

## OFFICE OF THE ACCOUNTANT GENERAL (AUDIT), BIHAR, PATNA

### Manual of Local Bodies (LB) Wing

For use of I.A. &A.D. only

#### Preface

This is the revised edition of the Local Audit Department (LAD) Manual. The LAD was an independent unit headed by the Examiner of Local Accounts, Bihar under the supervision of the Accountant General (Audit), Bihar. It was entrusted with the audit of Local Bodies and Authorities of Bihar viz. Universities and Colleges, Marketing Board and Market Committees, Religious Trust Funds, Bihar School Examination Board, Medical Registration Councils, PRIs and Municipal Bodies etc. The Parliament enacted 73rd and 74th Constitution Amendment Acts, 1992 (i) to transform Mahatma Gandhiji's concept of *Gram Swaraj* into a reality with the help of the Panchayati Raj Institutions (PRIs) and (ii) to empower the Urban Local Bodies (ULBs) to function as institution of Local Self Government respectively. Subsequently, Central Finance Commissions regularly recommended for an audit system to be devised by the State Government for audit of the accounts of PRIs and ULBs and for Technical Guidance & Support (TGS) to that audit system to be given by the Comptroller & Auditor General (C&AG) of India. After receiving directions from the Headquarters' (June 2011) in this regard, this office made several rounds of correspondences with the State Government for implementation of the above two provisions. The State Government created the Directorate, Local Fund Audit (DLFA) for audit of the accounts of PRIs and ULBs and notified the post of its Director (July 2015). Further, it also accepted (November 2015) the standard terms and conditions for TGS to be given by the C&AG

Consequently, the accounts of PRIs and ULBs are audited by us on test check basis. Further, the post of the Dy. Accountant General/Social Sector-I (SS-I)- cum- Examiner of Local Accounts, Bihar has been redesignated as Dy. Accountant General (SS-I/LB. The LB Wing deals with the audit of accounts of PRIs and ULBs of Bihar through entrustment from the State Government. Both these audits were earlier being conducted by the Examiner of Local Account, Bihar (Local Audit Department) under the provisions of the Bihar & Orissa Local Fund Audit Act, 1925. Further, under Section 9 of the aforesaid Act, the Examiner of Local Accounts (ELA) was empowered to surcharge "any illegal payment, amount misappropriated or loss incurred by the negligence" on the persons held responsible for the same based on the facts brought out through the audit reports. Now, that the post of the ELA ceases to exist this office is not mandated to surcharge or take further action related to surcharge notices and surcharge orders issued earlier.

The ULBs in Bihar have recently shifted from the Cash-based (Single entry) Accounting System to Accrual-based (Double entry) Accounting System which necessitates the audit of Financial Statements i.e. Receipts & Payment Account, Income & Expenditure Account and Balance Sheet. As such, we will have to adopt ourselves to the changing set-up of the local bodies to be inspected as well as devise appropriate methods of investigation to obtain the desired results. This Manual has been prepared keeping in view the INTOSAI, ASOSAI and Best Practices guidelines, the circulars of the CAG of India and the orders/instructions issued by the Accountant General (Audit), Bihar from time to time. It comprehensively provides for the audit of grants-in-aid and loans, works, establishment, receipts, expenditure, financial statements etc. besides, Internal Control. . The Manual may be treated as a guide for the staff of LB Wing and not as an exhaustive treatise. Any error or omission, noticed in the Manual should be intimated to the Social Sector-I/Headquarter Section who will be responsible for keeping it up-to-date.

**Accountant General (Audit),  
Bihar, Patna**

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## CHAPTER 1

### Introduction

**1. Introduction** —The Local Audit Department (LAD) was originally entrusted with the audit of Local Funds/Local Bodies /Non-Government Institutions (NGIs) and also with the local audit and inspection of certain Government accounts to supplement central audit in terms of the article 148 of the Audit Code and paras 13 and 17 of the Audit and Accounts Order 1936. With the formation of the Outside Audit Department in March 1952, the Local Audit Department was relieved of the local audit of all Government accounts and it was entrusted with the audit of the accounts of Local Funds/Local Bodies/NGIs. The department was *inter alia* engaged in the audit of ‘District Funds’, ‘Municipal Funds’, ‘District Education Funds’ and ‘Universities’, the first two created by Government under the Bihar & Orissa Local Self Government Act, 1885 and the Bihar Municipal Act, 1922, the third by the Local Self Government (Validating and Amending) Act, 1954 and the fourth by the Patna University Act and University of Bihar Act, 1952. Accounts of institutions which are maintained wholly or partly from Government grants and accounts of other NGIs such as, Improvement Trusts, Religious Trusts, etc., were included in the list of audit to be carried out by this department under the specific request by the State Government after obtaining requisite approval of the Comptroller and Auditor General from time to time. The audit done in respect of these funds was, therefore, a consent audit and subjected to audit under the Local Fund Audit Act, 1925.

#### A - Panchayati Raj Institutions (PRIs)

##### 1.1 General

The concept of Panchayat is very old in India. The system of taking collective decisions through *panchs* is termed as Panchayat. Panchayat is a self- governing institution.

Panchayats have been the backbone of the Indian villages from time immemorial. Mahatma Gandhi, who revived the concept and ideals of the Panchayat institution in 1946, said that the Indian independence must begin at the bottom and every village ought to be republic with a Panchayat having powers based upon individual freedom. For translating Gandhiji’s concept of *Gram Swaraj* into a reality, the Parliament enacted 73rd Constitutional Amendment Act 1992 on 24th April 1993. This

amendment brought a radical change in the Panchayat Institutions ushering in a new era. It provided constitutional status to the Panchayats. It required the State Governments to establish a three-tier system of strong, viable and responsible Panchayats at the village, intermediate and district levels and to enlist and foster peoples' participation in rural development and reconstruction across the country. The State Governments were to devolve adequate powers, responsibilities and funds upon these bodies to enable them to prepare plans and implement schemes for economic development and social justice. Thus, it created a basic framework for decentralisation of powers and functions to the Panchayat Raj Institutions (PRIs) at different levels. The objective behind the amendment was to make Panchayats a functional necessity for enhancing the participation of the rural population in the development process.

## **1.2 Need for Study of Accounting System of Panchayats**

**1.2.1** An effective accounting, finance and audit system is essential for the success of Panchayati Raj System and for ensuring transparency in the functioning of these bodies. The role of Gram Sabha is most important for the success of Panchayati Raj System at the village level. It also ensures the role of local people in conducting social audit and fixing responsibility on Panchayat functionaries.

**1.2.2** While State Legislature allows Panchayats to levy taxes or assign/share taxes and rates, it is seen that the major source of finance for the Panchayats is the grants – both from the State and the Union Government – to meet establishment expenditure of Panchayats (out of Central Finance Commission devolutions to the States) and for activities with plan funds for what are called “district schemes” spanning education, health, poverty alleviation, women's empowerment, environment, etc. It has been estimated that approximately 40 per cent of the plan funds of the State and Union put together are allotted for such district schemes.

**1.2.3** The 73rd Constitutional Amendment states that the State Legislature may provide for maintenance of accounts of Panchayats and their audit.

**1.2.4** On 27th August 1999, the Ministry of Rural Development entrusted the Institute of Public Auditors of India (IPAI) with the responsibilities to facilitate and assist the State government and panchayats in proper preparation of budget, accounting of various transactions as well as auditing of accounts of PRIs following the state specific procedures and guidelines and in line with the Model Accounting System

advocated by the office of the Comptroller & Auditor General of India. The states selected were Kerala, Madhya Pradesh, Orissa, Punjab and Tripura. Later, the states of Orissa and Punjab were replaced by the states of Uttar Pradesh and Tamil Nadu. The Institute selected 12 Districts, 22 Blocks and 57 Village Panchayats in these five states for conducting the study.

The National Academy of Audit and Accounts, Shimla under the guidance, support and encouragement of Shri V.K. Shunglu, the then CAG of India, held a seminar on “Accountability of Local Bodies and DRDAs.” Shri P.R. Dasgupta, the then Secretary, Rural Development, Ms.Nirmala Buch, former Chief Secretary, Madhya Pradesh, Shri S.C. Anand, the then President, IPAI, participated in the proceedings as panellists. The other participants at the seminar were senior level officers from the Government of India, state governments and the Indian Audit and Accounts Department. The important recommendations made in seminar were as under:

- there is a need for prescribing accounting standards and formats for local Government accounts;
- the accounting formats should have in-built performance indicators;
- two or three per cent of money released and spent on the schemes must be earmarked for enforcing accountability;
- a formal system for follow up on the audit findings needs to be introduced for accountability;
- local Funds Audit should be autonomous and it should not be under the state governments. The skills of their auditors need to be upgraded;
- the Gram Panchayat should keep an Asset Register. Completion certificate of each work should be insisted upon, and it should be authenticated by a technical person;
- a panel of Chartered Accountants to conduct audit of accounts of DRDAs should be in place with the consultation of CAG of India who should be entitled to issue directives to them and to conduct a superimposed audit. The comments of the CAG of India on the accounts of the DRDAs should form a part of the relevant Annual Accounts;

- The IPAI should expand its role. It should take action for creating a human resource pool in every district for keeping accounts at the Panchayat level. The Department of Rural Development should monitor this;
- The IPAI should examine the feasibility of conducting an All India Level Examination to qualify 10+2 level qualified candidates, in local language to maintain accounts of PRIs and to conduct their audit; and
- The IPAI should devise modules for training of trainers for auditors to upgrade the skills of selected candidates from the states who should go back and train others in their respective states.

### **1.3 Methodology and Focus**

**1.3.1** The IPAI began its study with a series of discussions with the officers of the Ministry.

The study was broadly based on the analysis of the following:

- all the orders, guidelines and relevant records of the Ministry of Rural Development, State Government, Accountants General, Zila Parishads, DRDAs, District, Block and Village Panchayats;
- the focus and point of view of the Ministry of Rural Development, New Delhi.
- the pattern of release of funds from:
  - Central Government to state governments and their subsequent releases;
  - Central Government to Collector/Zila Parishad/DRDA and subsequent downward flow of funds; and
  - matching grants from State Governments.
- time lag in the release of funds and receipt of money from one level to another;
- quantum of unspent funds, the reasons for funds remaining unspent and manner of their safe custody;
- interest earned by PRIs through unspent funds;
- the method and timeliness in release of funds to the Panchayats and subsequently to the beneficiaries;
- the practices in selecting and approving the projects;
- the role of Village Panchayat, BDO, DRDA and Zila Parishads in implementing projects;
- the approval of DRDA Projects;
- maintenance of accounts on a scale of 1 to 10 in the PRIs;

- the nature of muster rolls recorded;
- reasonable accounting to show release of funds, advances, utilisations;
- the method of validating utilisation certificates;
- the role of Chartered Accountants; and
- the maintenance of Asset Registers.

**1.3.2** Thereafter, the IPAI set up five teams of experts. They visited Panchayats at three levels and studied the records and held discussions with the officers. Their input was supplemented by the published documents of the Government, Audit Reports of the CAG of India, etc.

#### **1.4 Act and Rules**

Pursuant to the 73rd Constitutional Amendment, the Government of Bihar enacted the Bihar Panchayat Raj Act, 2006 whereas the Bihar Panchayat Raj Accounting Rules are being framed by the Legislature for better functioning and smooth governing of the PRIs replacing of the Bihar Panchayat Samiti and Zila Parishad (Budget & Accounts) Rules, 1964 and Bihar Gram Panchayat Account Rules, 1949.

### **B - Urban Local Bodies (ULBs)**

#### **1.5 General**

As was done in the case of PRIs through 73rd Constitutional Amendment, arrangements were made for the ULBs also to act as self- sustaining viable entities of Local-Self Government through the 74th Constitutional Amendment published in the Gazette of India Extraordinary Part II- Section I, dated 20th April 1993. This Amendment bestowed a constitutional status on ULBs and empowered them to function as Local-Self Governments to provide good urban governance. The 73rd and 74th Constitution Amendment Acts were the testimony of the political commitment to strengthen grass root democratic institutions of self-governance to provide better opportunity to the people to participate in a more constructive and creative manner in the planning process for democratic development for facilitating achievement of social justice.



## **1.6 Act and Rules**

Pursuant to the 74<sup>th</sup> Constitutional Amendment, the Government of Bihar enacted the Bihar Municipal Act, 2007 and the Bihar Municipal Accounts Rules, 2014 for better functioning and smooth governance by the ULBs.

## **1.7 Audit of PRIs and ULBs under Technical Guidance and Support (TGS) arrangement**

Provision for Technical Guidance and Support (TGS) to be provided by the C&AG for ULBs has been made by the Government of Bihar in the Bihar Municipal Act, 2007 and for PRIs, it is likely to be made in the Bihar Panchayat Raj Act, 2006. The State Government has also created the Directorate, Local Fund Audit (DLFA) and notified the post of its Director. It has also accepted the Standard Terms and Conditions of TGS which were provided by the C&AG Office. Now, the audit of some of the PRIs and ULBs are to be conducted on test check basis in order to provide TGS to the DLFA. Guidelines have been given in subsequent chapters on TGS arrangement of audit.

## **CHAPTER 2**

### **CONSTITUTION AND FUNCTIONS OF LOCAL BODIES (LB) WING**

- 2.1** The Local Bodies (LBs) Wing is under the charge of a Sr. Deputy Accountant General (Sr.DAG)/Deputy Accountant General (DAG). It is a separate unit under the administrative and technical control of the AG (Audit), Bihar, Patna. The functions of this office are, inter alia, to (i) provide Technical Guidance and Support (TGS) to the Director, Local Fund Audit (DLFA) in all the matters including preparation of Annual Audit Plan, guidance for setting up of a robust internal control mechanism, preparation of Inspection Reports etc. and (ii) conduct audit of the accounts of PRIs and ULBs on test check basis for providing TGS to the DLFA.
- 2.2** This wing consists of the following sections: -
- (1) Headquarter, (2) Administration, (3) Claim, (4) DP Cell, (5) Report, (6) Vetting-I (Panchayati Raj Department including PRIs except Gram Panchayats), (7) Vetting-II (Gram Panchayats), (8) Vetting-III (Urban Development & Housing Department including ULBs), (9) Vetting-IV (Rural Development Department and Rural Works Department), (10) Audit Committee.
- 2.3** The distribution of work amongst these sections is as under: -
- (I) Headquarter Section (SS-I)**
- (i) Preparation of Strategic Audit Plan and Annual Audit Plan.
  - (ii) Preparation of Quarterly Tour Programme for field audit.
  - (iii) Dealing with Right to Information (RTI) issues.
  - (iv) Regional Training Institute (RTI), Ranchi and In-house Training issues.
  - (v) Dealing with Paper Clippings containing irregularities related to audit entities
  - (vi) Dealing with complaints received from Headquarters/Outsiders related to irregularities observed in audit entities.
  - (vii) Dealing with issues relating to Technical Guidance & Support (TGS) with Headquarters/DLFA.
  - (viii) Receipt and maintenance of weekly diaries of field audit personnel.

- (ix) Receipt of Inspection Reports (IRs) from field audit teams and forwarding them to the vetting sections concerned.
- (x) Obtaining periodical reports/returns from different sections of Social Sector-I and sending them to the Headquarters/Performance Audit (PA) Section/Professional Practices Group (PPG) Section after compilation with specific comments ,if any.

#### **(II)Administration Section**

- (i) Dealing with appointment of Staff of LB Wing and their subsequent establishment issues.
- (ii) Dealing with issues relating to SAS Examination including training of candidates, registration of candidates, issue of admit cards, publication of results.
- (iii) Dealing with the confidential matters of staff of LB Wing.
- (iv) Dealing with court cases related to LB Wing.

