

CHAPTER-7

AUDIT OF TRANSACTIONS-GENERAL AUDIT OF ESTABLISHMENT

7.01 Service Books and Leave Accounts

7.01.01 During Audit, 25% for 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 3-4 years. However, the audit party should check Service Books of all the officials who are going to retire in the next 5 years.

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

- (i) They are maintained with the leave account, for every employee 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 deputation appointments made are as per prescribed procedures.
- (iii) Entries of all events in the official career of the employee (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, to other offices, retirement, etc.) are made in his service book duly attested by the authorized officer, 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. Entries in the first page are being attested every five years.
- (vi) 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.
- (vii) 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 acquaintance rolls for the months selected for detailed check.
- (viii) Officials are not retained beyond the date of superannuation, except under the orders of Government or competent authority;
- (ix) The regulation of increments, fixation of pay on revision of pay rules promotion, etc., are according to the prescribed rules and orders.
- (x) 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.

7.01.03 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. Subsidiary leave accounts have been maintained wherever necessary and debits to such accounts have been correctly made.
- (vi) Excess leave sanctioned or excess leave salary drawn by mistake and discovered later has been rectified promptly.
- (vii) 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.

7.02 Audit of Pensions

7.02.01 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 authorizing payments, for watching payments against authorizations, for regulating payments in cases of death etc., and for maintaining requisite registers for these purposes and other allied matters.

7.02.02 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.

7.02.03 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 case 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.

7.02.04 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 authorized 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 –
 - point as at (a) to (f) and (h) above are covered;
 - claims for family pension/gratuity are allowed in accordance with the Nomination obtained from the employee and kept on record;
 - In the absence of a valid nomination, whether death gratuity is authorized to the beneficiaries supported by legal documents where necessary and as laid down in PRI Pension Rules;
 - 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
 - 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 authorized 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 authorizations is recorded in the Service Book, under proper attestation.
- (m) Whether particulars of authorizations 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.

7.02.05 Pension Payments

7.02.05.01 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.

7.02.05.02 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 authorized 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 authorized, have been correctly allowed from the dates they became admissible and arrears due on this account are correctly calculated and paid.

7.02.06 Pension Fund

7.02.06.01 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.

7.02.06.02 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.

7.03 Audit of Provident Fund Accounts of Employees

7.03.01 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 recognized by the competent authority, as otherwise contribution to the fund by the employees may not qualify for rebate under the IncomeTax Act.

7.03.02 The following points are to be borne in mind in the audit of provident fundaccounts:-

- (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 credits 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 authorized 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 realized 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.

7.04 AUDIT OF ACCOUNTING SYSTEM AND PROCEDURES

The audit of transactions varies from organisation to organisation depending upon the nature of the organisation, the system of accounting and the documents maintained. Before actually taking up the audit of transactions of any localbody, the first step of the audit party is to examine the adequacy of the accounting system and procedure adopted by it. Cases of misuse or abuse of Public moneys, which point out significant deficiencies in the accounting system and procedures, should be highlighted. However, the points to be examined at the time of audit of various documents or records are detailed in the succeeding paragraphs.

7.05 Cash Book: Cash Book is the fundamental record and audit of an organisation commences with the checking of posting in it. The main purpose of auditing the cash book is to ensure that:-

- (i) all receipts are taken into account in full;
- (ii) no unauthorised or fraudulent payments are made;
- (iii) all receipts and payments are accurately recorded; and
- (iv) the balances are worked out correctly.

For this purpose, the auditor has to see that:-

- (i) the total and balances are correctly computed;
- (ii) balances are correctly carried forward on daily as well as monthly basis;
- (iii) the balances, in cash book, are periodically checked with physical balances and tallied;
- (iv) the receipts are correctly posted in chronological order from all receipt books;
- (v) the payments are duly supported by paid vouchers;
- (vi) withdrawals from and remittances into bank are traced in the respective pass books and also checked from counter foils of cheque books and remittance challans;
- (vii) cash realisations are deposited in bank within the prescribed/ reasonable time;
- (viii) as far as possible, cash receipts are not utilised to meet expenditure and for every payment, withdrawals from the bank are made by means of cheques; and
- (ix) 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.

