluation of a class of assets shall not result in the net book value of that class being greater than the recoverable amount of the assets of that class.
- g. Revaluation reserve shall be reduced by transfer of equivalent amount of
- depreciation charged on the revalued portion of the cost of the fixed assets.
- h. Depreciation shall be provided at the rates prescribed by the state. Depreciation on all fixed assets is to be provided consistently on either Written down Value or Straight Line Method. (A task Force is being set

- **Depreciation for different type of assets of ULBs).**
- Depreciation shall be provided at full rates for assets, which are purchased/constructed before October 1 of an Accounting Year. Depreciation shall be provided at half the rates for assets, which are purchased /constructed on or after October 1 of an Accounting Year.
- Depreciation shall be provided at full rates for assets, which are disposed on or after October 1 of an Accounting Year. Depreciation shall be provided at half the rates for assets, which are disposed before October 1 of an Accounting Year.
- Assets recorded in the register but not physically available shall be written off after a specified period as defined by the State/Municipal act or rules governing the ULBs. The authority levels for the respective State/Municipal act or rule shall also define authorising the write off. However the specified period shall not exceed five years.

Municipal School Board

- Fees and fines received from primary schools is to be recognised on actual receipt.

Contribution receivable from other local bodies/ municipalities is to be recognised in the period in which they become due

Transport Undertaking:

- Revenue in respect of ticket charges and monthly passes is to be recognised on actual receipt.
The liability towards dues to the State Government for collections on its behalf, i.e., Child Welfare Surcharge, is to be recognised as and when it is collected.
- Revenue in respect of Rebate from State Government for collection made on their
- behalf, i.e., Child Welfare Surcharge, shall be recognised at the rates prescribed by the State Government on creating the liability to the State Government.
- Payments to be made by the Transport Undertaking to the Municipal Fund shall be accounted on actual payment

Internal Control

The following general internal controls is required in the ULBs whether this has observed:

The closing balance of cash as per the Cashier's Cash Book shall be verified daily with the physical cash balance at all the Collection Offices and must be signed by the person verifying the cash.

The cash chest should have two keys. One key will be with the cashier of the collection office and the other will be with another officer designated for this

- purpose by the ULB.
Cash in chest should be insured for theft, fire etc.
- The officers designated by the ULB for operating the Designated Bank Accounts shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited by them.
- Bank reconciliation shall be carried out monthly by the officers of the ULB designated for the purpose of handling the bank accounts and the same shall be duly verified and signed by the designated senior officer.
- Original copy of the cancelled Receipt shall be attached with the duplicate copy with the words "Cancelled" marked on it.

- At the time of approving payment, the Accounts Department has to ensure that the Payment Order provides reference of Register of Bills for Payment, Measurement Book, Stock Ledger or Fixed Asset Register, as the case may be, depending on the purpose for which payment is made.
- At the time of recording collections, the Accounts Department shall ensure that the total amount of collections as per the collection register tallies with the total amount as per Receipt register for cheques received and total of cash collections as per summary of daily collection
Original copies of all the cancelled documents such as receipts, payment vouchers shall be retained in the office file with reasons / justification for cancellation written on the cancelled documents.
- At the end of each month, the Accounts Department shall ensure compliance with the month-end
- Incomes in respect of Fees & User Charges and Sale & Hire Charges, reference to which is invited.

- Liability for Stale Cheques account should be reviewed at the end of every quarter and all the stale cheques dated more than 3 years or such period as may be specified by the state government from the date of original issue shall be identified and reversed as other income of the ULB.
- The Head of Accounts Department shall ensure stamping of all the bills once approved for approval and then for payment to ensure the same bill is not processed once again.

The Head of the Accounts Department shall ensure that all the bank charges accounted based on the bank reconciliation statement are supported with original bank debit advises.

- The Head of Accounts Department shall certify all Reconciliation Statements.

- Whether the following internal controls observed by the ULB in respect of Property and Other Taxes related transactions:
- a. The Tax Department shall ensure those Bills / Demands are raised on a quarterly/half yearly basis for Property and Other Taxes.
- b. The Head of the Accounts Department shall ensure that taxes are
 - accrued in the month in which it is due and journalisation of all the
 - demands/bills raised for property & other taxes before accounting for the collection.
- c. The Head of the Accounts Department and the Head of the Tax Department shall reconcile the balance at the beginning of the accounting year in respect of the year-wise Property and Other Tax Receivables (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded in the Demand Register.