#### **(IV) DP Cell**

Scrutiny and preparation of Draft Paragraphs from the material received from different vetting sections correlating with the key documents for inclusion in the C&AG's Report on Local Bodies. Preparation of various reports and returns

#### **(V) Report Section**

Preparation of C&AG's Report on Local Bodies including finalisation of Draft Paragraphs and Draft Performance Audit Reports of Local Bodies.  
Preparation of various reports and returns

#### **(VI) Vetting-I (PRI-I) Section**

Vetting of the IRs of Panchayati Raj Department, Offices of Deputy Director, Panchayati Raj, District Panchayati Raj Officer (DPRO), Panchayat Training Centers, Zila Parishads and Panchayat Samitis, Preparation of various reports and returns & identification of potential paras and forwarding it to DP cell ,

#### **(VII) Vetting- II (PRI-I) Section**

Vetting of the IRs of Gram Panchayats, Preparation of various reports and returns & identification of potential paras and forwarding it to DP cell ,

#### **(VIII) Vetting- III (ULB) Section**

Vetting of the IRs of Urban Development & Housing Department, District Urban Development Agencies (DUDAs), Bihar State Housing Board (BSHB), Bihar Rajya Jal Parshad (BRJP), Nagar Nigams, Nagar Parishads, Nagar Panchayats, Lodging House Funds and Trust Funds under the purview of Urban Development & Housing Department, Preparation of various reports and returns & identification of potential paras and forwarding it to DP cell ,

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#### **(IX) Vetting-IV Section**

Vetting of the IRs of the Rural Development Department (RDD), District Rural Development Agencies (DRDAs), Blocks, Rural Works Department (RWD), Works Divisions of RWD, Regional Laboratories and Circles of RWD, Preparation of various reports and returns & identification of potential paras and forwarding it to DP cell ,

#### **(X) Audit Committee**

- (i) Dealing with Compliance Reports sent by audit entities and settlement of outstanding audit paragraphs based on documentary reply.
- (ii) Participate in the meetings of High Level/State Level/District Level Audit Committees

**2.4** The following posts are sanctioned by the C.A.G. of India for LB Wing: -

<b>Sl. No.</b>	<b>Nature of Post</b>	<b>Total</b>
1.	Senior Audit Officer (Sr.AO)/Audit Officer (AO)	38
2.	Assistant Audit Officer(AAO)/Supervisor	76
3.	Seniorr. Auditor (Sr.Ar)/Auditor (Ar)	145
4.	Data Entry Operator (DEO)	06
5.	Clerk/Typist	01
6.	Steno Grade III	02
7.	Hindi Officer	01
8.	Junior Translator (Hindi)	01
9.	Multi Tasking Staff (MTS)	36

#### **2.5 Functions of LB wing**

The functions of LB Wing will be as follows: -

**(a) Maintenance of various Registers**

**(i) Register of Common defects**

A register of common defects will be opened in Vetting-I, II & III Sections. The entry of such common defects found at the time of vetting of Inspection Reports of various PRIs/ULBs will be made in this Register. This will facilitate the attempting of draft paragraphs on such common irregularities.

**(ii) Register of Financial Irregularities (Draft Paras)**

A register in Form as given in **Annexure I** to this Manual should be maintained in DP Cell to record cases of financial irregularities which are of sufficient importance to deserve mention in the Audit Report. The Section-in-charge should take special interest and direct the section to include as many important cases as possible in the register at the earliest opportunity. Status of progress regarding report to Government and the preparation of the preliminary and final draft paragraphs for the Audit Report should be submitted to the Senior DAG/DAG (LB) on the 1st of each month.

**(iii) Register of Contribution**

Register of contribution will also be maintained in Vetting-I, II & III Sections in the following proforma and entries will be made therein on the basis of the vetting remarks in respect of **good contribution** made by Sr. Audit Officers/ Audit Officers, Assistant Audit Officers/ Supervisors, Senior Auditors/Auditors in the Inspection Reports. These entries will be attested by the Branch Officer concerned.

**PROFORMA**

Sl. No. .... Name ..... Post .....Party No. ....

Name of the Department	Number and Period of Inspection Report	Para No.	Brief particulars of para	Brief Particulars of KD	Contribution of Government Servant	Signature of Audit Officer of Vetting Section	Remarks of Sr. DAG/ DAG (LB Wing)
1	2	3	4		5	6	7

**(iv) Register of Grants**

A register containing the year-wise and head-wise list of grants sanctioned and released by the State Government to the local bodies may be maintained in vetting sections concerned in order to ascertain the amount of grants released by the government to local bodies in particular schemes.

**(v) Check Register of Weekly Diaries of Local Audit Parties**

This register should be maintained by Headquarter Section in form S.Y. 325 and the entries in the register should be posted from the weekly diaries of audit parties (S.Y. 324) on each Friday morning. It will be put up to the Branch Officer on that day along with the weekly diaries and any abnormal feature, waste of time either in regular audit or in transit being brought to the notice of the Branch Officer. The Branch Officer will see that the details of the work done justify a full day's work. The register will be submitted monthly to the Sr. DAG/DAG (LB wing) on the 15th of each month for review.

**(vi) Calendar of Returns**

The Calendar of Returns is an important instrument of control for supervisory officers at different levels and its proper maintenance is, therefore essential for conducting a prompt review of the returns to be dealt with by each section under their control.

A Calendar of Returns shall be maintained in form SY 264 by each of the ten sections of LB Wing in accordance with the instructions contained in para 8.1 & 8.2 of the Manual of General Procedure Part I and in compliance of paragraph 1.15 of the CAG's Manual of Standing Orders (Administrative) Vol. I. The AAO of each section, besides keeping the Calendar of Returns up-to-date, will be responsible to submit it duly completed in all respects to the Branch Officer on due date.

**(vii) Other registers**

Other registers noted in the Calendar of Returns of each section will also be maintained and submitted to higher authorities by the AAO of the concerned section on due dates.

**(b) Miscellaneous**

**(i) Audit Programme**

The Headquarter Section shall be responsible for preparation of an Annual Audit Plan for the ensuing year. This forecast is submitted to the Accountant General (Audit) for his approval through the Sr.DAG/DAG. The Annual Audit Plan as approved by the Pr.AG/AG (Audit)/Headquarters is later split up into quarterly tour programmes for the various parties drawn up under the orders of the Pr.AG/A.G (Audit). The programme of the parties lasting for two or three months should be drawn up at least one month before the current programme expires.

The programme should be arranged exercising fiscal prudence in terms of expenditure on Travelling Allowance. It should be ensured that journey to the same side is not undertaken more than once unless required on account of special reasons. A party visiting a particular district/divisional headquarter should be allotted, as far as possible, all local bodies within that district which are to be inspected during that quarter.

**(ii) Intimation of date of Audit**

Intimation of the date of inspection as embodied in **Annexure II** to this Manual in respect of all accounts to be audited by the Inspection staff along with the list of records as detailed in **Annexure III** to this Manual should be sent by the Headquarter Section to be kept ready by the local body to be inspected.

Except in regard to special audits, Audit intimation should be sent to the head of the local **body & DM concerned** at least three weeks before the commencement of each inspection.

After the preparation of the quarterly tour programme, a list of all the local bodies included in the quarterly programme should be sent to their respective Heads of the Department with the request to issue necessary instructions to the respective officers to collect all records and registers and keep them ready for check by the party who may be given all possible help in conducting the audit and the head of the local bodies concerned requested to be present at the commencement of audit and at least on the last few days of the inspection for discussion of the draft Inspection Report etc.

**(iii) Entry and Exit Conference**

At the time of taking up of audit, the minutes of the entry conference duly signed by the officer-in-charge of the auditable entity and each of the members of the audit party may be forwarded to the Group Officer immediately on conclusion of the entry conference. Similarly, the duly signed minutes of the exit conference may also be forwarded to the Group Officer immediately on conclusion of audit. Failure to forward the minutes immediately on commencement of audit and subsequent to conclusion of audit may invite stringent action against the audit parties concerned including treating the period as “not a tour by the audit party”. During audit, in order to improve the quality of the audit scrutiny, the draft audit observations may be forwarded to the Group Officer electronically on his email ID or by FAX indicating the location of audit party, so that after scrutiny and necessary corrections, the same may be sent back electronically for issue. List of KDs obtained for the audit observations may also be enclosed.

**(iv) Action on Inspection Report**

As soon as an Inspection Report is approved by the Sr. DAG/DAG (LB Wing), a factual statement on potential paras should be drawn up by DP Cell and issued within one month after approval of Sr. DAG/DAG (LB Wing). The draft para is then prepared by the DP Cell at the appropriate time and submitted to Report Section. Further action for securing the acceptance of draft para and its inclusion in the Audit Report will be taken by the Report Section.

**(v) Supply of important orders etc. to Auditors**

The Assistant Audit Officer will see that copies of digest of important and interesting cases or short summaries of all important orders which have been issued by the Audit Officer or Sr. DAG/DAG (LB Wing) to be noted or circulated to all Auditors/Senior Auditors and that the various correction slips or books of reference are promptly supplied to them. These important orders and circulars should be noted by the Auditors and Senior Auditors in the note books.

**(vi) Special Audit**

As per para 7.2 of the CAG's standing order on Role of Audit in relation to cases of Fraud and Corruption the responsibility for initial investigation of losses



due to fraud, negligence, financial irregularities etc. rests primarily with the departmental authorities concerned and the State Government. No requests for special audits, may therefore, be entertained until the case presents special features and requires expert scrutiny by the staff of the Indian Audit and Accounts Department. Special audit is undertaken at the request of the State Government and requires sanction of the Accountant General (Audit). Such an audit usually requires more time than the ordinary test audit as a more thorough check has to be exercised in such cases.

The Comptroller and Auditor General has observed that the usual and proper course to follow for the department is to investigate the complaint or report in the first instance before the decision of a special audit could be considered and such audit, should only be by way of assisting the administrative authorities in their investigation. This guiding principle should be kept in view in agreeing to undertake a special audit in future, so that the Accountant General (Audit) may not be requested by Government to take up a large number of special audits prior to departmental investigation or before a prima- facie case of fraud or embezzlement made out. When, however, the normal audit of an institution has become due, there would be no objection to, at the same time, if a request comes from the State Government for a special audit of that PRI/ULB.

**(vii) Preparation of Returns**

The sections concerned will submit the following returns:

- (a) Quarterly statement showing the name of local bodies which have failed to clear the audit objections, the number of such objections and the period for which such objections have been outstanding with each local body will be maintained by Audit Committee Section. This statement after having been perused by the Senior DAG/DAG (LB Wing) will be passed on to the Administrative Department of the State Government with a view to enabling it to ensure that necessary action is being taken by the officers under it to settle the outstanding objections expeditiously.
- (b) Returns and statements required by Office Establishment Section regarding establishment and staff of the LB Wing.
- (c) All returns noted in the calendar of returns on due dates.

**(viii) Disposal of record**

The Sections concerned of LB Wing will despatch all the records (which are no longer required) to Record Section with the period of preservation recorded on the front page of each file.

Note: The function/duties of the Inspection parties which are also a part of the LB Wing have been given in the Chapter 12 of this Manual.

**2.6 Responsibility for maintenance of the LB Wing Office Manual:** - The Headquarter Section will be responsible for keeping this Manual up- to-date. It should propose draft corrections to the Manual as soon as any rule or order necessitating an amendment comes to its notice. The inspection parties should also scrutinise at each inspection the relevant portions of the Manual to see whether it requires amendment in any respect and make suggestions accordingly.

**CHAPTER 3**  
**ANNUAL BUDGET OF PRIs & ULBs**

**3.1 Annual Budget of PRIs**

Bihar Panchayat Raj Act; 2006 provides for the budgets of the Gram Panchayat, Panchayat Samiti and Zila Parishad under section 29, 57 and 84 respectively as follows;

**Budget of the Gram Panchayat —**

Every Gram Panchayat shall, at such time and in such manner as may be prescribed, prepare in each year, corresponding to the financial year of the State Government, a budget of its estimated receipts and disbursements for the following year and shall get it approved in its meeting by a majority of members present and for which the quorum shall be not less than fifty per cent of its total members.

**Budget of the Panchayat Samiti —**

Every Panchayat Samiti shall at such time and in such manner as may be prescribed, prepare in each year a budget of its estimated receipts and disbursements for the following year and shall get it approved in its meeting by a majority of members present and for which the quorum shall be not less than fifty percent of its total number of members.

**Budget of the Zila Parishad —**

Every Zila Parishad shall at such time and in such manner as may be prescribed, prepare in each year a budget of its estimated receipts and disbursements for the following year and the same will be passed by the majority of members present in the meeting and quorum for such meeting shall not be less than fifty percent of the total number of members.

Moreover, the auditor should also check the budget of the Panchayat Samiti and Zila Parishad as per the provisions contained in The Bihar Panchayat Samitis and Zila Parishads (Budget and Accounts) Rules, 1964 under rules 3 to 25 of Part – 2 and Form B1 to B3 of the rules *ibid*. Further, the budget of the Gram Panchayats should also be checked as per provisions given in rules 29 to 33 of Bihar Gram Panchayat Accounts Rules, 1949 and Form 6 of the Rules *ibid*.

**3.2 Annual Budget of ULBs**

**3.2.1** Bihar Municipal Act, 2007 provides for the preparation of Budget of the Municipality under section 82 to 85 as follows: -

**Preparation of budget estimate of Municipality (Section 82):** - (1) The Chief Municipal Officer shall prepare in each year a budget estimate along with an establishment schedule of the Municipality for the ensuing year, and such budget estimate shall be an estimate of the income and expenditure of the Municipality,

(2) Subject to the provisions of section 10 and sub-section (2) of section 73, the budget estimate shall separately state the income and the expenditure of the Municipality to be received and incurred in terms of the various heads of accounts,

(3) The budget estimate shall state the rates at which various taxes, surcharges, cesses and fees shall be levied by the Municipality in the year next following,

(4) The budget estimate shall state the amount of money to be raised as loan during the year next following,

(5) The Chief Councillor shall present the budget estimate to the Municipality on the 15<sup>th</sup> day of February in each year or as soon thereafter as possible,

(6) The budget estimate shall be prepared, presented and adopted in such Form and in such manner, and shall provide for such matters, as may be prescribed,

(7) The annual statements prepared under sub-section (2) of section 105 and sub-section (1) of section 117 together with the reports prepared under sub-section (1) of section 81 and under sub-section (2) of section 249 shall be enclosed with the budget estimate.

(8) The budget estimate shall earmark a minimum of 25% of financial resources towards provision of basic services to urban poor;

(9) The budget estimate shall be prepared on cash basis showing no deficit *i.e.* opening balances plus all receipts less all expenditures must not result in negative cash balances.

(10) Budget estimate shall be prepared, presented and adopted in such Form in such manner, as may be prescribed.

**Report on services provided at subsidised rate (Section 83) :** - (1) The Chief Municipal Officer shall, while preparing the budget estimate, append thereto a report indicating whether the following services are being provided at a subsidized rate and, if so, the extent of the subsidy, the reasons there for, the source from which the subsidy is being met, and the sections or categories of the local population who are the beneficiaries of such subsidy, namely:

(a) water-supply and disposal of sewage, and

(b) scavenging, transporting and disposal of solid wastes.

**Explanation-** A service shall be construed as being provided at a subsidised rate if its total cost, comprising the expenditure on operation and maintenance and adequate provision for

depreciation of assets and for debt servicing, exceeds the income relatable to the rendering of that service.

(2) The Empowered Standing Committee shall examine the report referred to in sub-section (1) and place the same before the Municipality with its recommendations, if any.

**Sanction of budget estimate of Municipality (Section - 84) -**

- (1) The Municipality shall consider the budget estimate and the recommendations, if any, of the Empowered Standing Committee thereon, and shall, by the fifteenth day of March in each year, adopt the budget estimate for the ensuing year with such changes as it may consider necessary, and submit the budget estimate so adopted to -
  - (a) the State Government, in the case of a Nagar Nigam,
  - (b) the Director of Local Bodies, in the case of a Class 'A' Nagar Parishad, and
  - (c) the Regional Deputy Director of Local Bodies, in the case of a Class 'B' Nagar Parishad, a Class 'C' Nagar Parishad or a Nagar Panchayat.
- (2) The budget estimate received by the State Government or the Director of Local Bodies or the Regional Deputy Director of Local Bodies, as the case may be, under sub-section (1) shall be returned to the Municipality before the thirty-first day of March of that year with or without modifications of the provisions relating to subventions by the State Government.

**Power to alter budget grant (Section - 85) -**

A Municipality may, from time to time, during a year –

- (a) increase the amount of any budget grant under any head,
- (b) make an additional budget grant for the purpose of meeting any special or unforeseen requirement arising during the said year,
- (c) transfer the amount of any budget grant or portion thereof under one head to the amount of budget grant under any other head, or
- (d) reduce the amount of the budget grant under any head:

Provided that nothing shall be done under clause (a) or clause (b); or clause (c) or clause (d) without the recommendation of the Empowered Standing Committee.