7.06 Receipts: Every local body should have a prescribed procedure for issue and accountal of receipts. It has to be seen in audit that:-

- (i) a proper record of receipt books is kept and the books are issued only to persons authorised to issue receipts;
- (ii) the receipts are machine numbered and are issued in chronological order;
- (iii) the return of counter-foils of used/partly used receipt books to safe custody is watched;
- (iv) the receipts are correctly posted in main cash book and where they are posted in subsidiary cash books, from which totals are taken to main cash book, the receipts are correctly posted in these subsidiary cash books;
- (v) the revenue realised is correctly assessed, demand notices issued and recovery watched by proper control records with periodical review of these records;
- (vi) the revenue is correctly classified in accounts;
- (vii) in respect of cash received through money orders, cheques and drafts, an effective

system of collection accounting exists and the same is followed;

- (viii) the realisations are duly posted in demand and collection registers and by a cross check, it is ensured that collections as posted in demand and collection registers are duly entered in cash book; and
- (ix) loss of revenue is written off under sanction of the competent authority.

7.07 Payment vouchers: Every payment, entered in cash book, has to be supported by a legal acquittance indicating, *inter alia*, the party to whom the payment has been made, particulars of the transaction to which the payment relates, the period for which the claim relates and dates of payment, duly attested by the person authorised to make the payment. It should be examined in audit that:-

- (i) the vouchers are filed in chronological order and are given serial numbers according to well established procedure;
- (ii) the claims are clearly mentioned in the voucher and are due and admissible;
- (iii) the arithmetical calculations are correctly made;
- (iv) receipts (stamped where necessary) of the claimants are attached to the voucher;
- (v) materials purchased are duly entered in the relevant stores/stock registers and their page numbers are quoted on the payment vouchers;
- (vi) the claim admitted is reasonable for the purchase and sanction for purchase/ payment had been accorded by the prescribed authority ;
- (vii) the vouchers are duly stamped as “Paid” and “Cancelled” to prevent double payment ;
- (viii) payments are, as far as possible, made by crossed cheques ; and if any payment is made in cash, it should be justified ;and
- (ix) the vouchers are correctly classified and duly accounted for.

7.08 Bank Reconciliation : The bank account in most of the organisations is part of the cash book, though separate bank account can also be maintained when most of the receipts and payments are in the form of cheques and drafts, and transactions are carried through the bank. It is necessary in audit to see that the system of bank reconciliation in operation is foolproof and that all receipts are duly posted in bank account and remitted to the bank for realisation and a watch kept on their due accounting to the credit of the organisation. Similarly, all payments duly discharged by the organisation are only taken to the accounts of the organisation. In particular, the following points need close examination in audit

- (i) cash receipts are credited to bank at the earliest possible time and counter foils of pay- in- slips are on record ;
- (ii) realisations by cheques /drafts are duly and promptly remitted to the bank and credits appear in bank account ;
- (iii) a system exists for a periodical bank reconciliation and one such reconciliation has actually been carried out as on the date of closure of annual accounts and the statement is properly agreed between the two sets of figures as per cash book and as per account in bank ;
- (iv) for the differences between balances as per bank pass bank and cash book, action has been taken for the reconciliation of the differences, specially old items ;
- (v) in case of credits in cash book which do not appear in pass book, it has to be ensured that pay in slips for actual remittances of such credits to bank are available on record ;
- (vi) there are no payments in bank pass book without corresponding entries in cash book and if there is any, it has to be duly investigated to see that it does not indicate any misappropriation ;and
- (vii) the cheque books are kept in safe custody and the procedure for issue of cheques in vogue is strictly observed ;

To give a practical idea of bank reconciliation, a table is given below which indicates the possible reasons for the difference between the balance as per bank column of the cash book and the balance as per pass book and the method of reconciling the difference.