- A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the Head of the Tax Department in respect of the amount collected and the year-wise amount outstanding between the balances in the Ledger Accounts maintained at the Accounts Department and the Demand Register maintained at the Tax Department.
- The officers designated by the ULB for operating the Designated Property Tax Bank Account(s) shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited by them.
- the Tax Department shall ensure that the Receipt / Summary of daily collection prepared, provides reference to the Tax Collection Register.
- Write-off of Property Tax receivables should be based on specific procedures and authorisation levels. The State Government/ ULB to lay down the level of seniority of officers and the amounts, which they would be competent to write-off.

- **PRESENTATION IN THE FINANCIAL STATEMENTS**

The various heads of account used for the accounting of Property and Other Taxes related transactions is to be reflected in the Financial Statements or in the Schedules attached to the Financial Statements of the ULB. All these Financial Statements and schedules should be affixed with signature and seal of designated authorities.

- The provision against the outstanding property tax receivable is to be disclosed under the major head Accumulated Provisions as a separate line item in the Balance Sheet below the 'Sundry Debtors'.
- The Schedule of the Income and Expenditure Statement in respect of Property and Other Taxes is to be appended.
- The various heads of accounts used for the accounting of Octroi related transactions shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities

Annual Procedure to be followed by ULBs

- All the period-end procedures, including the passing of adjustment entries performed at the end of each quarter, as explained above, shall also be performed at the end of each accounting year. In addition to that, further period-end procedures required to be performed at the year-end.
- Physical verification of stores: The physical verification of stores and consumables shall be carried out at least once in a year on the last day of the accounting year and at such time intervals as the ULB may decide. The verification shall be carried out by the Stores-in-charge in presence of the personnel of the Audit Department, who shall certify the stock sheet. The physically verified stores shall be reconciled with the balances as per the stores records. The value of physically verified closing stock would be incorporated in the Financial Statements.

- Committee consisting of Municipal Commissioner, Head of the Accounts Department, Head of the Public Works Department and such other representatives as the ULB's Statutory Authority resolves, shall be formed. The Committee shall ensure the existence of a system of conducting physical verification of fixed assets throughout the year so that each fixed asset is verified at least once during the year. Any discrepancies with the Fixed Assets Register should be reconciled and brought to the
- attention of the Statutory Authority. For this, the Committee shall prepare a plan of action for physical verification of its fixed assets. The Accounts Department together with the Public Works Department shall carry out physical verification as per the procedures provided in the verification plan. The details recorded in the verification sheets shall be checked with the relevant Fixed Assets Registers and suitable remedial steps shall be taken in case of discrepancies identified.
- At the end of the year, the Accounts Department shall obtain a confirmation from all the persons to whom the advances have been
- provided including the Head of the Department for Permanent Advance and employees of the ULB for miscellaneous advance provided.
- The difference between the interest earned on Provident Fund investment and interest payable on Provident Fund contribution to the employees shall be contributed by the ULB and an amount equivalent to the difference shall be transferred from the Main Bank Account to the Provident Fund Bank Account

- At the year-end, the Accounts Department shall collate the expenditure incurred for the benefit of Backward Classes Welfare or similar other benefit schemes from
- the records maintained there. The difference between the amount spent and the amount required to be spent as per the Government's instruction shall be transferred from the Main Bank Account to Backward Classes Welfare Fund Bank Account or other similar benefit fund Bank Account with a corresponding creation of/addition to Backward Classes Welfare Fund
- In addition to closing of ledger accounts at the end of each quarter, the ledger accounts shall be balanced and totalled at the end of each accounting year, i.e., on 31st March, for preparation of Financial Statements. The closing balances for each of the ledger accounts shall be posted in the Trial Balance from which Financial Statements shall be prepared

- The Annual Report of the ULB is included the following:
- a. Financial Statements consisting of:
 - i. Balance Sheet;
 - ii. Income and Expenditure Statement;
 - iii. Statement of Cash flows (a summary of an enterprise's cash flow over a given period of time);
 - iv. Receipts and Payments Account (detailed as per the account heads);
 - v. Notes to Accounts; and vi. Financial Performance Indicators.
- b. Report of the Municipal Chief Auditor (discussed in Chapter 32);
- c. Municipal commissioner's Report on the Annual Financial Statements and the qualifications and comments made in the Report of the Municipal Chief Auditor; and
- d. Standing Committee's Action Taken Report on the qualifications and comments made in the Report of the Municipal Chief Auditor and the Report of the Municipal commissioner.