Moreover, the auditor should also check the budget of the ULBs in accordance with Section 131 to 140 of Part D (BMAR Form No. 75 to 80) of Bihar Municipal Accounting Rules, 2014.

**3.3** From the above it is evident that Budget is a financial plan and an expression of financial intent. It sets forth the expenditure that a local body is expected to incur during the year on various

programmes and the means of financing them. At the same time, the budget is the principal means of control having the force of law. A budget thus provides both the authorisation of and limitation on the amounts that may be spent for particular purposes. The local body needs to demonstrate its accountability from both the authorisation and the limitation perspectives. To elaborate it, it should be seen in audit that the local body authorities authorises expenditure keeping in view the (i) extent of provision of funds available and the (ii) limit up to which it has been sanctioned by the competent authority.

## Chapter 4

### ACCOUNTS OF PRIs & ULBs

#### 4.1 Accounts of PRIs

**4.1.1** An effective accounting, finance and audit system is essential for the success of Panchayati Raj System and for transparency in the functioning of these bodies. The resource base of PRIs consists of own revenue generated by collection of tax and non-tax revenue, devolution of funds from State and Central Finance Commission, Central and State Government grants for maintenance and development purposes and other receipts. As per section 27,55 and 82 of BPRAs 2006, the PRIs may impose taxes on holdings, professions, and levy tolls, fees and rates subject to maximum rates notified by the State Government.

**4.1.2** All PRIs in Bihar are to maintain their accounts as per the provisions laid down under the Bihar Panchayat Raj Act, 2006 and the Bihar Panchayat Samiti and Zila Parishad (Budget & Accounts) Rule, 1964. The PRIs are maintaining accounts on cash basis in single entry system.

**4.1.3.** Based on the recommendation of the Eleventh Finance Commission, the formats for preparation of budget & accounts and database on finances of PRIs were prescribed by C&AG in 2002 and further simplified in 2007 for easy adoption at grass root level. The Technical Committee on Budget and Accounting Standards for PRIs approved the Simplified format of accounts for PRIs. Model Accounting System (MAS) format, prescribed by GoI in consultation with the CAG of India for exercising proper control and securing better accountability, has been notified (July 2010) by the Panchayati Raj Department, Government of Bihar and the accounts of PRIs would be maintained in the MAS formats from 1<sup>st</sup> April 2010. List of eight prescribed format are given below-

- Format 1: Monthly annual receipt and payment accounts
- Format 2: Consolidated abstract register.
- Format 3: Monthly reconciliation statement.
- Format 4: Statement of receivables and payables.
- Format 5: Register of immovable property.
- Format 6: Register of movable property.
- Format 7: Inventory register.
- Format 8: Register of demand, collection and balance

It was observed that accounting work was done in PRIASoft till 2014-15 and out of total eight MAS formats, only three formats were being generated. However, accounting work in PRIASoft was discontinued since 17 April 2015 and e- Panchayat module was introduced thereafter.

## **4.2 Accounts of ULBs**

4.2.1 Every ULBs (Nagar Nigam/Nagar Parishad/Nagar Panchayats) in Bihar shall maintain its books of account as per Bihar Municipal Act (BMA) 2007 and Bihar Municipal Accounting Manual (BMAM)/ Bihar Municipal Accounting Rules (BMAR) 2014.

**Financial Statement (Section - 88):** - The Chief Municipal Officer shall, within four months of the close of a year, cause to prepare a financial statement containing an Income and Expenditure Account, Receipts and Payments Account and a Balance Sheet for the preceding year in respect of accounts of the Municipality,

**Balance sheet (Section - 89):** - The Chief Municipal Officer shall, within four months of the close of a year, cause to prepare a balance sheet of the assets and the liabilities of the Municipality for the preceding year.

**4.2.2 Provision for accounting system under BMAR 2014:** - All Municipalities shall maintain its books of accounts using the double entry system of book-keeping following accrual accounting principles guided by the Bihar Municipal Accounting Manual. All municipal transactions shall be identified with funds in accordance with rule 5, and separate accounting records maintained for each such fund (Rule 4 of chapter 2). The accounts of the Municipal Fund shall be segregated, depending upon the needs in each municipality in to the heads (as illustrated in Rule 5) for record-keeping and reporting purposes. The head of accounts shall be as per Chart of Accounts prescribed in the Bihar Municipal Accounting Manual (BMAM) prepared u/s 87 of the Bihar Municipal Act. Each Fund accounts require separate maintenance of cash book, ledgers and records (Rule 5).

**4.2.3 Books of account:** Every Municipality shall maintain its books of account in respect of each fund, separately for each financial year. The primary books of accounts under the double entry accounting system shall be: (a) Cash Book (b) Bank Book (c) Journal Book and (d) General Ledger and Sub-ledgers. (Rule10)

### **4.3.1. Accrual basis**

(i) The accrual basis recognises transactions and events when they occur rather than when cash is paid or received. For example, a purchase is generally recognised when the delivery of the goods is made by the buyer, even though the payment may be made later.

(ii) The elements recognised under the accrual basis of accounting are assets, liabilities, net assets (or 'equity'), revenues, and expenses. Capital assets, i.e., assets whose benefits are expected to



extend over more than one accounting period, are recognised as expense over the period of benefit through a periodic depreciation or amortisation charge.

**(iii)** The financial statements under the accrual basis of accounting typically comprise a statement of financial position, a statement of financial performance (or activities), a cash flow statement, and explanatory notes and schedules on information contained in the aforesaid statements.

**(iv)** Although the focus of accrual accounting is on all assets and not just cash, accrual accounting maintains a complete record of cash flows and a statement of cash flows is now an integral part of accrual-based financial statements. (The procedure of accounting of Income and Expenditure is detailed in CH 4 and CH 6 respectively in BMAR 2014).

**CHAPTER 5**  
**PROVISIONS FOR AUDIT OF PRIS AND ULBS AND**  
**SOME GENERAL CHECKS**

On the recommendations made by the of 13<sup>th</sup> Finance Commission (para 10.161(ii)) and by the 14<sup>th</sup> Finance Commission (para 9.61) the functions of Technical Guidance and Support (TGS) to the primary external auditors of Local Bodies in the State have been entrusted to the Comptroller and Auditor General and the standard terms and conditions of TGS have been accepted by the State Government (7<sup>th</sup> December 2015).

**5.1 Standard Terms and Conditions of Technical Guidance and Support (TGS):**

I. CAG may provide suitable Technical Guidance and Support to primary external auditors of Local Bodies, viz. Directorate, Local Fund Audit (DLFA) or any other such designated statutory agency for the purpose of strengthening Public Finance Management and Accountability in LBs. The parameters of such TGS, as illustrated in regulation no 152 to 154 of Regulations on Audit and Accounts 2007 issued by CAG and accepted by State Government are given below:

- (1) The local fund auditor will prepare by the end of March every year, an annual audit plan for audit of PRIs and ULBs in the next financial year and forward it to the Accountant General (Audit), Bihar Patna;
- (2) The audit methodology and procedures for audit of PRIs and ULBs by the local fund auditor will be as per various Acts and statutes enacted by the State Government and guidelines prescribed by the Comptroller and Auditor General of India.
- (3) Copies of inspection reports in respect of selected local bodies shall be forwarded by the local fund auditor to the Accountant General (Audit) for advice on system improvements and the Accountant General (Audit) shall review the same with a view to make suggestions for improvement of existing systems being followed by the local fund audit department. The Accountant General (Audit) will also monitor the quality of the inspection reports issued by the local fund auditor by scrutinising such inspection reports.
- (4) The local fund auditor will furnish returns in such format as may be prescribed by the Comptroller and Auditor General for advice and monitoring.
- (5) The Accountant General (Audit) would conduct test check of some of PRIs and ULBs in order to provide technical guidance. The report of the test check would be sent to the local fund auditor for pursuance of action to be taken by PRIs and ULBs. The local fund auditor will pursue the compliance of such paragraphs in the inspection reports of the Accountant General (Audit) in the same manner as if these are his own reports.

(6) Irrespective of the money value of the objections, any serious irregularities such as system deficiencies, serious violation of rules and fraud noticed by local fund auditor will be intimated to the Accountant General (Audit) immediately so that the corrective action may be suggested

(7) The local fund auditor shall develop, in consultation with the Accountant General (Audit), a system of internal control in his organisation.

(8) The Accountant General (Audit) shall also undertake training and capacity building measures for the local fund audit staff.

II. In addition to audit to be conducted by the statutory auditor of LBs, CAG of India will have the right to conduct such test check of the accounts and to comment upon and supplement the report of the statutory auditor, as he may deem fit,

The CAG of India or any person appointed by him in connection with the audit, shall have the rights, privilege and authority as the CAG has in connection with the audit of Government accounts.

The results of audit may be communicated by CAG or any person appointed by him to the LBs. The CAG may also forward a copy of the report direct to the Government.

The CAG or his representative will have the right to report to State legislature, the results of audit at his discretion.

The above terms and conditions will not affect, in any way, the CAG' right to access the accounts and records of the LBs under other sections of the Comptroller and Auditor General (Duties, Powers and Conditions of services) Act 1971 and under other due statutory provisions.

Provision for Technical Guidance and Support (TGS) to be given by the CAG for ULBs has been made in the Bihar Municipal Act 2007(section 91,92 93 and 94) and for PRIs, amendment to the effect is likely to be made in the Bihar Panchayat Raj Act, 2006.

## **5.2 Audit of Local Bodies**

**5.2.1** Audit, as understood in common parlance, is an examination of the books of accounts to ensure that the final accounts as drawn up, exhibit a true and fair view of the working and the state of affairs of the organisation subjected to audit. The examination involves verification of the authority for and the accuracy of the booked figures with the help of such evidence as may be available in the form of vouchers, invoices, receipts and other documents. The auditor is, therefore, expected to conduct, as far as possible, an independent investigation into the affairs of the body or authority and satisfy himself that the state of affairs, as shown in the final accounts at a given date, reflects a true

and fair picture according to the facts available to him, information obtained by him and explanation given to him.

**5.2.2** Audit is normally undertaken after the accounts have been audited by the Director, Local Fund Audit. In certain cases, it is possible that the accounts for any period might not have been audited by the Director, Local Fund Audit. In such cases, the fact of non-audit of the accounts by the Director, Local Fund Audit may be commented upon in a separate para of the Draft Inspection Report.

**5.2.3** Before conducting the audit:

- (i) the minutes of meetings of Zila Parishad/Panchayat Samiti/Gram Panchayat/ULBs and of the standing committee constituted for regulation of various groups of subject should be studied carefully to have a track of the activities/targets fixed for activities and their achievements;
- (ii) similarly, all reports/returns received/sent in respect of various schemes should also be studied; and
- (iii) the reports of the Director, Local Fund Audit should also be studied. Any important point referred to therein may also be fully examined and incorporated with audit comments;

**5.2.4** The CAG will conduct the audit in accordance with general principles of audit keeping in view the provisions of any law, for the time being in force, applicable to the local body. The audit of transactions will vary from organisation to organisation depending upon the nature of organisation, the system of accounting and documents maintained. However, some of the items/records which can be subjected to general checks and the general checks expected to be applied by an auditor are given below:

**(a) Grants:**

Besides, the routine checks to be applied in the audit of grants, Audit should see that:

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- (1) the grant was utilised for the purpose for which it was given. For this purpose, the expenditure incurred may be examined to see if it was closely related to the object for which the grant was given. If there was any minus balance, it may indicate diversion of funds. In such cases, defects persisting in payments may also be looked into along with the reasons for diversion. Besides, it is also to be ensured that diversion of funds was approved by the competent authority;

- (2) the grant was utilised within the specified period. The extent of un- utilised grants which have become due for refund should be worked out. The reasons for its non-utilisation may be analysed, whether grant was given according to requirement or in any arbitrary manner by Government; and
- (3) the utilisation certificate duly countersigned by the competent authority was submitted by the body. Cases of non-submission of utilisation certificates or improper utilisation should be specifically brought out and commented upon.

*( Broadly based on Chapter 5 “Audit of Grants in Aid” of MSO Audit )*

In case of grants given for meeting establishment charges it should be seen that: -

- (i) proper sanction to the posts for which grant has been made exists;
  - (ii) payment has been made on proper acquittances;
  - (iii) the recovery of over payments of pay etc. to the grant head has not been taken as own income of the body;
  - (iv) in case of Panchayat Samiti/Parishad, payment in respect of pay and allowances of the posts sanctioned from the funds of the Samiti/Parishad is not being made from the amount of establishment grant received from Government; and
  - (v) pay has not been fixed/raised wrongly based on checking/verification of entries of pay and allowances with reference to Service Books . Performance of the staff employed/posted specifically for certain schemes may be linked up with the quantum of work undertaken, achievements made. Irregular appointments of Drivers/infructuous expenditure on pay and allowances of Drivers of jeep, tractors etc. during the period the vehicle was lying idle should be scrutinised
- (6) In case of grants for execution of Development Schemes the following should be ensured: -
    - (i) works register giving details of grants is maintained properly;
    - (ii) the grant was utilised for the purpose for which it had been originally sanctioned according to planned programme;
    - (iii) the conditions governing the grant were fulfilled;

- (iv) cases of non-utilisation/misutilisation of grant should be examined in detail;
- (v) details of incomplete work/works not undertaken/works abandoned should be analysed critically; and
- (vi) grant register are maintained properly and reviewed periodically at an appropriate level.

Suitable comments may be incorporated in IRs in the light of aforesaid scrutiny.

**(b) Borrowings**

- (i) Audit has the responsibility to ensure that the borrowings of a local body are so regulated as not to exceed the limits, if any, fixed by the Govt. and that the conditions laid down for it are duly observed.
- (ii) Audit should ensure that the proceeds from borrowings have been properly brought to account and have been expended only on the objects for which the loans were raised or to which borrowed moneys may properly be applied in accordance with the sound principles of public finance.
- (iii) Audit should also examine whether adequate arrangements have been made for amortization of the debt and bring to the notice of the Government instances in which this requirement has been ignored or the arrangements made appear prima facie to be inadequate. The following general principles will govern the examination of amortisation arrangement:-
  - (a) It would be more prudent to relate the arrangements to the objective of the borrowing rather than to the actual currency of the loan. The period should be comparatively short in case where the life of the assets created by utilising the loan is comparatively short.
  - (b) Where a material asset is created, the amortisation period should never exceed its life.
  - (c) Normally, the rate of amortisation should be related to the life of the revenue-producing asset for the creation of which the debt was incurred.

- (d) Where the net earning power of an asset substantially exceeds the interest on the debt, it may not be necessary to insist upon amortisation. Where depreciation or renewal reserves are constituted for the replacement of assets created from loan funds, amortisation is often omitted altogether or its rate scaled down. However, even in both these types of cases, it is a sound and prudent financial policy to make amortisation arrangements.
- (e) Where a Sinking Fund has been constituted for the redemption of borrowings, Audit has to satisfy itself that credits to this fund are in accordance with the undertakings given by the local body and set forth in the prospectus of borrowings and the payments are eventually utilised for the purpose for which the fund was created.

*(Chapter-13 “Audit of Borrowings, Loans, Advances, Guarantees, Reserve Funds, Suspense Transactions and Interest Payments” of MSO Audit)*

- (c) **Loans to Beneficiaries :** It should be seen whether:-
  - (i) the scheme for grant of loan was sanctioned by the Government;
  - (ii) source of financing has been duly determined;
  - (iii) the recommendations were duly determined and proper agreement was carried out with the loanees;
  - (iv) loans were disbursed only to those who were eligible under the scheme;
  - (v) the capacity to realise the loan instalments was assessed before disbursement;
  - (vi) demand notices were issued well in time for recovery of principal/interest and matter pursued according to the terms of loan till recovery;
  - (vii) prescribed report on utilisation of loan for specified purposes were obtained and recovery of excess release of loan was made in time;
  - (viii) loan records are maintained properly and reviewed periodically at an appropriate level.
- (d) **Review of Schemes/Projects/Programmes:**

According to Article 243-1 & 243-Y of Constitution of India, State Finance Commission recommends the distribution of financial resources to the State Government. The Central Finance Commission also gives grant to State

Government. These funds are utilised in various Schemes/Programmes by the State Government through the PRIs.