SI No.	Reasons for differences	Balance as per		Overdraft as per	
		Cash book	Pass book	Cash book	Pass book
		-----	-----	-----	-----
1.	Cheques issued but not presented for payment.	+	-	-	+
2.	Cheques sent to the bank for Collection but not collected.	-	+	+	-
3.	Interest allowed by bank but not entered in cash book.	+	-	-	+
4.	Bank charge and interest charge by the bank but not entered in	-	+	+	-

	cash book.				
5.	Direct collections by bank but not entered in cash book.	+	-	-	+
6.	Direct payments made by bank but not entered in cash book,	-	+	+	-
7.	Cheques entered into bank but dishonoured.	-	+	+	-
8.	Cheques entered in cash book but not sent to bank.	-	+	+	-
9.	Cheques issued and dishonoured but no entry made for dishonour in cash book.	+	-	-	+

7.09 Payment to staff-

The points that require specific examination in audit apart from check of acquittances are as under:-

- (i) Are all posts created/ sanctioned by the competent authorities in the prescribed scales?
- (ii) Are appointments made according to the prescribed procedure?
- (iii) Are initial and subsequent pay fixations correctly regulated according to the rules applicable to the local body?
- (iv) Have contributions to provident fund and other funds been computed, realised and accounted for correctly?
- (v) Are leave accounts and other service records maintained properly?
- (vi) Have leave salary and all allowances given to the employees from time to time been correctly calculated and are admissible?
- (vii) Have recoveries towards income- tax required to be made at source, been correctly made and the amounts remitted to the Income Tax Authorities?
- (viii) In regard to reimbursement of tour expenses, are tours duly sanctioned by the competent authority and claims regulated according to the rules prescribed by the local body. The purpose of the tour should be for and in connection with the

activities of the local body.

7.10 Expenditure on wages:-The payments of wage should be checked in audit to see whether:-

- (i) a proper record of employment on specified jobs is available along with details of labourers required and actually engaged in a prescribed format ;
- (ii) a proper record of performance of the specified jobs is available ;
- (iii) there exists an assessment of work done vis-à-vis, the expenditure incurred on wages ;
- (iv) the expenditure has been correctly apportioned between capital and revenue ;
- (v) the supervision over the work is adequate ; and
- (vi) the work on which employment was made, was necessary and time taken was reasonable.

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

- i) a proper record of expenditure under each category is kept ;
- ii) the expenditure is regulated according to prescribed scales and sanction of the competent authority ;
- iii) there is adequate justification for abnormal increase in expenditure under certain categories ;
- iv) a system of proper control over the expenditure by the competent authorities exists ; and
- v) prescribed procedure for incurring the expenditure is observed.

7.12 Stock accounts – The stock accounts maintained by various local bodies may broadly classified under the following heads :-

- (i) Plants and machinery,
- (ii) Equipment,
- (iii) Raw materials for use in manufacture,
- (iv) Articles purchased for disposal as such,
- (v) Articles manufactured,
- (vi) Articles procured for consumption by the local bodies, and
- (vii) Articles retained permanently for official use.

In respect of the audit of these accounts, it may be seen that:-

- i) there is necessity effecting the purchase for immediate use ;
- ii) the item is utilised for the purpose for which it was purchased ;
- iii) the purchase, issue and consumption are authorised by the competent authority and are according to the prescribed procedure ;

- iv) the purchase and issue are duly taken in the relevant stock registers ;
- v) in case of transfers from one work or section or department to another, they are duly recorded in the stock registers maintained in respective works, sections or departments ;
- vi) the balances are correctly struck and valued ;
- vii) the physical verification of the ground balance with book balance is carried out periodically and the procedure prescribed for the verification is adequate and duly observed. Shortages should be carefully examined ;
- viii) there is no excessive accumulations of the stock ;
- ix) old and obsolete stocks are identified and disposed off in time according to prescribed procedure ;
- x) the procedure prescribed for making purchases is sound and is duly observed;
- xi) comparative statements, where tenders are invited and the recommendations of the purchase committee set up for the purpose should be carefully examined ; reasons for rejection of the lowest tender should invariably be enquired and analysed ;
- xii) the purchases are made at most economical time and rate, consistent with the quality and the quality of supply is checked with reference to declared quality in the agreement for supply ;
- xiii) the disposals are made at rates properly worked out and approved by competent authority ;
- xiv) the procedure for custody of various articles of stock has been prescribed and is duly observed ;
- xv) consumption of materials in production or other wise has been in conformity with the prescribed scales ;
- xvi) valuation of products for taking to stock, accounting of issues and stock taking has been done according to prescribed procedures and the procedures themselves are fair and reasonable ; and
- xvii) record of depreciations in value accounts is properly kept and rates charged are adequate.