- The Annual Financial Statements shall be subject to audit by a Municipal Chief Auditor as prescribed in the provisions and rules governing the ULBs.
- The Municipal Commissioner shall prepare a report on the qualifications and comments made by the Municipal Chief Auditor. This report shall be an integral part of the Annual Report. The Annual Financial Statements shall be approved by the Municipal commissioner and shall be placed along with the report of the Municipal Chief Auditor before the Standing Committee on or before such dates as may be prescribed in the applicable Acts. The Standing Committee shall prepare an Action Taken Report on the Annual Financial Statements submitted taking into consideration the qualification and comments made in the report of the Municipal Chief Auditor.
- The Standing Committee shall approve the Annual Financial Statements and Report and place them before the General Body on or such date as may be specified in the applicable Acts. The General Body shall adopt the Annual Report not later than such date as may be specified in the applicable acts. The amounts in the annual financial statements and the schedules forming part of the financial statements shall be stated in Units of Rupees. It shall be disclosed in Thousands / Lakhs of Rupees if a ULB decides so with the approval of the state government
- The process of preparation of the Financial Statements shall be preceded by preparation of a Trial Balance. The Trial Balance is a list of closing balances in all the accounts in the Ledger and the Cash Books. The purpose of preparing a Trial Balance is to determine the equality of posted debits and credits, and to generate a basic summary of accounts for facilitating preparation of the Financial Statements like Income and Expenditure Statement, Balance Sheet, Statement of Cash flows and
- Receipts and Payments account. The Financial Statements are essentially drawn from
- the Trial Balance.

Audit Report

- Audit report on financial statements
- · Periodicity of Reports
- · Supplementary / test audit conducted by CAG
- · Other audits of ULBs.
- The report of the Auditor as specified in this manual can be construed as certificate unless the State Government has any specific requirement. The Municipal accounts as contained in the financial statements including the accounts of special funds, if any, and the balance sheet shall be examined and audited by Director Local Fund Audit or his equivalent authority or an Auditor appointed by the State Government.
- The Auditor so appointed shall upon completion of audit of the accounts, issue a report on the financial statements of the ULB

- The MCA's Report on the Balance Sheet, Income and Expenditure Statement, Receipts and Payments Statement, and Cash Flow Statement shall be addressed to the Authority (as required by the relevant Act), of the ULB, with a copy being forwarded to the Municipal Commissioner.

The Report of the MCA shall state:

- a. whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;
- b. whether, in his opinion, proper books of account as required by Authority (as required by the relevant Act), the Accounts Manual, the Rules and any other stipulations have been kept by the ULB so far as it appears from his examination of those books;
- c. whether the ULB's Balance Sheet, Income and Expenditure Statement, Receipts and Payments statement and Cash Flow statement dealt with by the report are in agreement with the books of accounts;
- d. whether appropriate internal controls have been adhered to;
- e. whether all the payments have been made in accordance with the law;
- f. whether any deficiency or loss appears to have been caused by the gross negligence or misconduct of any person (if yes, the amount of loss should be quantified);
- g. whether any sum received for and on behalf of the ULB which ought to have been brought into account of the ULB by any person has been so brought; and
- h. whether any material impropriety or irregularity, other than those mentioned above, has been observed by him during the course of audit of accounts

- Besides the above Audit Report, the MCA shall comment in respect of the following matters in the Annexure to the Audit Report:
- 1. Whether all the expenditure incurred by the ULB are authorised by appropriate provision in the sanctioned budget, whether made originally or subsequently?
- 2. Whether all sums due to and received by the ULB have been brought to account within the prescribed time limits?
- 3. Whether all transactions (incomes, expenditures, assets and liabilities) are correctly classified?
- 4. Whether in respect of all bills for charges on account of all works and other expenditure, proper certificates have been furnished in support of them and that no deviation has been made from the sanctioned plans and the estimates without the sanction of the competent authority?
- 5. Whether the amounts received as specific grants have been utilised for the purposes as stated in the grant sanction order?
- 6. Whether the Special Funds, have been created as per the provision of relevant statutes and whether the Special Funds have been utilised for the purposes for which created?
- 7. Whether the ULB is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets; whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account?
- 8. Whether physical verification has been conducted by the ULB at reasonable intervals in respect of stores?
- 9. Whether the procedures of physical verification of stores followed by the ULB are reasonable and adequate? If not, the inadequacies in such procedures should be reported;
- 10. Whether any material discrepancies have been noticed on physical verification of stores as compared to book records, and if so, whether the same have been properly dealt with in the books of account?
- 11. Whether the valuation of stores is in accordance with the accounting principles laid down in the Accounts Manual? Whether the basis of valuation of stores is same as in the preceding year? If there is any deviation in the basis of valuation, the effect of such deviation, if material, should be reported

- Whether all the books of accounts and supplementary registers that are prescribed in the Accounts Manual / other applicable regulations have been properly maintained by the ULB;
- Whether the Quarterly Financial Statements have been compiled on the basis of
- the actual entries in the books of accounts;
- Whether the period-end and reconciliation procedures prescribed have been carried out.
- Whether the Bank Reconciliation statements have been prepared and are appropriate.
- Whether all grants from Government have been accounted at gross value with proper entries to various accounts

Certification of Annual accounts of RLBs

- 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.