A number of Schemes/Programmes for example “Mahatma Gandhi National Rural Employment Guarantee Scheme, Schemes related to Finance Commissions”, etc. are being executed by Gram Panchayat/Panchayat Samitis /Rural Development Department in Bihar also. The field of activities is voluminous covering almost the entire gamut of the social development and economic functions of Government. Most of the expenditure of Government of India/State on social, developmental and welfare activities is being incurred through Gram Panchayats/Panchayat Samitis/Zila Parishads. Thus, there is necessity of closer audit scrutiny of the account covering following points: -

- (1) details of the Schemes/Programmes undertaken (together with dates of sanction implementation etc.) should be reviewed from an efficiency-cum-performance audit point of view in order to ascertain how far they had achieved their intended objectives and purposes.
- (2) the extent to which targets were achieved.
- (3) the manner of selection of beneficiaries according to the principles laid down.
- (4) proportion of assistance to S.C. /S.T.
- (5) economic execution of the programme.
- (6) expenditure on the establishment.
- (7) system adopted for prompt identification of beneficiaries, release of subsidy/grant/loan.
- (8) recording/reporting of expenditure and the beneficiaries.
- (9) diversion of funds.
- (10) infructuous expenditure
- (11) monitoring
- (12) non-achievement of objectives and reasons thereof.
- (13) impact of programme
- (14) correctness of data

Similarly, schemes/projects are being executed by the ULBs, the above check will apply mutatis mutandis in their case also.



**(e) Cash book**

Cash book is the most fundamental record and audit commences with check of the entire postings in the cash book. The main purpose of auditing the cash book is to ensure that: -

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

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

- (i) the totals and balances are correctly computed;
- (ii) balances are correctly carried forward from day to day and from month to month;
- (iii) the balances, in cash book, are periodically checked with physical balances (treasury/bank passbook /others) and tallied;
- (iv) the receipts are correctly posted in chronological order from all receipt books;
- (v) the payments are duly supported by paid vouchers, which can be accepted as valid legal discharge.
- (vi) withdrawals from and remittances to bank are traced in the respective pass books and from counterfoils of cheque books/remittance challans;
- (vii) cash realisations are remitted intact into bank within the prescribed/reasonable time;
- (viii) cash receipts are not diverted to meet expenditure and for every payment, specific 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.

A checklist for audit of Cash Management System is detailed in “*Annexure IIIA* “  
Further, headquarters has vide its letter No 1474/ CR/Coordn/Instruction for AR/235-2017 dated 15/11/2017 has prescribed an illustrative list containing the procedures for audit of Cash Book as detailed in “*Annexure IIIB*”(f)

**(f) Receipts:** It should be examined 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 counterfoil of used/partly used receipts books to safe custody is watched;
  - (iv) the receipts are correctly posted in main cash book and where subsidiary accounts are kept, from which totals are taken to cash book, the receipts are correctly posted in these accounts;
  - (v) the revenue to be realised is correctly assessed, demand notices issued within time prescribed and recovery watched by proper control records and periodical review of these records;
  - (vi) the revenue is correctly classified in accounts;
  - (vii) in respect of realisations by way of money order, cheques and drafts, an effective system of collection and accounting has been prescribed and 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 taken to cash book;
  - (ix) loss of revenue is duly examined and written off under sanction of appropriate authority;
  - (x) cash receipts are credited to bank intact at the earliest possible date and counterfoils of paying-in-slips are on record; and
  - (xi) realisations by cheques are duly remitted to the bank and credits appear in bank account.
- (g) **Payment vouchers** : It should be examined in Audit that:-
- (i) the vouchers are filed in chronological order and are given distinct serial numbers, according to a well-established procedure;
  - (ii) the claims are clearly stated and are due and admissible;
  - (iii) the arithmetical calculations are correctly made;
  - (iv) receipts (stamped where necessary) of the claimants are available;
  - (v) materials purchased, with reference to the claims admitted for payment are duly taken note of in the relevant stores/stock registers;

- (vi) the claim admitted is considered reasonable for the purchase and sanction for purchase/payment had been ordered by the prescribed authorities;
  - (vii) the vouchers are duly stamped, 'paid and cancelled' to obviate double payment;
  - (viii) payments are, as far as possible, made by crossed cheques and cash payment is justified only in exceptional and petty cases and
  - (ix) the vouchers are correctly classified and duly accounted for.
- (h) **Bank reconciliation :** It should be examined in Audit that:-
- (i) 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 account and the statement is a properly agreed one between the two sets of figures;
  - (ii) for the differences between balances as per bank pass book and cash book, action has been initiated for reconciliation of the differences;
  - (v) the reconciliation does not reveal old items of credits which reflects in cash book only and not in pass book and if there is any, it has to be ensured that remittance slips for actual remittance in bank are there on record;
  - (vi) there are no payments in bank pass book without corresponding entries in cash book and if there is any, it has been duly investigated and does not indicate possible items of misappropriation; and
  - (vii) the cheque books are kept in safe custody and the procedure for issue of cheques as laid down is duly observed.

A specimen of Bank Reconciliation statement has been given in **Annexure IV** to this Manual.

- (i) **Payment to staff:** It may be checked and ensured that:-
- (i) all posts are created by the authorities competent to create these posts and are in the prescribed scales;
  - (ii) appointments /promotion are made as per the prescribed procedure;
  - (iii) the initial pay fixation and subsequent pay fixation are correctly regulated according to the rules applicable to the local body;
  - (iv) proper leave accounts and other service records are maintained;
  - (v) contributions to provident funds and other funds have been correctly assessed, recovered and deposited in proper specified Account;

- (vi) recoveries towards income tax are being made in cases where they are to be recovered at source ; and
- (vii) For reimbursement of tour expenses, the tours are duly sanctioned by the competent authority and claims are regulated according to rules applicable to the local body.

**(j) Expenditure on wages :** It may be checked and ensured that:-

- (i) a proper record of employment on specified jobs is available.  
Competent sanction has been obtained;
- (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;
- (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.

**(k) Office Contingencies :** Audit should see that:-

- (i) a proper record of expenditure is kept;
- (ii) the expenditure is regulated according to the prescribed scales;
- (iii) there exists adequate justification for abnormal increases in expenditure;
- (iv) control over the expenditure is vested on certain specified authorities and they perform the duties adequately; and
- (v) where necessary, prescribed procedure for incurring the expenditure is observed.

**(l) Stock Accounts :** Audit should see that:-

- (i) there exists necessity effecting the purchase;
- (ii) the item is utilised for the specified purpose;
- (iii) the purchase, issue and consumption are authorised and are according to the prescribed procedure;
- (iv) the purchases and issues 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 taken note of in respective works, sections or departments;
- (vi) the balances are correctly struck and valued;

- (vii) physical balance is tallied with book balance periodically, procedure prescribed thereof is adequate and is duly observed;
- (viii) excessive accumulations are avoided and due care is taken in this regard from time to time;
- (ix) old and obsolete stocks are identified and disposed of in time according to the prescribed procedure;
- (x) the procedure prescribed for effecting purchases is sound and is duly observed;
- (xi) the purchases are made at the most economical time and rate, consistent with quality and the quality of supply is checked with reference to declared quality in the agreement for supply;
- (xii) the disposals are made at rates properly worked out and approved by competent authorities;
- (xiii) the procedure for custody of various articles of stock has been prescribed and are duly observed;
- (xiv) consumption of materials in production or otherwise has been in conformity with the prescribed scales;
- (xv) valuation of products for taking to stock, accounting of issue, and stock taking has been done according to the prescribed procedure and the procedures themselves are fair and reasonable;
- (xvi) record of depreciations in value accounts is properly kept and rates charged are adequate; and
- (xvii) any term/ equipment etc. is not lying idle in stock since long. If it is then such cases may be analysed to judge the reason and suitable commented upon.
- (xviii) Annual Service Maintenance Contract , where necessary, has been executed. If not, financial effect may be commented upon.

*(Broadly Based on the Chapter–4 “Audit of Accounts of Stores and Stock” of MSO Audit)*

- (m) **Expenditure on works:** It should be examined whether:-
  - (i) the project as a whole has been approved by the competent authority and the financing authority, like the State or Central Government etc. ;

- (ii) a time schedule for implementation has been drawn up, indicating the physical and financial target from time to time duly agreed to by the financing authorities as well;
- (iii) 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) the execution of the works was taken up as per approved plan and whether flow of funds was as anticipated; if not, how far the works suffered may be looked into;
- (v) the detailed drawings and designs, where required, were duly drawn up in time and furnished to the executing authorities and if not, the reason and impact thereof;
- (vi) a proper procedure for award of contract is laid down and is duly observed;
- (vii) tenders are invited and properly scrutinised in time before decision is taken;
- (viii) the delays, if any, in preparation of plans and estimates, supply of detailed drawings and designs, invitation and acceptance of tenders, supervision of works in execution etc. have resulted in any loss, not only for the work as such, but also to the development of the local body itself or in execution of schemes taken up by the local body;
- (ix) proper monitoring and supervision of work by the competent authority have been done;
- (x) work has been completed in stipulated time. If not, application for extension of time for completion of work had been submitted within the valid period and grant of same had been made by the competent authority;
- (xi) payments to contractors were in time in accordance with the agreed procedure and any unauthorised aid is involved;
- (xii) proper records of measurement exist and the records are compiled in time by qualified/competent persons and are subjected to adequate supervisory check;
- (xiii) quantities of work executed compare favourably with the estimates and variations are examined and are justified;
- (xiv) the extra items executed are such that they could not be anticipated and not those initially omitted from plans and estimates for tendering and whether

the rate paid for them had been correctly assessed in accordance with the contract;

- (xv) a proper record of completion exists and quality of work is subjected to adequate test, according to prescribed procedure and terms of contract;
- (xvi) for reported poor quality of work at the time of completion of inspection, the matter was not noticed by the authority supervising the work and recording the measurements;
- (xvii) in cases of contracts with architects, the terms are properly drawn up to protect the interest of local body to avoid wasteful expenditure, lack of timely supervision on the works by the architect, compensation for losses attributable to failures by architect etc.;
- (xviii) funds are not obtained for works from Government in advance of needs and deposited back with Government for carrying out the works as deposit works, the commencement of work being delayed thereafter, for one reason or other, such as non-availability of land, plans and estimates, non-invitation of tenders, etc.;
- (xix) in respect of expenditure on maintenance and repairs, it is reasonable and called for and is not in remedy of patent defects in initial execution on which timely action had not been taken;
- (xx) proper materials at site account are kept, all receipts and issues noted, surplus material is not procured without a plan on utilisation, just to indicate utilisation of budget provision, control on stock is kept and unused materials at the end of a work are duly transferred back to stock or other works, etc. or otherwise disposed of.
- (xxi) the Secured Advance or Mobilisation Advance as per terms of the contract has been given ,if so, recovery is to be seen;
- (xxii) the statutory deduction such as security deposit, Income Tax, VAT, Royalty and Labour Cess etc. has been made from the Running Account bill of the contractors.

**(5.2.5)** While auditing the accounts of the PRIs and ULBs, the guidelines contained in Chapter - 5, 6, 7, 10, 12, 13, 14 & 15 of Regulation on Audit and Accounts, 2007 regarding Financial Audit, Compliance Audit, Performance Audit, Role of the CAG in audit of PRIs and ULBs, Audit Evidence, Conduct of

Audit, Audit Notes and Inspection Reports and Audit Reports should also be kept in mind.

**(5.2.6)** In conducting the audit, the provisions in the Auditing Standards for PRIs & ULBs issued by the CAG, Manual of Instruction for Audit of PRIs should strictly be followed. Besides, Audit Quality Management Framework, Bihar Municipal Act 2007, Bihar Municipal Account Manual/Rules 2014, Bihar Panchayat Raj act 2006, Constitution & Powers of different committees in the ULBs/PRIs, conduct of business, Bihar Building Byelaws 2014, Bihar Urban Planning & Development Rules, 2014, Bihar Municipal Property Tax Rules, 2013, Bihar Property Tax Board Rules, 2013, Bihar Urban Planning & Development Act, 2012, Bihar Communication Towers and Related Structure Rules, 2012, Bihar Advertisement Policy, 2008, Bihar Municipal Empowered Standing Committee Conduct of Business Rules, 2010, Bihar Panchayat Raj Institution (Conduct of Business) Rules, 2015, Bihar Financial Rules 2005 and circular/orders/guidelines etc issued by the State/Central Government may be referred to.

(Ref. Para 4.2.2 Chapter-II of Accounting Standards for PRIs and ULBs)

(5.2.7) Information about an audited entity acquired in the course of the auditor's work shall not be used for purposes outside the scope of audit and formation of an opinion or in reporting not in accordance with the auditor's responsibility. It is essential that audit maintains confidentiality regarding audit matters and the information arising from audit task.

(Ref. Para-5.13 Chapter-I of Accounting Standards for PRIs and ULBs)

**(5.2.8) Code of Ethics for IA & AD**

**1.1** A Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors' in the Supreme Audit Institution of India(SAI). The independence, powers and responsibilities of the public sector auditor place high ethical demands on the SAI and the staff he employs or engages for auditing and accounting work.



- 1.2** The auditor promotes this by adopting and applying the ethical requirements of the concepts embodied in the key principles – Integrity, Independence and Objectivity, Confidentiality and Competence. The conduct of auditors should be beyond reproach at all times and in all circumstances. Any deficiency in their professional conduct or any improper conduct in their personal life places the integrity of auditors, the SAI India, and the quality and validity of their work in an unfavourable light, and may raise doubts about the reliability and competence of the SAI itself. The adoption and application of a Code of Ethics in the public sector promotes trust and confidence in the auditors.
- 1.3** Thus, the auditor/auditors should adopt and apply this ethical requirements of the concepts embodied in the key principles – Integrity, Independence and Objectivity, Confidentiality and Competence. For details, they should go through the Code of Ethics of the IA&AD.

## CHAPTER 6

### AUDIT OF GRANTS, LOANS & ADVANCES

As per the provisions of Bihar Panchayat Raj Act, 2006 , Bihar Municipal Act, 2007, and Rules framed thereunder the PRIs and ULBs receive grants and loans from the State and or Central Government. The grants received may be of 'general' or 'specific' nature.

#### **6.1 General Grants**

Grants received for general (unspecified) purposes are usually in the form of lump sum amount from the State Government to facilitate meeting certain expenditure, usually of revenue nature.

#### **6.2 Specific Grants**

**6.2.1** Specific grants are received for carrying out specific projects/schemes or for meeting specific expenditure. Such grants can be of 'Revenue' or 'Capital' nature depending upon the purpose for which they are received. Certain specific grants can have both capital and revenue components e.g. grant for construction of new roads and subsequent repairs and maintenance of roads. Specific grants may be received in advance or as a re-imbusement of the expenditure incurred. When a specific grant is received in advance, the grantee is required to submit an utilisation certificate in the manner prescribed in the Grant sanction order.

**6.2.2** In the same manner the PRIs and ULBs receive loans from financial institutions or by issuing debentures generally on the security of movable and immovable properties, of course, with the approval of State Government. The PRIs & ULB also get loans from the State Government.

#### **6.3 Audit of grants and loans**

**6.3.1** Audit of local bodies or authorities will be conducted in accordance with the general principles and rules of audit.

**6.3.2** The general principles and procedure of audit of grants-in-aid have been laid down in Chapter 05 of Section III of CAG's MSO (Audit). Corresponding rules governing the sanction of grant-in-aid are contained in Bihar Financial (Amendment) Rules, 2005.

**6.3.3** The general principles and requirement of audit of loans and advances are contained in Chapter 13 of Section III of CAG's MSO (Audit). Corresponding rules governing sanction of loans are contained in Bihar Financial (Amendment) Rules, 2005.

**6.3.4** Audit of grants-in-aid and loans is conducted in the following two stages:

(i) Audit of sanctions in the office of the sanctioning authority.

(ii) Audit in the office of the recipient institution/body.