It should particularly be borne in mind that in the case of organisations which do not earn revenue of their own, no depreciation need be written off till the assets exhaust their useful life or till they are disposed of.

7.13 Expenditure on works

Expenditure on works means the expenditure on the execution of a project as a whole or execution of individual works or works relating to maintenance and repairs, both regular and special. The works are, in certain local bodies, executed by themselves with the help of their own-wing of engineers, while in others, either through the state or Central Public Works Departments or through architects. The accounting procedure adopted by the local body will have to be examined. By and large, it is similar to that adopted by Government Public Works Division. Instructions given in the Manual of Standing Orders (Technical) volume I relating to the audit of Government Public works Divisions may be applied mutatis mutandis for audit of works transactions of local bodies as well. In addition, the following points may be examined in audit:-

- i) Whether the project has been approved by the competent authority of the local body and the financing authority, viz. State or Central Government?
- ii) Whether any time schedule for implementation of the project has been drawn up, indicating the physical and financial target from time to time and whether the same has also been agreed to by the funding authority?
- iii) Whether for the several components of the projects; required detailed plans and estimates have been drawn up in time, duly approved by the competent technically qualified authority specified for the purpose?
- iv) Whether the execution of the works was taken up as planned and whether flow of funds was as anticipated; if not, how far the works suffered may be looked into. Abandoned works, if any, due to paucity of funds, may be examined in depth.
- v) Whether the detailed drawings and designs, where required, were drawn up in time and furnished to the executing authorities and if not, reasons for delay should be ascertained in audit.
- vi) Whether a proper procedure for finalisation and award of contract is laid down and the same is duly observed? Whether the agreement contains a penalty clause to take action against the contractor in case of any default made by him resulting in loss to the autonomous body.
- vii) Whether tenders have been invited after giving wide publicity and whether they were properly scrutinised; comparative statements prepared before accepting the lowest tender? In case of acceptance of tender other than the lowest, justification for this, need be seen in audit.
- viii) Whether the delays, if any, at various stages viz, preparation of plans and estimates, supply of detailed drawings and designs to the executing agency, invitation and acceptance of tenders and supervision of works in execution have resulted in any loss, not only for the work as such, but also to the development of the organisation itself or in the execution/implementation of projects/schemes taken up by the local body? Escalation of cost due to delay may be examined.
- ix) Whether payments to contractors were made in time according to the agreement and whether any unauthorised aid to the contractor was involved?
- x) Whether records of measurement of the works at various stages have been maintained properly and whether the measurements have been taken in time by the qualified/competent persons? Whether such measurements are adequate? Register of measurement books should be examined to ensure proper account and return of unused books.
- xi) Whether quantities of work executed are within the estimates and variations are

examined and justified?