- Accounts of RLBs are maintained on cash basis
- It is necessary to ensure that the annual accounts of each PRI/RLB indicate sufficient detail, information necessary to enable one to develop an understanding of the result of working and the financial position of the PRI
- It should be ensured in audit that the accounts to be certified are complete in all respect 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

- 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. Subsidiary accounts are maintained for consolidating transactions under appropriate classifications. Suspense registers, Loan ledger books 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

- Essential features of audit of accounts
- To make critical review of the system of maintaining accounts books accounting and internal control
- 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.
- 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
- 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 in the items are described in such a way that they properly present the receipt & payments of the PRI

- The method of auditing of annual accounts will be broadly as follows
- Entries in cash book and other books of original entries should be vouched and castings tested
- The posting from the main account books to subsidiary accounts should be test checked
- The justification and authority for each Transfer entry should be examined
- Balances in subsidiary register should be checked and agreed with schedules wherein such balances are shown
- Accounts showing receipts and payments should be checked with reference

Internal Control aspect would be need to be noted by Auditor

- 1. sanctions to expenditure and watch over progress of expenditure vis-à-vis budget of the PRI
- 2. Realisation of receipts and avoidance of loss due to negligence delayed action etc.
- 3. Accounting of cash receipts and payments
- 4. Purchase accountal issue utilisation and physical existence of stores and stocks
- 5. Execution of construction programmes
- 6. Creation of assets their maintenance and verification of their existence etc
- 7. Disbursement of grants subsidy scholarships etc and their utilisation by the recipients
- 8. Utilisation of Government assistance for specified purposes

Vouching of entries and receipts & payments

- **Vouching of entries.** The duty of the auditor is to ascertain whether the books are actually correct in accordance with the best of information obtained by him from 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 framework of these instructions all aspects of audit, the salient features of vouching are
- **Vouching of Receipts:** It should be examined that all receipts have been brought to account through the cash book and other records immediately as and when transactions occur and that the system of control in force over receipts does not leave scope for fraud or defalcation.
- **Vouching of payment**
- **The voucher for payment**
- **must be addressed to PRI under audit**
- **Relates too the affairs of the PRI under audit**
- **Is properly authorised**
- **Pertains to the period under audit and**
- **Does not bear any siggns of having already been used for another payment**
- **The vouching of payment will include examination of the authority for payment, reconciliation with liabilities discharges 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**

- Check of classification 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 off 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 PIR and the adequacy of the system of internal control.

- Apart from the necessary routine checking of postings, castings and vouching the following aspects should also be kept in view while auditing the accounts
- Check opening balance with the previous year's closing balance
- Make sure that all income has been brought to account
- Look for exceptional transactions, which have resulted in charges or credits of a material amount to the accounting period
- Vouch all capital expenditure
- Examine classification as between capital and revenue
- Check bank/treasury reconciliation and existence of certificates from bankers/treasury
- 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.
- See if credits from any source of income have come down as compared to previous year's figures.
- Examine particularly the bookings against items which qualify for grants / assistance to prevent attempts at securing inflated assistance from Govt. or to detect mistakes which may result in reduction in the quantum of assistance.
- Ascertain the system of stocktaking test check stock sheets and valuation and existence of verification certificates from responsible officials as prescribed
- Verify existence and ownership of assets and check basis of valuation
- Look for assets created or expenditure incurred which have not been productive
- Look for charges/transactions falling beyond the scope of authorised activities of the institutions.

Transactions under Plan & Non Plan

- 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.
- 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.
- 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

Cross checking of accounts with schedules and reconciliation & Suspense Accounts

- 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.
- Bank Reconciliation and Treasury Reconciliation is also to be carried out by the departmental controlling officers This has to be checked
- 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.

Unspent Grants

- 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 in audit report.
- 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/Deptt/Govt. While on one hand the accounts are purported to have accommodated such expenditure on revenue & capital heads and are certified by audit, on the other hand, audit also lists out cases of non-receipt of utilisation certificate. 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 Govt. by the PRI.
- It has to be verified that grants pertaining to State Plan/Non Plan schemes are not kept in bank accounts and prior approval of the Govt 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 accounts strictly in accordance with the guidelines issued for the implementation of the schemes.

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 account of each comment as a result of defective procedure/accounting followed. Reports on accounts should convey only final comments and should not read like 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.