#### **6.4 Audit of sanctions in the office of sanctioning authority for Grant-in-aid for general purposes**

(i) During the audit of the office of the sanctioning authority, it should particularly be seen whether : -

- (a) the grant has been sanctioned by the competent authority in exercise of the powers conferred on it under the rules framed by Government and the Departmental Codes and Manuals;
- (b) the conditions, if any, attached to the qualification of the grantee concerned prior to receipt of a grant were duly fulfilled;
- (c) the admissible amount of the grants has been calculated in the manner prescribed in the departmental rules or orders after obtaining necessary statements like audited accounts etc.;
- (d) the grant has been sanctioned after obtaining full particulars from the grantee and not in advance of receipt of such particulars;
- (e) the grant has been sanctioned only up to the extent of requirement and to the extent which can be utilised in the financial year and within the time limit for the expenditure ,if any, fixed ;
- (f) there is proper method by which the sanctioning authority satisfies itself about the fulfilment of the conditions and the method is adequate;
- (g) necessary periodical reports, statement etc. have been prescribed by the sanctioning authority and their receipt on the due dates from the grantee is properly watched;
- (h) the sanctioning authorities have prescribed clear cut procedure for satisfying itself that the grants and loans sanctioned are being utilised for the purpose for which they have been given and r all the conditions of such grants and loans are being fulfilled  
Such procedure may provide for: -

- (i) Submission of periodical progress reports;
- (ii) Submission of audited statement of accounts;
- (iii) Inspection of grantee institutions;
- (iv) Review of these reports and taking action on irregularities noticed during inspection.

(v) Maintenance of a register of grants-in-aid to watch the receipt of utilisation certificates and its periodic review by the appropriate authority.

(vi) Maintenance of a register of the permanent and semi-permanent assets, (equipments, buildings etc.) acquired wholly or mainly out of Government grants as envisaged in Rules 281 (V) of General Financial & Account Rules of the State Government. Devising a system to ensure that these assets are being put to intended use and there are no instances of diversion or sale of assets.

(ii) Apart from above the following may also be scrutinised;

- (a) What action, if any, is being taken with regard to obtaining utilisation certificates not received; grant/dues being recovered in cash or by adjustment from other grants?
- (b) Has any legal action been taken against the defaulting grantees? Are subsequent grants also being paid despite such defaults?
- (c) Are all the conditions stipulated in the sanction to grant-in-aid fulfilled? How is it being ascertained that the general objective of a scheme of grant-in-aid is being fulfilled? Is there any report or assessment by which the authorities review, from time to time, the annual achievements and is such an achievement reasonably proportionate to the efforts put in and expenditure involved? Such a review could be usefully made over a period of years. For instance, if a scheme of grants-in-aid for operation of sports has operated for 10 years at the end of which there has been very little achievement, this could be commented upon though it may not exclusively be related to procedure.
- (e) There may also be defects in the sanction or in the scheme itself which mitigate against an effective procedure to check the purpose for which the grant is utilised. Such deficiencies in the sanction of the scheme should also be examined.
- (f) The Inspecting Officers should take decision whether records of a particular recipient body or authority are to be examined. If so, a detailed note stating reasons justifying the selection of such authorities or bodies depending on the points noticed during the course of audit of the sanctioning authority should invariably be furnished to Group Officer, of the wing by name for further action at head office.

**6.5 Audit of Sanctions in the office of Sanctioning authority for Grants-in-aid for specific purpose grant:**

Besides satisfying itself about the competence of the authority sanctioning grant-in-aid and that the said authority had acted in pursuance of the approved policy of the Government, Audit should also scrutinise the procedure followed by the sanctioning authorities for ensuring the proper utilisation of grants or loans and fulfilment of conditions attached to them. In exercising this check, the records in the office of the sanctioning authority should be scrutinised in two stages, namely scrutiny of the system and its adequacy and scrutiny of the sanctions with a view to ascertaining whether the prescribed procedure is actually followed or not. So far as the scrutiny of the procedure and its adequacy is concerned, factors like the amount of grants/loans sanctioned, existence of prescribed procedural instructions, existence of efficient internal audit and administrative inspection system in the department for an effective control over the proper utilisation of grants or loans are to be examined to ensure that they are comprehensive with reference to the financial rules and regulations of the Government and the general or specific orders issued from time to time in this regard. The accounts and audit arrangements existing in the recipient body or authority should also be ascertained. After ensuring about the existence of a sound financial procedure by which the sanctioning authorities satisfy themselves about proper utilisation of the grant or loan, Audit should also see that the procedure prescribed is actually followed by the sanctioning authorities. For this, Audit should, inter alia, see that the audited statements of accounts for the grants or loans have actually been received and have been scrutinised by the sanctioning authority; that the unspent balances of grants and/or loans have been worked out and steps have been taken for adjusting the same against future grants and loans or their refund and that the records of the sanctioning authority indicate clearly that the grants/loans have been utilised by the recipient body for the purposes for which they were actually given. It may also be ascertained whether the administrative inspection, if any, envisaged in the procedure has been conducted and the inspection reports reveal any defects about the maintenance of accounts and utilisation of the grants. The follow up action on the inspection reports may also be examined and commented upon.

**6.6 Scrutiny of cases of non-submission of Utilisation Certificates of Grants: -**

Officers and field parties should make an attempt to analyse (a) system for watching utilisation certificates, (b) efforts made to obtain them, (c) system of release of future grants,

where utilisation certificates or accounts are not available and (d) actual utilisation in one or two cases, if possible.

All important cases of non-submission of utilisation certificate may be probed and it may invariably be scrutinised whether: -

- (1) money was utilised and if so, to what extent and whether the accounts were available with the sanctioning authority. In case of non-utilisation the reasons therefore should be analysed to the extent possible;
- (2) records were maintained in a satisfactory manner to enable the sanctioning authority to know the actual position of utilisation and submission of accounts in each case;
- (3) the sanctioning authority has any arrangements for inspection of the grantee institutions to satisfy itself about proper utilisation of grant/loan? If such system existed, whether non-submission of the utilisation certificates/accounts had any relation with the lack of proper and effective inspection;
- (4) proper and effective pursuance of pending utilisation certificates was done; and
- (5) further grant/grant-in-aid is released without receipt of utilisation certificates of grant/grant-in-aid for the preceding financial year. Efforts should be made to highlight the fact that in the absence of accounts of previous year's expenditure, the release of grants for future, made on adhoc basis, was improper and the position of outstanding utilisation certificates suitably commented in draft Inspection Report.

#### **6.7 Selection of cases**

The LB wing shall select a few cases falling under Section 15 (1) of the DPC Act for purposes of scrutiny of the books and accounts of the recipient bodies or authorities. The selection of such cases will be made judiciously taking into account, inter alia, the magnitude of the grant and/or loan and any peculiar or unusual condition attaching to such grant and/or loan, and subject to the provision under Section 15 (1) of the Act.

#### **6.8 Loans**

With the help of sanctions for loans, the records relating to the loans are examined to see that the loan has been sanctioned by the authority competent to sanction the loan in exercise of the powers conferred on him by the rules and in pursuance of the approved policy of the Government and accepted pattern of assistance. The general principles and procedure of audit of Borrowings, loans etc. are contained in chapter 13, section III of the CAG's MSO (Audit).

The general conditions governing sanction of loans are also laid down in section 106 to 125 in Chapter XIV of The Bihar Municipal Act, 2007.

In respect of loans granted to the Local Bodies for development and other purposes, the following points should be seen: -

- (i) except in the case of loans and advances made under special laws or in respect of which the Government has issued any general rules or orders, Audit may require that the reasons for making the loans or advances as well as conditions attached to them should be stated clearly and completely in the relevant sanction orders. Any unusual conditions, such as the remission of interest in an individual case, included in the sanction, would merit special scrutiny with a view to ascertaining the justification therefore;
- (ii) audit should ensure that the debtor has complied with the conditions governing repayment of a loan or advances and payment of interest.
- (iii) in reviewing the outstanding loans and advances, special attention should be given to irregularities in repayment, acknowledgement of balances and unrealised and doubtful assets;
- (iv) in order to protect the financial interests of Government, Accountant General (Civil Audit) should communicate to Government any information that comes to his notice in the course of his official business in respect of the financial position of a debtor, along with such comments as he may consider appropriate. The related communications should also invariably be confidential;
- (v) it should also be verified that further loans have not been granted for the same purpose when substantial unutilised balances out of the previous loans are still available to the debtors and that there is adequate basis to establish that the loans have been utilised only for the purposes and for the objectives for which they were sanctioned.

## **6.9 Audit in the office of recipient body or Authority**

**6.9.1(i)** The provisions contained in Para 3.5.17 to 3.5.19 of M.S.O. (Audit) - Second Edition 2002 - are observed in audit of accounts/records of the office of the recipient body or authority.

(ii) The points relating to borrowings in para 5.2.6 (b) should also be seen.

**6.9.2** Besides it may be observed in audit of body or authority whether : -

- (a) a separate cash book in proper form has been maintained and the transactions are entered in it as and when they take place and whether the cash book bears evidence of check;
- (b) the expenditure incurred is closely related with the object for which the loan was made and whether there is no diversion of funds;
- (c) the expenditure has been incurred with proper planning and economy and observing the usual financial rules to safeguard economy;
- (d) all the registers including stock registers have been maintained properly and checked periodically;
- (e) the scale of expenditure is approved and the purchases are made economically after calling the tenders or quotations;
- (f) in the case of expenditure on works, maintenance of muster rolls, measurement books, preparation of estimates and payment of bills have been made after observing the general principles and whether there is any evidence of periodical check of the progress of work;
- (g) the records of grantees bear evidence of check by the sanctioning authorities and whether the periodical registers or statements prescribed by them have been sent to them on the prescribed dates;
- (h) there is undue delay in submission of accounts by the grantees;
- (i) all payments are covered by proper vouchers and acknowledgements for payments.

**6.9.3** It should, inter alia, be ensured, whether the following rules of Bihar Financial Rules are complied with:

- (a) so much expenditure has actually been incurred against the amount paid by way of grant during any financial year;
- (b) before sanctioning a grant the sanctioning authority had called for audited statement of accounts of body or institution obtaining the grant to see that the grant-in-aid is justified by the financial position of the grantees etc.;
- (c) the accounts are certified as correct by a Chartered Accountant registered with the Institute of Chartered Accountants of India;
- (d) the conditions attached to the grant have been or are being fulfilled. If not, the details of the breach of those conditions should be indicated;



(e) the amount remaining unspent during a year was surrendered to Government or not ;

(f) the accounts of grants are exhibited properly in cash book.

**6.9.4** Under Section 15 of CAG's (DPC) Act, 1971, the scrutiny of records of all bodies or authorities in receipt of grants/loans for specific purpose is not obligatory. The decision to undertake the actual scrutiny of the books and accounts of recipient bodies or authorities may be taken in the light of recommendations of the Inspecting Officers as a result of examination of records of the sanctioning authorities.

**6.9.5** Any question arising from such scrutiny should be referred to the sanctioning authorities for elucidation or comments. The relevant Inspection Report should also be issued to the sanctioning authorities and not to the recipient institutions. However, care should be taken to ensure that the facts (on which the comments are based) are got confirmed by the sanctioning authorities/recipient institution depending on the circumstances of each case.

**6.9.6** The right of access to the books and accounts of authorities or bodies under Section 15(1) of the C&AGs (D.P.C) Act, 1971 will be limited to checking whether the grant or loan received from Government has been duly shown as receipt in the accounts of the authority or body, whether the grant or loan has been fully utilised for the purposes or objects for which they were sanctioned and the financial procedure, if any, prescribed in this behalf has been observed? Whether unspent balance, if any, has been refunded to the Government and whether the conditions attached to the grant or loan have been fulfilled?

**6.9.7** Besides the scrutiny of accounts of connected records of the grantee institutions, the local audit parties should carefully go through all the minutes relating to various meetings of the governing body/executive council/Finance Committee etc. as, sometimes, the same also provide material for the Audit Report.

## **CHAPTER 7**

### **AUDIT OF CIVIL WORKS**

**7.1** One of the important activities of the PRIs and ULBs of Bihar is the execution of civil works. These generally include construction, expansion, major modifications of buildings, development of land, construction of roads, construction of water works, construction of drainage system and other public utility works, repair and maintenance of existing structures etc. The execution of works by these two Institutions is governed by the Bihar Panchayat Raj Act, 2006 & Bihar Panchayat Samiti and Zila Parishad (Budget & Accounts) Rules, 1964 and Bihar Municipal Act, 2007 & Bihar Municipal Accounting Rules, 2014 and Bihar Public Works Code respectively.

The major points to be seen while checking any public works are summarised as follows;

## **7.2 Works**

### **7.2.1 Points to be seen in works audit of PRIs and ULBs**

Besides the points embodied in para 5.2.6 (m) of Chapter 5, the following points are generally seen during the course of works audit in PRIs & ULBs: -

#### **(1) Selection of month**

The audit party will select one month for each year of audit. The vouchers of the selected month available with the auditee entity, should be examined so that it may be seen that:-

- (i) the quantities for which payments have been made are traceable, with the supporting details, in the record of measurement quoted in the vouchers;
- (ii) in each case the record of measurement itself is in order;
- (iii) the rates at which payments were made for the several items of works or supply as shown in a voucher are in accordance with the terms and conditions of the relevant agreement, indent or order, etc. ; and
- (iv) those terms and conditions had been duly sanctioned by competent authority before the liability was incurred and not open to any objection from an audit point of view.

#### **(2) Test audit of the accounts of the selected major or minor works**

The works abstracts and connected accounts relating to the selected works should be examined in detail from the commencement and all transactions recorded in

them should be analysed and compared with the details of the sanctioned estimates, bill of quantity and with contract agreements, measurement books, stock account and other relevant documents.

The following points may be particularly looked into:

- (a) It should be ensured that tenders have been invited, work allotted and agreement executed before commencement of work. Where proper administrative & financial sanction along with detailed sanctioned estimate of work concerned under relevant chargeable head is available, all charges debited to work should be examined carefully to ensure that none of these falls beyond the scope of sanction. Estimated quantity/quantities should be compared with the quantities of work actually done with a view to verifying that savings due to abandonment or otherwise have not been utilised for additional work or that there have been no material alternation or modification in the sanctioned design without the sanction of the competent authority;
  - (b) All payments and supplies of materials etc. have been made strictly in accordance with the contract agreement indicating no laxity in any of the terms. The rates provided in the contracts should be specially scrutinised with reference to the sanctioned estimate and schedule of rates to see that they do not allow any concessions detrimental to the financial interest of local body; and
  - (c) Quantities of the material required for the work actually done should be worked out on the basis of the analysis given in the estimate or other established formula and compared with the actual issues both in the case of direct issue to works or issues to contractors to investigate the differences if substantial.
- (3) **Invitation and scrutiny of tenders:** It should be seen whether:-
- (i) the method of calling tenders was appropriate or not, that is to say whether open tenders were called where necessary, by giving adequate publicity.
  - (ii) specification, designs and drawings, where required, were indicated in the tender;

- (iii) where any particular tender other than the lowest was accepted in consideration of delivery time, extension has been granted without its full justification ;
- (iv) in case of contracts where materials are issued by the local body tenders are invited for finished items of work inclusive of cost of materials;
- (v) agreements have been accepted by the competent authority before the liability is incurred;
- (vi) corrections in agreement are attested by both the parties;
- (vii) the rates entered in the original agreements are the same as the tendered rates in the case of works for which tenders are called for;
- (viii) Availability of sanction of the competent authority for effecting purchases on the basis of a single tender or negotiations and recorded reasons for resorting to this method of purchase are there;
- (ix) All tenders were opened on the due date and their authentication by the designated officer numbered and initialled with date by the officer opening them;
- (x) the comparative statement was available on record and it was verified with reference to the original tenders;
- (xi) any tender received belatedly after the stipulated date had been included in the comparative statement and considered, and orders of the competent authority were obtained for doing so;
- (xii) the lowest offer was accepted in each case? In case this was not done, whether adequate justification/reasons had been mentioned in writing for rejecting the lowest offer should be examined; the difference between the lowest offer and that accepted should also be quantified;
- (xiii) In cases where more favourable or advantageous offers were rejected on the ground that the firms were untried, the feasibility of placing a trial order on the firms was considered with a view to achieving economies and appropriate action taken;
- (xiv) the successful tenderer had indirectly derived any advantage over the other tenderers because of the insertion of certain special conditions and acceptance of these special conditions resulted in any increase over the prices actually quoted; and

(xv) the difference between the purchase price finally accepted and that estimated in the tender is within the limits prescribed? If not, it should be examined whether confirmation about the availability of additional funds was obtained by the competent authority

**(4) Unworkability of rates**

Tenders quoting really unworkable rates (as judged from the current schedule of rates which is expected to be up-to-date) are rejected on that ground alone.