- xii) Whether the extra items executed are such that they could not be anticipated and not those omitted from plans and estimates for tendering and whether the rate paid for them has been correctly assessed in accordance with the contract?
- xiii) Whether a proper record of completion of the works is maintained and quality of work is subjected to adequate test, according to prescribed procedure and terms of contract?
- xiv) In case of poor quality of work detected on inspection at the time of completion, it may be examined why it could not be noticed earlier by the authority supervising the work and recording the measurement?
- xv) In respect of contracts on “cost plus percentage” basis, the control on quantity of work is quite adequate and there are no avoidable increases in quantity and there are no instances of use of costly items of work as substitution, resulting in avoidable increase in cost and consequent increase in contractor’s commission.
- xvi) In cases of contract with architects, whether the terms of agreement are properly drawn up to protect the local body against wasteful expenditure, lack of timely supervision by him and compensation for losses attributable to failures by architect etc ;
- xvii) In case, the local body is not in a position to commence work due to one reason or the other, such as non-availability of land, plans and estimates, non-invitation of tenders, etc. whether the funds for the work are not obtained from Government far in advance of the needs. If received in advance, their utilisation/ deviation may be looked into in audit.
- xviii) In respect of expenditure on maintenance and repairs, whether they are reasonable and necessary and are not for the removal of defects in initial execution on which timely action had not been taken?
- xix) Whether proper materials-at site accounts are kept, all receipts and issues noted, whether surplus material is not procured just for the sake of utilisation of the budget provisions, whether control on stock is kept and unused materials at the end of a work are duly transferred to stock/other works etc. or otherwise disposed of?
- xx) Whether the works executed are utilised for the purpose for which they were carried out?
- xxi) Work orders for petty works carried out without invitation of tenders should be examined to ensure that the works were not split up to evade invitation of tenders or sanction of a particular authority, proper upkeep and safe custody of records regarding work orders should be checked in audit.

- xxii) Where tenders received are accompanied by adequate earnest money and adequate security deposit is received from the contractors before awarding works to them? Whether mode of security deposit is in accordance with the prescribed rules?

7.14 Advances to employees.

A system of payment of advance is in vogue in every local body for the day to day management and administration. In all such cases, advances should not be booked to the final heads of accounts, *ab-initio*; other wise adequate control over their adjustments will be lost. Advances of this nature should be booked as such in the accounts. As and when advances are adjusted, suitable book adjustment must be carried out to transfer the advance to final head and the unadjusted advance at the end of the year should be reflected in the Balance Sheet clearly.

Advances to employees can be in the nature of advances for festival, tour, purchase of conveyance, construction of house, procurements of materials, works under execution, payments to be made by the employee on behalf of the local body, etc. In respect of advances for festival, purchase of conveyance, construction of houses, etc., entitlement amount payable and amount recoverable from month to month are according to the prescribed rules/ procedure; recoveries in these cases must be regular and it has to be ensured in audit that a proper system is prescribed and the same is duly observed. In respect of tour advances, it has to be seen that the amount of advance is not in excess of the anticipated tour claims, tours are duly sanctioned by the competent authority, adjustment bills are obtained immediately after the tour is over, adjustments are duly carried out by recoveries of excess payment in lump sum.

In regard to advances for procurement of materials, disbursements to be effected on behalf of the local body, etc., it should be seen in audit that no subsequent advances are given without adjustment of the prior advance and that the internal check and control over them are quite adequate. In particular, it should be seen in audit that:-

- (i) the advance was for meeting immediate disbursement and was limited to the anticipated expenditure;
- (ii) the advances was duly authorised by the competent authority;
- (iii) the date by which expenditure was to be incurred was known and an account for adjustment had been rendered immediately;
- (iv) a proper record of such advances is kept and recovery/adjustment is watched through it;
- (v) amount remaining unutilised had been promptly refunded and was not allowed to remain with the official for long, particularly when the amount is a substantial one;

- (vi) a proper account was received and recovery had been effected in all cases before the officials concerned proceeded on leave, transfer, retirement, etc., and
- (vii) the materials purchased, if any, out of such advances, were duly authorised by the competent authority and taken to stock.

7.15 Advances to suppliers and contractors

In the same way as advances to employees, it is necessary that the advances to suppliers and contractors should also be booked in accounts as advances only and final adjustment made on receipt of accounts/ materials/or after completion of works. No advances should be made to suppliers and contractors unless payment of such advances has been permitted under the terms of the contract or authorized under the trade practice in vogue for supply. In all such cases, it has to be seen in audit whether:-

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

7.16 Loans raised by the local bodies;-

Loans may be raised by the local bodies, under the sanction of the competent authority, either for general purposes or for certain specified purposes. In such cases, it should be seen in audit whether:-