In cases where tenders are rejected on the plea that the rates quoted are unworkable, it should be seen whether the tenderer has specified in the tender itself, any special advantages he has, in support of the unworkable rates which he has quoted and whether such advantages have been taken due cognizance of by the EE/JE/AE when refusing the lowest tender on the ground of unworkability. There may be instances where contractors who have surplus materials on hand or other special advantages quote low rates which may be unworkable under ordinary circumstances with reference to the market rates for such materials.

**(5) Tenders for the supply of specialized articles**

(a) In order to secure effective competition in the case of works involving the provisions of specialized articles such as sanitary fittings and water supply arrangements, the tenderers should be asked to quote rates for the various makes they undertake to supply and to specify those makes.

Cases may arise, however, where in spite of the facts that tenderers have been asked to quote rate for the various makes of specialized articles they undertake to supply, some tenderers do not give full particulars of the 'Makes' for which they quote rates. In these cases, the authority competent to accept the tender has discretion to reject such tenders.

Reasons for rejecting the lowest tender are required to be recorded on the register of tenders which is treated as confidential record. The audit party should ask for this register to see if anything substantial can be incorporated in the inspection report.

(b) Normally tenders are called for the execution of all works and repairs intended to be given out on contract. However, if specific circumstances render it impossible to invite tenders in any particular case, it should be

seen that the Officer concerned has recorded reasons and obtained written approval of immediate superior officer before taking further action. A note or orders authorizing the execution of works without the formality of inviting tenders should be attached to the agreement concerned.

**(6) Contracts/Agreements**

- (a) It should be seen that the authorities authorised to enter into contracts or agreements have observed the following fundamental principles: -
- (i) the terms of a contract must be precise and definite, and there must be no room therein for ambiguity or misconstruction;
  - (ii) standard forms of contracts should be adopted wherever possible, the terms being subjected to adequate prior scrutiny;
  - (iii) as far as possible, legal and financial advice should be taken in the drafting of contracts before they are finally entered into;
  - (iv) no contract involving an uncertain or indefinite liability or any condition of an unusual character should be entered into without the prior consent of the competent financial authority;
  - (v) similarly, terms of a contract once entered into should not be materially varied without the prior consent of the competent financial authority;
  - (vi) contracts should invariably be placed only after inviting open tenders and accepting the lowest tender. In cases where it is not considered practicable to invite open tenders or to accept the lowest tender, the reasons for the deviations should be recorded;
  - (vii) in selecting the tender to be accepted, the financial status of the tendering individuals and firms must be taken into consideration, in addition to all other relevant factors;
  - (viii) even in cases where a formal written contract is not entered into, no order for supplies should be placed without at least a written agreement with regard to price;
  - (ix) provision must be made in contracts for safeguarding local body property entrusted to contractors; and
  - (x) when a contract is likely to endure for a period of more than five years, it should include, wherever feasible, a provision for its

unconditional revocation or cancellation by local body at any time after the expiry of six months' notice to that effect.

Though these guiding principles are primarily in the nature of financial rules, they are nevertheless of relevance from the audit perspective as well.

- (b) Deviations from contracts require authority not inferior to that required for the conclusion of the original contract. Audit should also see that any payment outside the strict terms of the contract or in excess of the contracted rates are not made without the consent of the competent financial authority.
  - (c) Cases in which there is evidence that an officer or agent of a contracting department has an undue common interest with the other contracting party should be brought to the notice of the competent higher authority for such action as it may deem necessary.
  - (d) Standing contracts should be reviewed occasionally and if Audit has reason to believe that the rates accepted in those contracts are considerably higher than the rates prevailing at the time of review, such variations should be brought to the notice of the competent authority.
- (7) **Scrutiny of contracts** : Following points should be seen: -
- (i) Complete particulars of quantities and rates/prices should have been furnished, the rates/prices stipulated being firm;
  - (ii) important and material clauses relating to delivery schedule, place of delivery, inspection of stores, despatch instructions, particulars of consignee, etc. should have been clearly specified and not omitted;
  - (iii) normally, the purchase order should have been signed by an authority competent to enter into contracts. If, however, this has been signed by an authority not competent to enter into the contract, it should be verified that a certificate to the effect that the competent authority has approved the purchase is recorded thereon, mentioning also the designation;
  - (iv) if the contract provides for payment to a party other than the contracting firm, a power of attorney should already have been registered in the books of the office;
  - (v) provisions relating to payment of sales tax, excise duty, etc. should be checked with reference to the instructions issued by the Government from

time to time. Vague provisions such as “sales tax will be paid, if legally leviable” should be objected to and the contracting officers asked to state in definite terms whether sales tax, excise duty, etc. are payable and, if so, they should specify the rates, basis of payment, etc. also;

- (vi) if the tender documents provide that the supplier should furnish a solvency certificate for the contractual amount. Audit should verify that no facts have been suppressed in the documents connected with the solvency certificate and that the financial interests of local body have been adequately protected;
- (vii) the contract should have been sanctioned by a competent authority and signed for and on behalf of the Chairman or any other authorised official of a quasi-public body, as the case may be;
- (viii) the contract should not have been entered into by or on behalf of a minor;
- (ix) security deposit, if any, should have been furnished in the appropriate form and of the correct amount and within the period stipulated in the contract;
- (x) all the conditions and requirements printed on the contract form should have been complied with;
- (xi) penalties leviable under the terms of the contract should have been enforced in the event of any default or breach of the conditions;
- (xii) requests for despatch of heavy goods by passenger train involving payment of freight charges disproportionate to the value of the materials should be reported to the audit party for detailed examination. In such cases, the party should examine whether higher rates of freight charges were also agreed to on earlier occasions on grounds of urgency and whether the circumstances really justified the additional expenditure;
- (xiii) whether the performance of the contract has been according to the terms and conditions e.g. observance of agreed time schedule for delivery/work execution etc. and where it is not whether penal clauses have been invoked or not;
- (xiv) whether corrections in agreement are attested by both the parties; and
- (xv) whether the rates entered in the original agreement are the same as tendered rates in the case of works for which tenders are called for.



**(8) Check of foils and paid cheques**

The foils of paid cheques of the selected month should be checked in detail with the cash book and vouchers with a view to see that payments have actually been made to the persons entitled for them.

**(9) Measurement Book :It should be seen that:-**

- (i) the stock of unused measurement books agrees with the book balance;
- (ii) measurement books are generally reviewed to see that the entries are made in accordance with the instructions on the fly leaf of the measurement books and that no entries are made by officers other than those empowered to do so;
- (iii) acknowledgements are taken from responsible persons wherever measurement books change hands;
- (iv) the dates of measurement of any outstation works are correctly traceable in the progress reports and Travelling Allowance bills of the officials concerned;
- (v) in the case of cancelled measurements, the cancellation is supported by the dated initials of the officer ordering the cancellation and also full reasons for the same are given;
- (vi) check measurements are conducted with discretion and methodically and that the items of works easily susceptible to fraud or which would most seriously affect the total amount of the bill, if recorded inaccurate, are selected for check measurement;
- (vii) measurements are recorded and signed by the senior officer when measurements are taken jointly by two or more officers;
- (viii) the pages containing detailed measurements are scored out by a diagonal line in red ink and that the abstract of measurements bears a reference to the number and date of vouchers of payment;
- (ix) record of check measurements is noted in the index at the end of the measurement book and percentage of check measurement are worked out; and
- (x) all measurement books are properly accounted in the register of Measurement Books.

**(10) Muster Rolls.** - Muster rolls are the initial records of labour employed on a work and they should be subjected to close scrutiny. It should be seen that:

- (i) a few muster rolls paid in the test audit month, selected randomly by the Inspecting Officer are checked arithmetically;
- (ii) they do not include payments to permanent or temporary employees of the category of clerks, Junior Engineer, Engineers, etc. ;
- (iii) payment of labour engaged through contractor is not made or authorised on a muster roll as in such cases the use of the muster rolls is not permissible;
- (iv) there are no unusual delays in payment;
- (v) a systematic record is maintained of the unpaid wages and their payment;
- (vi) duplicate copies of muster rolls are not prepared and that separate rolls exist for the period of each payment;
- (vii) attendance is taken daily and the record of attendance is checked, at intervals, by responsible officers of the local body;
- (viii) disbursement and certification of disbursement, is not entrusted, as a rule, to the officials of low standing;
- (ix) progress of work done is shown and that the cost is not so largely in excess of its value at current rates as to indicate either loss to local body or need for closer financial control;
- (x) Measurements are test checked as provided in the rules applicable to the local body;
- (xi) In examining the muster rolls it should be observed whether the instructions contained in PRIs Account Rules and Municipal Account Rules have been attended to and more particularly whether the outturn of work is commensurate with the expenditure incurred. It should also be seen whether the payments have been made or witnessed by the offices of the highest standing available and whether the charges are on account of labour solely. Charges on account of baskets, ropes, repairs to tools and incidental expenditure should not be drawn on muster rolls, nor should the wages of peons, and similar employees be included in them, as such employees form a part of the regular establishment for which a separate and distinct sanction is required. The designation of the labourers should be carefully scrutinised

in order to ascertain whether the wages of only such staff as may legitimately be employed on works are charged in the muster rolls;

- (xii) The auditor should see that the charges have been correctly allocated, that the payment of labour has not been unduly delayed and that the balance of wages remaining unpaid has been carried to the next muster rolls;
- (xiii) Where labour is engaged through a contractor, the number of labourers employed each day should be compared with those shown in the daily reports of the subordinate in charge of the work- vide Account Rules for the District Engineers;
- (xiv) In the case of casual labour it should be seen that sanction to the employment of this labour exists.

#### **(11) Schedule of Rates**

It should be seen that:-

- (i) Schedule of rates should be prepared containing rates for different classes of work and sanctioned at a meeting applicable;
- (ii) every rate is supported by an analysis, showing in detail the cost of material, carriage, labour and contractor's profit;
- (iii) the Schedule of rates has been kept up to date. Get some of the recent estimates, compare the rates provided therein for each class of work and note differences. If they are marked, or considerable in number it may be inferred that the Schedule has not been corrected. Obtain explanation for the differences and see if there has been loss;
- (iv) certain number of items of through rates allowed by the EE to contractor should be analysed to see that the component rates of which the through rate is made up are not in excess of Basic Schedule of Rates.

#### **(12) Scrutiny of Running and Final bills**

The points to be seen in the scrutiny of running and final bills have been detailed in **Annexure VI** of this Manual.

### **7.3 Dealing of fraud and corruption on INTOSAI and ASOSAI Pattern**

As per ASOSAI Guidelines (October 2003) for dealing with fraud and corruption, following material/high-risk areas may be identified during Audit Planning so that suitable modified audit procedure and techniques can be adopted:

- Contract for procurement of goods and services is an important activity in local bodies and it is traditionally prone to fraud and corruption. An illustrative list of the forms of fraud and corruption in the area of contracts is given in **Annexure VII** of this Manual to enhance the Auditors understanding.
- The audit of contracts in most Audit Institution is, therefore, an area of focus for the Auditor who has to be particularly sensitive to possibility of fraud in this area for which warning signs are listed in **Annexure VIII** to this Manual. For this, competent, relevant and reasonable audit evidences of fraud should be collected to support the auditors' judgment and conclusions regarding the organisation, programme, activity or functions under audit. Some of the sources of evidence and factors that may be considered in searching for evidence are given in **Annexure IX** to this Manual.

#### **7.4 Annual Plan -**

- (i) An annual plan shall be prepared before beginning of each financial year, under section 22 (for Gram Panchayat), 47 (for Panchayat Samiti) and 88 (for Zila Parishad) of Bihar Panchayat Raj Act, 2006. No work can be taken up unless it forms part of the Annual Plan. Similarly, the municipality shall execute only such schemes as are approved by the District Planning Committee under section - 274 to 275 of part - VII of The Bihar Municipal Act, 2007.
- (ii) While preparing the Annual Plan, completion of the incomplete works shall be given priority over the taking up of new works. No work shall be taken up which cannot be completed within two financial years.
- (iii) While preparing the plan of works, care shall be taken to safeguard the interests of the weaker sections in the village and priority shall be given to works benefiting the Schedule Caste, Scheduled Tribe, Women and other Weaker Sections of the village society.
- (iv) Only those works may be taken up whose size, cost and nature are such that they may be implemented at the local level, and are labour intensive and cost effective and do not involve high level of technical inputs.
- (v) Works taken up should be of durable nature and should meet appropriate technical standards and specifications.

#### **7.5 Estimates. – It may be scrutinised in Audit that.: -**

- (1) an estimate is prepared and sanctioned for every work;

(2) the procedure prescribed for the preparation and submission of plans and estimates is followed;

(3) if any material is to be supplied departmentally, the fact has been noted in the estimate.

**Note-** When a new work is to be constructed partly from materials obtained from the demolition of an old structure, the practice is to frame an estimate for the net cost of the new work. This practice is, however, liable to be abused by under estimating the value of the old materials and the auditors should examine such estimates with particular care and should call for full particulars of the number, quality and value of the old materials if the information is not available from the estimate or connected papers.

**7.6 Tenders-**It may be scrutinised in Audit that: -

(i) tenders have been duly invited and received;

(ii) specific rates have been quoted in the tender for all items of work.

**Note:** - A notice calling for tenders should specify that each tender should be accompanied by a schedule of rates for each item of work tendered for. If vague terms as 'at estimated rates' are used, the tender shall not be considered.

(iii) security has been furnished;

(iv) the prescribed forms have been used, for Piece Work which involves payment for work done at a stipulated rate only without reference to a total quantity or time, and Forms for works given out on other conditions:

(v) the District Engineer or the Municipal Overseer or Engineer if any, has specifically brought to the notice of the Chairman/Adhyaksha all items in which the tendered rates exceed the schedule or estimated rates;

(vi) tenders have been duly accepted by competent authority;

(vii) where the lowest tenders were not accepted, reasons for non-acceptance have been clearly stated. If this has not been done, or the reasons given are not satisfactory, the irregularity should be noticed in the report. A statement showing the difference in the cost of work, as let out to the successful contractor and at the lowest rates tendered for the work, should be worked out and attached to the report.

**7.7 Material at site.** - It may be scrutinised in Audit that.: -

(1) an account of materials has been kept and attached to the Works Abstract in respect of works, the accounts of which have been kept by sub-heads;

(2) materials have been charged off direct to work whenever possible and not passed through the materials-at-site account;

- (3) in the case of large works a monthly statement of expenditure on materials has been maintained and compared with the estimated requirements to guard against the excess issue of materials;
- (4) surplus materials have been accounted for in the manner laid down in Rule 101 of the District Engineer's Account Rules;
- (5) materials at site have been verified once a year or on the completion of the work whichever is earlier and also at the time of transfer of subordinates in charge of the works.

**7.8 Road metal**– It may be scrutinised in Audit that: -

- (1) every Junior Engineer has submitted to the District Engineer within a fortnight of the close of each month, a statement of road metal showing mile by mile the receipt, disposal and balances of each kind of road metal (the balance of metal in each mile should be shown even if there has been no transaction during the month);
- (2) separate statements have been kept for, (a) Renewals, (b) petty repairs and (c) annual repairs;
- (3) the surplus found as a result of verification or check measurement has been brought on to the road metal account at once;
- (4) deficits have not been removed from the accounts except by (a) recovery from the party at fault or (b) a write off with the sanction of the competent authority through a survey report;
- (5) a Rate Book or Schedule of Rates showing the lowest rate at which metal can be supplied to the road-side throughout the district has been prepared by the District Engineer, sanctioned by the Board and approved, the rates have been revised from time to time owing to the exhaustion of old or opening of new quarries;
- (6) the rates, are supported by analysis, are based on quarry charts and new quarries have been duly approved; and
- (7) the balances worked out in March and brought forward in April are correct, and to check ten percent of the entries relating to the receipt and issue of metal with payment vouchers and measurement books.

**7.9 Measurement Books** -Measurement Books should be examined to see that: -

- (1) pencil entries in the Measurement Books have not been inked over, except in the "area or contents" column, which should invariably be inked in;

- (2) the entries in the area or contents column have been filled in by the officer who took the measurements;
- (3) reference has been given in all cases to the vouchers on which payments have been made;
- (4) all connected entries in the measurement books were crossed of by the Accountant when he checked and passed the bill;
- (5) Compare a certain percentage of the bills with the abstracts prepared at the end of each set of measurements. Check a fair proportion of the calculations of the detailed measurements;
- (7) a proper register for watching the issue and return of measurements book is kept;
- (8) measurements have been recorded in chronological order. If, for example, it is noticed that the measurements on page 100 of a measurement book were recorded after those on page 101 it is obvious that page 100 was left blank for a certain period. Such cases should always be noted as serious irregularities in Part I of the Audit Report;
- (9) blank pages, or portions of pages left blank have invariably been crossed out and cancelled, over the signature of the holder of the measurement book, to avoid the possibility of fraudulent entries at some later date;
- (10) no book was retained in use for more than 2 years and that all books used for that period have been returned to the Engineer's office. Also that the entries contained in page 1 of the book agree with those made in the Register of Measurement Books which should be paged;
- (11) payments on account of measured work have been promptly made. To this end the dates of measurement and payment as recorded in the measurement book should be compared, the vouchers concerned being referred to whenever necessary. In the case of measurements not crossed out the reason for non-payment should also be thoroughly investigated. Another way of checking delay in payment is to examine the Register of Bills. The cases of delay in execution of work due to delay in payment to contractor may also be examined quoting the specific reasons.

**7.10** A careful scrutiny of these points has, in practice, led to the detection of fraud and of overpayments due to carelessness in the keeping up of measurement books. If numerous instances of such irregularities are noticed, the most flagrant of them should be specially brought to notice in the Audit Report and some of the more important items in the statements accompanying the report. The Auditor need not burden the report with a list of all such

irregularities. The object is to illustrate clearly the danger of laxity in this matter and to ask the executive authorities to insist, in their own interests, on strict observance of rules and the taking of suitable disciplinary action on the instances brought to notice.

**7.11 Standard Measurements.** - When standard measurements have been maintained for buildings in order to facilitate the preparation of estimates for periodical repairs, it is permissible to utilise them for the purpose of preparing contractor's bills and it is not necessary to take detailed measurements on each occasion. Inter alia the following precautions are necessary: -

- (i) the measurement books used as standard books should be numbered in an alphabetical series, so that the numbers may be readily distinguished from those assigned to the ordinary books wherein detailed measurements are recorded whenever work is actually done;
- (ii) the entries of measurements (and abstracts thereof) in the standard books should be recorded legibly in ink and certified to as correct by a responsible officer.
- (iii) an assurance should be obtained periodically from the Engineer that all the standard measurement books have been inspected by him, that the entries therein have not been tampered with, that all corrections due to additions and alterations in the buildings have been made in the books and that the latter are reliable and up-to-date records.
- (iv) when a payment is based on standard measurements, the Engineer or the subordinate preparing the bill for payment should be required to certify that the whole of the work (or work charged for in the bill under consideration as the case may be) has been executed as per standard measurements and that it has not previously been billed for in any shape.

**7.12 Public Works vouchers.** – While scrutinising the Public Works Vouchers it may be seen that: -

- (1) an estimate has been sanctioned for the work;
- (2) the contractor's tender was duly accepted;
- (3) an agreement has been executed for the work;
- (4) the rates charged in the bill are not in excess of those entered in the agreement;
- (5) the quantity of work charged for in the bill agrees with that shown in the measurement book;
- (6) the calculations in the money columns of the bill are correct;



- (7) the memorandum of previous payment recorded on the back of the contract certificate is correct with reference to the last bill of the contractor's ledger;
- (8) dismantled materials have been properly accounted for and brought on to a stock account: and that a complete list of such materials has been furnished by the officer in charge of the work with each bill in which a charge for dismantling a structure has been allowed; and
- (9) a completion certificate has been furnished on every final bill.

**7.13 Losses caused by careless or dishonest accounting-** Losses are sometimes caused by careless or dishonest accounting. See that there are no cases of the nature indicated below: -

- (1) Omission to claim money due from a contractor or to afford credit in the accounts when it is realised;
- (2) Exorbitant rates in estimates for work;
- (3) Allowance of full rate to the contractor when the contract rate is for both labour and material but the material is supplied by the Local Body and charged to estimate;
- (4) When the rate for a certain kind of work (e.g., brickwork) is fixed on the assumption that the required materials will be available at a certain rate, allowance of full rate to the contractor when the local body supplied the material at a lower rate;
- (5) When the issue rate of stock is below the market rate, issue of more materials to the contractor than actually required;
- (6) Incorrect measurements recorded for a work; or measurement paid for twice; and
- (7) Charge to work of the cost of departmental labour supplied to a contractor instead of recovery from contractor.

**7.14 General instruction for detecting irregularities.-** The above list is not exhaustive. The checks to be exercised to detect irregularities of the foregoing types are indicated below: -

- (1) find out the main sources of receipt, e.g., rents, pounds, etc and take up the register of each kind of revenue. See that all assessments have been entered and that no item has been left out, that the outstanding balances have been correctly brought forward in the next year's register and none have been left out of account. Little control can be exercised over casual revenue and it is only indirect methods that such sources of revenue come to light. Thus, if from any voucher it is seen that jungle clearance has been paid for, the manner in which the wood has been disposed of should be looked into. Again if payment is found to have been made for dismantling a building or portion thereof, the disposals of the materials should be investigated.

- (2) take up a few estimates and test the rates by comparison with the Schedule of rates.
- (3) when an item of stock appears as issued to a contractor, its value is in the ordinary course debited to the contractor's ledger account and chances of non-recovery are thus obviated. But in cases where the stock is shown as issued direct to work it should be seen by reference to the work bill of the contractor and also with reference to the accepted tender and agreement, if necessary, whether the rate allowed is for labour only or for both labour and materials. If the latter, then the contractor has been paid in excess by an amount equal to the value of the materials. The same test should be applied where materials are transferred from one work to another without being issued to a contractor or when materials are directly collected for a work and not passed through stock.
- (4) suppose the rate for brickwork has been accepted at ₹ 30 per hundred cubic feet on the basis that bricks will be available at 10 per thousand. Now if bricks are issued to the contractor from stock at the book value of ₹. 8 per thousand and the full rate for brick work is paid to him at the same time, it follows that the contractor gains at the expense of the local authority. In this case the value of the bricks should be recovered from the contractor at the higher rate of ₹ 10 per thousand. To detect such losses the rates of some of the principal materials as shown in the analysis of rates should be compared with the stock rates and if the latter are found to be lower, a few test cases should be examined to see whether the higher or the lower rate has been recovered from the contractor for materials issued.
- (5) to take a concrete instance, 4,000 bricks are issued to a contractor for a particular work at a rate which is lower than the market rate, but it is found that only 2,000 bricks are actually required for that work. It is true that the value of all the 4000 bricks is recovered from the contractor at the book rate; but the contractor makes a profit by selling the extra 2000 bricks in the open market at a higher rate. In a few test cases of articles, of which the market rate is higher than the stock rate, an attempt should be made to find out by reference to the quantity required, as shown in the analysis of rates, whether more than the necessary quantity has been issued to a contractor. Of course in such cases, the matter should be discussed with the District Engineer who is the best judge of the quantity of materials required.
- (6) see that there is record in the measurement books of check measurements by the District Engineer and the Supervisor as per rule 78A of the Account Rules for District Engineers and as per rule 125 of the Municipal Account Rules.

- (7) the cost of departmental labour is sometimes omitted to be recovered from the contractor though employed on his behalf. To detect this, some test cases should be investigated where the nature of the work done by departmental labour, e.g., rectifying defects of work, would indicate that it is probably in connection with work done by the contractor. In cases in which steam rollers belonging to a local body are lent to a contractor engaged on consolidating road metal see that the conditions on which the loan is made are fulfilled. If the contractor is required to defray the cost of running the roller, see that recovery of the pay of the driver and fireman who are usually permanent servants of local bodies is made according to the rates provided in the analysis of the rate for consolidation of road metal.
- (8) to prevent excess payment through muster rolls, see that the quantity of work done is properly recorded and the out-turn is commensurate with the cost incurred on the basis of the muster roll. Doubtful cases should be referred to the District Engineer.
- (9) when materials are collected for building etc. they are not borne on any site account till the main work has been started. If the main work is abandoned or greatly delayed there may be loss on account of depreciation or other reasons. When, therefore, such collections are noticed it should be ascertained whether adequate arrangements have been made for the custody of the materials and if any delay in their issue is anticipated, it should be considered whether the materials should not be brought on the Stock Return.

**7.15 Crowding of Public Works Payments in March.** - The Crowding of public works payments towards the close of the year and specially in March is to be deprecated. If such payments are accompanied by instances of :-

- (a) evasion or infringement of prescribed rules,
- (b) financial irregularity, and
- (c) loss, they should be treated as serious irregularities.

To find out such instances apply the following checks: -

- (1) scrutinise the uncashed cheques and ascertain from the receipts on the back of the counterfoils or from separate receipts, if any, whether the cheques were made over to the payees within the financial year; if not enquire the reason. If the delay is attributed to the absence of the contractor from the station, verify the fact from the contractor's ledger which should show if any other payment was made to him at the time. If there is a reason to suspect that the payment was deliberately held back, examine the

measurement book, as also the Overseer's and Accountant's note on the bill and see if the cheque was issued before or after the work had been duly completed or the supply had been duly received. For supply of stock find out the date of actual receipt from the Stock Register as also bills for freight and carting charges;

- (2) find out from the Bill Register the number of bills submitted in the last three months of the year and compare this number with the numbers received during the corresponding period of the three previous years. Also see if it is physically possible for the Accountant and his assistant to exercise a satisfactory check over the bills in the limited time at their disposal;
- (3) take up the bills of one or two sub-divisions from which the largest number of bills were received in March and ascertain why so many bills were received in March and ascertain why so many bills were held back till the close of the year. It may be that some bills with doubtful or objectionable items were deliberately held back so that a thorough check might not be exercised by the Accountant during the rush of payments in March;
- (4) make a list of the measurement books of one or two sectional officers who have submitted large numbers of bills in March and see if there are any discrepancies in point of time and place between the entries in the measurement books and journals. Also see if the quantity of work noted to have been measured in any one day in the measurement book is physically possible.

**7.16** Also see that the following principles have been observed to avoid the rush of public works payments in March: -

- (1) All works are measured and paid for promptly and final bills are not held over for settlement in March to a greater extent than is absolutely necessary;
- (2) Work done in March is ordinarily paid for in April. Provision for this purpose is made in the following year's budget and in making out the programme of expenditure for a financial year, work executed in the last month of the year is eliminated.

**7.17 Stores.** - The audit of stores account kept by a local body or institution under the audit of this department shall be directed to ascertaining that the departmental regulations governing purchase, receipt and issue, custody, condemnation, sale and stock-taking of stores are well defined and properly carried into effect and to bring to the notice of administrative authority any important deficiencies of control. The general principles laid down in Appendix 2 to

Audit Code should be kept in mind while exercising check over stores accounts. Stores are of four kinds, viz., (a) Stock (b) Tools and Plant, (c) Road Metal and (d) Material at site. See that they have been accounted for in accordance with rules i.e -

- (1) stock has been manufactured except on a very small scale, the previous sanction has been obtained;
- (2) how the rate of the manufactured article compares with the market or schedule rate of the same class of article. If the former is higher, it would indicate that the manufacture is unprofitable and the Auditor may suggest that the manufacture may be discontinued. If the Local Authorities do not agree, the Auditor should at once send the papers on the subject to the head office to decide if the matter should be included in the Audit Report.)
- (3) all articles purchased have been duly entered in their respective Stock Registers from payment vouchers;
- (4) the balances of the different articles have been correctly brought forward from the old to the current Stock Register;
- (5) all purchases and sales have been duly sanctioned and the sale proceeds have been credited in the Cash Book;
- (6) no article of stock has been written off the accounts except with proper sanction that road metal and tools and plant have been written off with the sanction of the competent authority;
- (7) the verifying officer has signed the Stock Register half-yearly and the Tools and Plant and Road Metal Registers year in token of his having verified the balance;
- (8) all materials derived from dismantled works have been accounted for in the stock Register separately as surplus stock and have been valued and disposed of to the best advantage of the local body;
- (9) there are no fictitious stock adjustments, such as (a) debit to a work of the cost of materials not required or in excess of actual requirements, (b) debit of value of materials purchased for a particular work to another work for the time being for want of budget allotment. (c) Write back of value of materials used in a work to avoid excess outlay over appropriations, etc.;
- (10) materials are issued at correct rates. Check the rate of stock as per register and see that all incidental charges such as carriage, etc., have been debited to the material account in the Stock Register;

(11) all issued are supported by acknowledgments.

The above checks apply, mutatis mutandis, to all stock accounts in general whether pertaining to Municipalities or to other Funds.

#### **7.18 Works Abstracts. -**

- (1) Audit of the Works Abstracts of one month in a year seeing that they are posted correctly in accordance with the form of Day-book adopted, that the entries agree with the daily report, muster rolls, cash books and stock returns from which they have been made; that the calculations are correct, and that the Day-books or Works Abstracts have been seen and attested by the District Engineer.
- (2) Test the correctness of the method of showing unpaid wages in the day book, and see that details of items unpaid are forthcoming.
- (3) Check the correctness of materials at site account.
- (4) See that the day-book entries have been correctly carried into the Register of Works.
- (5) Ascertain that the Day-books or Works Abstracts and Registers of Works, show all work that is paid for.

#### **7.19 Register of Works. -** Register of Works may be examined to see that: -

- (1) entries for major and minor works have been made in Form Nos. 29 and 30 respectively;
- (2) excesses over estimates or allotment either under subheads or in the total expenditure on the works are covered by sanction obtained on deviation statements, completion reports, or otherwise;
- (3) when a work has been completed a double line in red ink is ruled below the last entry and the note of completion is made.
- (4) the book bears evidence of check by the Engineer or the head of the office;
- (5) the details for the total amount shown under the head "Material at site" are forthcoming;
- (6) in the case of incomplete work the necessary entries have been brought forward from year to year until the work has been either finally completed or abandoned;
- (7) the value of all material purchased for the contractor and made over to him is posted in a separate column "Due from Contractor", and before the work is completed the plus entries in this column are balanced by minus entries;
- (8) the balances "Due to Contractor" as shown in the Register of Works, agree with the amounts in the contractor's ledger and that all arrears due are cleared off before final

payment. Further, the entries may be checked with reference to the contractor's bill or Work Abstract.

**7.20 Contractor's Ledger-** Contractor's Ledger may be examined to see that: -

- (1) the ledger shows the balance due to each contractor in detail of the several works undertaken by him;
- (2) the ledger bears evidence of check by the Engineer;
- (3) the balances have been correctly brought forward;
- (4) the entries on the credit side of the ledger are made as soon as the bills have been passed, even if the bills not immediately paid;
- (5) the ledger is balanced every month, that it shows the outstanding balance for each work and that these balances agree with those shown in the Works Abstracts.

**7.21 Register of lands** - It may be examined in Audit that.: -

- (1) lands acquired through land acquisition proceedings, by purchase, by free gift or otherwise are entered promptly in the Register of Lands;
- (2) a registered deed has been executed in every case;
- (3) the register is maintained in accordance with the rules for District Boards and Municipal Account Rules and that the register is examined and signed by the head of the office personally every year.

**7.22 Sanction of works** -

- (1) If the estimate prepared does not exceed the limit prescribed by the Government, the Panchayat may, subject to the availability of funds at its disposal, sanction by its resolution, the execution of the work.
- (2) Technical approval shall be accorded by the competent authority prescribed by the Government from time to time.
- (3) In order to facilitate the technical scrutiny of the plan of action of the PRIs, Zila Parishad may prepare and approve standard designs and cost estimates of those items of works which are generally taken up by the PRI.
- (4) Works may be executed by PRIs on the basis of approved cost norms and sanctions issued by State Government from time to time.

**7.23 Execution of works** -

- (1) The execution of work shall not be commenced until: -
  - (a) it has been duly sanctioned,

- (b) necessary funds for the same are available or have been made available,
  - (c) technical approval for the work has been obtained from competent authority
- (2) Junior Engineer of Panchayat Samiti shall be responsible for site inspection of the works executed by Panchayats and Panchayat Samiti at plinth level, roof level and on completion to ensure quality of construction and technical specifications of the works. The details of measurements of works shall be entered in the measurement book kept for this purpose.
- (3) Competent Development Officer shall physically verify 10% works on site and Chief Executive Officer shall check at least 10% works every month during inspection of Panchayat/Panchayat Samitis.

#### **7.24 Completion Certificate -**

- (1) It shall be the duty of PRI concerned to report the completion of work within a week for issue of completion certificate.
- (2) Technical Officer competent to issue completion certificate shall visit the work within one month and issue the same.