- (i) sanction for raising the loan has been obtained from the competent authority ;
- (ii) there is ample justification for raising the loan up to the level, in view of the financial position of the local body;
- (iii) the purpose for which loan is to be raised is determined and the loan has been

utilised for that purpose;

- (iv) the loan is not raised far ahead of the schedule or in excess of needs, resulting in its diversion for other purposes or in investments;
- (v) the paying capacity of the local body has been duly assessed with reference to the source of income from which the repayment of the loan is to be met and the source is actually available for repayment;
- (vi) the repayment of loan and interest is not met by obtaining grants for the purpose, unless it is specifically authorised by the grant sanctioning authority;
- (vii) the terms and conditions of the loan are clearly determined and copy of the same is available with the loanee;
- (viii) the interest payable is correctly worked out and is duly reflected in accounts whether paid or not;
- (ix) the loan is utilised for the specified purpose and any surplus is duly refunded, if permissible;
- (x) a proper record of the loan is maintained for watching its timely repayment and the record is duly reviewed; annual balance is accepted by the loan giving agency; and
- (xi) all matters relating to raising of loan, utilisation, finalisation of terms and conditions, position of repayment, etc., are brought to the notice of the main governing body and other committees from time to time.

7.17 Loans disbursed by the local bodies

While scrutinising disbursement of loan by the local body, following points should be examined in audit whether:-

- (i) the scheme for grant of loan has been authorised by the management and Government where necessary;
- (ii) the source for financing has been duly determined;
- (iii) the terms and conditions are duly settled and a proper agreement is made with the loanee ;
- (iv) the loan agreement deeds are duly registered, where necessary, and kept in safe custody ;
- (v) loans are paid only to those who are eligible under the scheme after fulfilment of the required conditions;

- (vi) capacity of the loanee for repayment of loan instalments has been assessed before payment of the loan to him;
- (vii) demand notices are issued well in time for recovery of principal and interest and matter pursued according to terms and conditions of the loan till final recovery;
- (viii) submission of periodical report on utilisation of loan for specific purpose has been prescribed by the local body and recovery of unutilised portion of loan is made in time
- (ix) acceptance of balances is obtained annually from each loanee;
- (x) records relating to loan are properly maintained, reviewed periodically at an appropriate level and action taken for repayment, where necessary; and
- (xi) outstanding installments of loan and interest have been shown in the annual accounts.

7.18 Grants received by the local body.

Grants received by the local body are of two kinds viz, recurring for meeting expenditure on its maintenance or execution/implementation of schemes/ programmes and non-recurring-for acquisition of certain capital assets. One of the basic points to be seen in the accounts of any local body is to ensure that the format of the accounts indicates the source of each grant and its utilisation for specified purposes. It may be noted here that transactions of all the grants must be included in the annual accounts itself, of course, under the separately identifiable heads of accounts but separate annual accounts are not maintained for each grant because due to ignorance of their existence certain accounts may not be made available to audit. Scrutiny of transactions relating to payment of grant and its utilisation is one of the most important aspects of audit of local bodies. While scrutinising these transactions, the following points should necessarily be looked into in audit:-

- (i) The amount of grant payable to the local body for each purpose has been correctly assessed after taking into account all income adjustable towards limiting of the grant, in accordance with the guidelines, rules and prescribed procedures for assessment of the grant.
- (ii) In respect of maintenance grants, it is restricted to the net deficit and the expenditure on various items has been incurred in accordance with the scales laid down therefor.
- (iii) Grants remaining unutilised at the end of each year had been duly taken into consideration before determining the grant payable in the subsequent years and the amount paid was not far in excess or advance of the requirements.

- (iv) The conditions attached to the grant, before and after release are duly fulfilled.
- (v) The prescribed periodical returns are correctly compiled and supplied and a review thereof does not point out any deviation of purpose of grant or irregularities in utilisation.
- (vi) The assets acquired out of grant are continued to be utilised for the intended purpose and obsolete assets are disposed of and realisations credited to Government/ funding authority or adjusted against future grants.
- (vii) The objectives of the schemes for which grants are paid, are being achieved and a periodical review is being conducted, with the knowledge of the grant sanctioning authority for assessing the progress, future needs and changes and due approval is taken for modifications, increase in cost, etc.
- (viii) The income, expected to be generated by assets acquired and schemes executed in past with the grants received from Government, is actually being realised and the maintenance grant has been reduced to that extent, if so anticipated.

7.19 Assistances given by the local body

The instructions given in the Manual of standing orders (Technical) on audit of financial assistance rendered by Government, apply *mutatis mutandis* for audit of such assistance rendered by the local bodies with such modifications, as may be called for. The paragraph 2 of Chapter 2 of this manual may also be referred to.

7.20 Transactions relating to sundry debtors.

Certain local bodies, undertake credit sales of their products/ properties and realise their income later in accordance with the prescribed procedures. In such cases, it is necessary to see that a proper accounting procedure is established and is strictly followed and the credit sales are duly accounted for immediately after the transaction takes place. Proper ledgers for such parties with whom the local body has credit dealings is to be maintained, essentially. While scrutinising the ledger, it has to be seen that at the end of the year, the balances as per the individual ledger are duly drawn and agreed with the balances under the head "Sundry Debtors" as reflected in the Balance Sheet. Besides, it should be seen in audit that:-

- (i) the credit sales are authorised by competent authority and the creditworthiness of the debtor was considered before effecting credit sales;
- (ii) the terms and conditions for credit sales have been prescribed and observed both by the local body and the purchaser;
- (iii) amount due for realisation had been correctly assessed and adjusted in account;
- (iv) periodical demand notices are issued for recovery in time and recovery proceedings

adequately pursued and appropriate action taken against defaulters;

- (v) if the recovery is made on installment basis, it should be seen in audit that the amount of installments along with interest has been duly received and accounted for. The amount of interest should be shown separately in the accounts so that the balance of outstanding principal amount can be ascertained and pursued;
- (vi) proper mortgage deals should be executed and got registered wherever required;
- (vii) a system of annual acceptance of balance by the debtor is in vogue and is being observed; and
- (viii) a periodical review of old cases is being conducted and appropriate action taken by the local body.

7.21 Records relating to sundry creditors.

Certain local bodies purchase materials on credit basis and settle the accounts periodically. In such cases, it is to be seen in audit that the local body had made purchases on credit according to specific directive and no irregularity had been committed by taking recourse to credit purchases. It is also necessary to ensure that all credit purchases are promptly taken into account and a proper record of creditors is maintained and reviewed periodically. Balances in the ledgers duly agree with the balance shown under the head "Sundry Creditors" in the Balance Sheet.

7.22 Creation and investment of fund by the local body.

Where certain local bodies create certain funds e.g. Depreciation Reserve Fund, Reserve Fund etc., as required under the law, rules and regulations etc, governing the local body and invest them in Government securities, it has to be seen in audit that:-

- (i) allocation of the amount to the fund concerned is in accordance with the rules governing the fund;
- (ii) the fund is being accumulated in accordance with the prescribed scales and is not in excess of the prescribed ceiling;
- (iii) the investment of the fund money should be made according to the rules applicable to the fund and it should be made only out of allocated surplus and not out of loan realised unless it is specially authorised;
- (iv) the investment has been made in accordance with the prescribed pattern and the procedure for investment is duly authorised by the competent authority, but any loss to the local body on this account should be avoided;
- (v) the interest earned on investments is not appropriated to revenue unless otherwise

authorised, but is allowed to increase the balance of the fund only;

- (vi) the accumulations in investments are duly matched periodically with fund balances and where required, the shortfall in fund should be made good, and
- (vii) excess receipt of Government grant/loan or receipt far in advance of needs of the fund is returned to Government and not diverted towards investment.

7.23 Scholarships, stipends and such other payments.

Certain local bodies particularly Gram Panchayats obtain funds from Government for payment of scholarship to children getting primary education. In respect of such payments, it is necessary to examine in audit that:-

- (i) the period for which the scheme is to run is clearly specified in the sanction of that scheme;
- (ii) the selection of beneficiaries is made according to the prescribed rules and regulations governing the schemes;
- (iii) adequate precautions are provided for to guard against midway drop outs, resulting in infructuous expenditure;
- (iv) the payment has been made to proper person and acknowledgement obtained.
- (v) The payment has been made in the presence of some representative of Gram Panchayat and his signature obtained in support of the payment
- (vi) an assessment of the results achieved by the beneficiaries is invariably made on the completion of the session
- (vii) undisbursed amount is returned to the Government within a reasonable period of time.

7.24 Provident fund accounts of the employees

Most of the local bodies maintain the provident fund accounts of their employees themselves. In all such cases, it is essential to ensure that the local body has framed proper rules and regulations for maintenance of these accounts and the provident fund is duly recognised by the competent authority, otherwise the contributions to the fund by the employees may not qualify for rebate under the Income Tax Act. It should be ensured in audit that terms and conditions governing the recognition of the fund are duly observed from time to time. In particular, following points are to be seen in audit of transactions relating to provident fund accounts:-

- (i) The contributions to the fund both by the employer (in the case of contributory

scheme) and the employees have been made according to the prescribed rates, the increase or decrease in rate of the contribution being strictly regulated in accordance with the rules and are recovered regularly, and credited to the subscribers accounts.

- (ii) Refundable or non-refundable withdrawals are duly authorised for the specified purposes according to prescribed scales and refund of withdrawals are also made as per rules.
- (iii) It should be ensured that all the employees, who come under the scheme of provident fund, start contributing in time as per prescribed rules.
- (iv) The interest due to each account is correctly calculated at the rates prescribed under the rules and credited at the end of each year.
- (v) Investment of the balances lying in the accounts of the subscribers is made as per rules/ regulations authorised by Government while granting approval to the scheme of the fund.
- (vi) The interest on investments is realised in time and is correctly accounted for on accrual basis in the annual accounts.
- (vii) The balances in each subscriber's accounts at the end of each year duly worked out, communicated to the subscriber and his acceptance obtained.
- (viii) The balance in all subscribers' accounts are duly drawn up in a prescribed schedule and the total outstanding balance as shown in the schedule is reconciled with the balances as shown in the annual accounts.
- (ix) The balance of provident Fund Account comprising of the balances in all subscribers' accounts, has been correctly drawn up separately in the form of investments, recoverable advances to subscribers and cash and bank balances.

7.25 Audit against provision of funds

It is essential that every local body prepares an annual budget indicating various sources of income, anticipated income from the several sources, the expenditure proposed to be incurred against several heads of account, both revenue and capital. The budget so prepared must be approved by the apex body of the local body in the annual meeting and where necessary, a revised budget for the year in progress is also prepared and approved. Where so provided, copies of budget would also be sent to Government and their approval obtained, if so required. In audit, it has to be seen whether these requirements have been complied with and in addition, it should be seen that:-

- (i) a proper control record is kept by the local body to watch the progress of income and expenditure against budget provisions:-

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

7.26 Correction of accounts

Correction of accounts should not be insisted as a matter of course for rectification of every mistake, noticed in audit. The request for correction should be made sparingly only in cases where the local body is either willing to carry out the correction without delay to avoid audit comment on the corrections are such that they affect the fundamental accuracy of the accounts to be certified. In cases, where the local body promises to carry out the corrections in future accounts, it should normally be agreed to. But where the accounts for the current year cannot be certified in view of the mistakes pointed out in audit but not rectified by the body, it should specifically be mentioned that audit is not in a position to certify that the current years accounts represent true and fair picture of local body.

7.27 Contributory Pension Scheme:

This scheme is applicable to all Uttarakhand state autonomous bodies' government servant who are appointed on or after 1st October 2005 under this scheme.

1. Employees have to contribute 10% of their salary (Basic pay plus DA) through recovery from their salary bills.
2. Recovery will commence from the month following the month joining the Government service.
3. Government/concerned autonomous bodies will make equal matching contribution.
4. This amount must be invested in such type of account which yields interest equal to the interest earned on general provident fund.