#### **7.25 Periodical Progress Report -**

- (1) A monthly progress report shall be prepared indicating work wise amount sanctioned, expenditure during the month, cumulative expenditure, physical progress, percentage expenditure on wages/material, employment of Scheduled Caste / Scheduled Tribe / Women/ Landless labour.
- (2) Such report shall be sent to next higher authority and Zila Parishad.

#### **7.26 Contracts and Deeds**

##### **7.26.1 Contracts by the execution of deeds on behalf of PRIs –**

- (1) All contracts made by a PRI or on its behalf shall be expressed to be made in the name of such PRI.

**7.27** The PRIs and the ULBs generally have to purchase goods for specific purposes specially to execute different schemes. These purchases are made as per sections 126 to 131 (ZP) of the Bihar Financial Rules, 2005 (Amended) and as per sections - 257 to 262 of The Bihar Public Works Department Code.

#### **7.28 Deposit Works**

**7.28.1** The Government departments or the State Government may use the services of ULB for execution of certain works/schemes /approved infrastructure schemes. Money received from the Government for any work/scheme shall be treated as 'Deposit' and



are accounted for as a liability of the ULB. ULBs will charge certain percentage of the value of the works/Scheme/Project/Plan completed as their service charges.

**7.28.2** The deposit received for any work will be treated as liability till such time the work/project for which money is received is completed. Upon completion of the work/project, the cost incurred against it shall be reduced from the liability and the balance returned, if any.

### **7.29 Record of works**

The list of record to be seen in the works audit of PRIs and ULBs is given in **Annexure V** to this Manual.

## CHAPTER 8

### ESTABLISHMENT AUDIT

**8.1 General:** - Issues relating to cadre, recruitment, appointments, confirmation, promotion, pay, budget etc. in respect of PRIs are governed by the provisions of the Bihar Panchayat Samitis and Zila Parishads (Conditions of Service) Rules, 1964, the Bihar Gram Panchayat (Appointment of Secretary, Rights and Duties) Rules, 2011, and the Bihar Panchayati Raj Act, 2006, whereas, these issues in respect of ULBs are regulated by Rules Regulating the Appointment and Qualifications for the Officers and Servants of Municipalities, Bihar Municipal Act, 2007, Bihar Budget Manual and Bihar Municipal Accounting Rules, 2014. During audit of the accounts of PRIs and ULBs, auditor may refer to the provisions of the aforesaid Acts/Rules as the case may be.

#### **8.2 Establishment Bills**

During audit of establishment bills, an auditor may see that-

- (a) establishment and fixed recurring charges are duly sanctioned and drawn according to the sanctioned scale and promptly posted in the Audit Register;
- (b) a last pay certificate is attached to the establishment Bill in the case of all transfers and that the transfers are authorized by the competent authority;
- (c) income-tax deductions are duly made as required by the rules, and that recoveries are paid into the Treasury within seven days;
- (d) pay and acting allowances are separately shown, and that the names of all persons on leave, under suspension, or on deputation as well as those employed in an officiating capacity are entered both in the bills and in the leave statements appertaining thereto;
- (e) increments claimed have actually accrued: Examine the periodical increment certificate with the service book;
- (f) in the case of fixed conveyance and horse allowance, certificates of actual maintenance of the conveyance, etc., have been furnished;
- (g) the pay drawn in an Establishment Bill for a particular month is not disbursed before the first working day of the following month;
- (h) the numbers and dates of the bills subsequently drawn have been quoted on the original bills; supplementary bills should be checked by reference to the original bills in which the amounts are withheld or refunded.
- (i) health certificates have been furnished where necessary in the case of new appointments

**8.3** While conducting audit of establishment, the checks generally to be exercised in respect of some of the items by the audit party are detailed below:

**(1) Service Books**

- (i) service books are maintained for all employees holding substantive posts;
- (ii) the record of service of each officer is complete;
- (iii) entries for all events (leave, increments, promotion, training etc.) in the official carrier of a Government officials are made in the Service Books and attested by head of the office,
- (iii) alteration in the date of birth is not made without the sanction of the competent authority; entries in the front page are re-attested every five years;
- (iv) annual certificate of service verification recorded in the service book. Entries in pay columns are verified with reference to the office copies of the pay bills for the month or months selected for detailed audit to see that they agree. The quantum of check of Service Books has been prescribed so that each Service Book will be verified once in four years as the Service Books are the only documents for verification of pension.

In the Service Book selected for check, the correctness of pay and increments allowed to the Government employees from time to time for the period to which the check of Service Book relates is also to be checked.

It is also checked that no payment has been made to a Government employee beyond their attaining the age of superannuation or on the expiry of term of extension of service sanctioned by the competent authority. The audit endorsement duly signed by the in charge of the Inspection party is required to be made in the Service Books checked during audit.

**(2) Leave Account**

The Leave Accounts are to be checked to see that-

- (j) leave accounts in the prescribed form are maintained for all officials;
- (ii) leave granted is posted promptly and properly and closed after the incumbent returns to duty from leave and every entry has been duly attested;
- (iii) leave at credit has been correctly calculated in accordance with rules and the leave account has been revised with reference to orders relating to completion of probation, confirmation etc;
- (iv) the fact of issue of certificate under provisions of Service Rules is recorded, where the period of leave is counted as service for increment under that rules.

- (v) subsidiary leave accounts have been maintained, where necessary;
- (vi) the collective record of the various kinds of special leave granted to the employee is maintained;
- (vii) the nature and extent of leave sanctioned is correctly due and admissible to the employee; and
- (viii) there are no cases of evasion of leave rules.

**(3) Salaries and Allowances :** It is to be seen that:-

- (i) there are sanctions of competent authority in respect of Staff whose salaries are being charged and that the staff had been appointed against the various posts after regular appointment orders. There is budget provision for drawl of salaries and allowances;
- (ii) salary has not been charged in respect of an official who was not on duty;
- (iii) absentee statement was attached with the bill, wherever necessary; the details in the absentee statement are correctly shown with reference to the service books, leave accounts and other records;
- (iv) the pay fixation statements are checked when scales have been revised or amended;
- (v) the (periodical) increments had been drawn at correct rates and after proper sanction;
- (vi) leave salary has been drawn after necessary sanction and that necessary entries appear in the leave account, service records;
- (vii) arrears claims have been drawn correctly and that necessary entries in the previous relevant bills/service book. Requisite certificates are recorded on the bill;
- (viii) allowances e.g. HRA, CCA, etc. have been sanctioned properly and drawn after fulfilment of conditions attached with each allowance;
- (ix) the classification, rates and totals of each bill are correct. Recoveries in respect of advance drawn are being effected regularly. Interest has been charged, wherever leviable, correctly. Income Tax has been deducted as per Finance Act applicable;
- (xi) acquittance rolls of establishment have to be examined to see that there is proper acquittance for each amount disbursed, that the amounts have been disbursed to the persons entitled to receive them and that the arrangements for keeping a proper watch overrun-disbursed amounts are satisfactory.

**(4) Travelling Allowances**

It is an important function of audit to see that the scrutiny entrusted to the controlling officers under the rules in relation to these bills is exercised by them properly. It should also be seen in audit that:-

- (i) there is proper sanction to undertake tour or to carry out transfer order, purpose of journey is fully recorded, distances and rates of D.A. claimed are correct;
- (ii) classification is correctly recorded;
- (iii) claimants have travelled in the entitled class of accommodation;
- (iv) copies of approved programme are attached with bill. Requisite certificates are recorded.

**(5) Medical (reimbursement) claims: It should be seen in audit that:-**

- (i) these have been correctly allowed, after fulfilment of requirements of rules laid down in this behalf, to the staff/officers;
- (ii) claims of entitled family members i.e. fully dependent members have been paid. It is also to be seen that treatment was taken from the Authorised Medical Attendant, Hospital and Dispensaries. No payment has been made in respect of inadmissible medicines.

**(5) Provident Fund**

The general principles laid down in Paragraphs 3.12.1 to 3.12.8 of Manual of Standing Orders of the CAG and provisions contained in Model Rules for Management of Provident Fund, 1933 should be kept in view while exercising checks over Provident Fund cases. It is further to be seen that:

- (i) subscriptions on accounts of P.F. have been made at prescribed rates and credited to the ledger accounts;
- (ii) employees' contribution was remitted into Provident Fund account between the 1<sup>st</sup> and 4<sup>th</sup> of each month so that interest might accrue for the month of deposit;
- (iii) advances from P.F. have been allowed after proper sanction and on fulfilment of various conditions, on each occasion, as laid down in applicable P.F. Rules. Recovery of advances is being made and that interest has been calculated correctly, wherever applicable. Payment of interest has been made correctly/credited to ledger accounts correctly;

Apart from above, nominations, Insurances Policies and Final payment cases should be specially scrutinized to see their validity/correctness;

- (iii) contributions have not been withheld without the sanction of the competent authority;
- (iv) the total of the ledger balances is reconciled with the PF Pass Book balance every month through the Abstract of Balances and an agreement is effected every year between the two sets of balances after interest has been added.

**(6) Contingencies**

In addition to the checks embodied in para 5.2.6(K) of Chapter 5, provisions of the Audit Code are also to be kept in view. It should be seen in audit that:-

- (i) the expenditure has been incurred by an officer competent to incur it;
- (ii) vouchers contain pay orders of competent authority and are supported by payees' acknowledgement with dates of payment;
- (iii) details given in such vouchers agree with entries recorded in other registers e.g. store purchases have been correctly entered in stores ledgers, and that entries are attested by competent authority;
- (iv) all charges incurred must be paid and drawn at once and under no circumstances may they be allowed to stand over to be paid from the grant of the following year, and;
- (v) no money is withdrawn from the bank unless it is required for immediate payment.
- (vi) the bill is in proper form and the classification is correctly recorded thereon;
- (vii) the requisite sub-vouchers are enclosed with the bill; and
- (viii) any certificates required under the rules have been furnished
- (ix) the expenditure is a proper charge against the funds of the local body.

**(7) Advances**

Advances are usually made by local bodies to their employees for various purposes under different conditions, on various terms and conditions. Some of these are interest-free while some are interest-bearing advances. Eligibility, entitlement, quantum vary in each case.

Audit should see that advances have been sanctioned by competent authority correctly keeping in mind eligibility. Repayment/ adjustment is being made strictly in accordance with the terms and conditions attached to such advances. Calculations of interest levied are correct. Posting in Advance Ledger is complete and that there are no omissions. No advances have been written off except with the sanction of the Government. It should be seen that correct balances are brought forward from the previous years.

The audit report should also detail in separate paragraphs advances granted in the year which are considered irregular and advances outstanding for adjustment after due period of adjustment.

**(8) Gratuity & Leave encashment**

It is to be seen in audit that the payment of gratuity is not to be paid to an employee against whom a departmental enquiry has been instituted till it is concluded. Calculations of Gratuity, Qualifying Service, Emoluments, etc. and encashment of leave are correct. The authorization is in accordance with the gratuity rules applicable in each case.

**(9) Pension and Gratuity**

The general principles laid down in Articles 202, 203, 206 and 209 of Audit Code and Paragraphs 3.6.1 to 3.6.22 of Manual of Standing Orders of the CAG should be kept in view while exercising checks over pension cases. It is further to be seen that:-

- (i) rules have duly been framed by the local authority for the payment of pension and gratuity and that these rules have been approved by the Government;
- (ii) in the case of superior servants who have not been admitted to the benefits of a provident fund and of inferior servants on pensionable establishments, a certificate of admissibility has been obtained from in each case for payment of gratuity or pension or for enhancement of a pension;
- (iii) payment is not in excess of that admissible under the rules framed by the local authorities;
- (iv) life certificates have been furnished in all the cases where pensioners have not appeared in person to received payment;
- (v) the amount of pension drawn is in consonance with the Pension Payment Order and the Register of Permanent pay orders;

## CHAPTER 9

### SOURCE OF RECEIPTS AND AUDIT

**9.1** Bihar Panchayat Raj Act, 2006 provides for the sources of Funds of Gram Panchayat, Panchayat Samiti and Zila Parishad under section 26, 54 and 81 respectively and further provides for taxation by Gram Panchayat, Panchayat Samiti and Zila Parishad under section 27, 55 and 82 respectively as follows : -

#### **I - PRIs**

##### **(A) Sources of funds of the Gram Panchayat -**

(1) A Gram Panchayat shall have the power to acquire, hold and dispose of property and to enter into contract,

Provided that in all cases of disposal of immovable property by the Gram Panchayat, it shall obtain the prior approval of the Government.

(2) All property within the local limits of the jurisdiction of Gram Panchayat of the nature hereinafter in this section specified, other than property belonging to or maintained by the Central or the State Government or a local authority or any other Gram Panchayat, shall vest It may be scrutinised in Audit that.: - in and belong to the Gram Panchayat, and shall with all other property of whatsoever nature or kind which may become vested in the Gram Panchayat, be under its direction, management and control, that is to say—

(a) All general properties;

(b) All public streets, including the soil, stones and other materials thereof and all drains, bridges, culverts, trees, erection materials,

implements and other things provided for such streets;

(c) All public channels, water courses, springs, tanks, *ghats*, reservoirs, cisterns, wells, aqua ducts, conduits, tunnels, pipes, pumps and other water works whether made, laid or erected at the cost of the Gram Panchayat or otherwise, and all bridges, buildings, engines, work, materials, and things connected therewith or appertaining thereto and also any adjacent land (not being private property) appertaining to any public tank:

Provided that water pipes and water works, connected therewith or appertaining thereto which with the consent of the Gram Panchayat are laid or set up in any street by the owners of any mill, factory, industry, workshop or the like, primarily for the use of their employees shall not be



deemed to be public water works by reason of their being used by the public;

- (d) All public sewers and drains and all works, materials and things appertaining thereto and other conservancy works:

Provided that for the purpose of enlarging, deepening or otherwise repairing or maintaining any such sewer or drain the sub-soil appertaining thereto shall also be deemed to vest in the Gram Panchayat;

- (e) All sewage, rubbish and offensive matter deposited on streets or collected by the Gram Panchayat from streets, latrines, urinals, sewers, cesspools and other places;
- (f) All public lamps, lamp-posts and apparatus connected therewith or appertaining thereto; and
- (g) All buildings erected by the Gram Panchayat and all lands and buildings or the property transferred to the Gram Panchayat by the Central or the State Government or acquired by gift, purchase or otherwise for local public purposes.

- (3) The State Government may, by notification, exclude any street, bridge or drain from the operation of this Act or of any specified section of this Act:

Provided that if the cost of the construction of the work had been paid from the Gram Panchayat Fund, such work shall not be excluded from the operation of this Act or any specified Section of this Act, except after consideration of the views of the Gram Panchayat at a meeting.

- (4) The Government may allocate to a Gram Panchayat any public property situated within its local jurisdiction, and thereupon such property shall vest in and come under the control of the Gram Panchayat.
- (5) For every Gram Panchayat there shall be constituted a Gram Panchayat Fund bearing the name of the Gram Panchayat and there shall be placed to the credit thereof —
- (a) Contributions and grants, if any, made by the Central or the State Government;
- (b) Contributions and grants, if any, made by the Zila Parishad, Panchayat Samiti or any other local authority;
- (c) Loans, if any, granted by the Central or the State Government;

- (d) All receipts on accounts of taxes, rates and fees levied by it;
  - (e) All receipts in respect of any schools, hospitals, dispensaries, buildings, institutions or works vested in, constructed by or placed under the control and management of the Gram Panchayat;
  - (f) All sums received as gift or contribution and all income from any trust or endowment made in favour of the Gram Panchayat;
  - (g) Such fines and penalties imposed and realised under the provisions of this Act as may be prescribed; and
  - (h) All other sums received by or on behalf of the Gram Panchayat.
- (6) Every Gram Panchayat shall set apart and apply annually such sum as may be required to meet—
- (a) The cost of its own administration including the payment of salary, allowances, provident fund and gratuity to the officers and employees.
  - (b) Every Gram Panchayat shall have the power to spend such sums as it thinks fit for carrying out the purposes of this Act.
  - (c) The Gram Panchayat Fund shall be vested in the Gram Panchayat and the balance to the credit of the Fund shall be kept in such custody as may be prescribed.

**Taxation by Gram Panchayat:** - (1) Subject to such rules as may be made on this behalf and the maximum rates specified by the Government, a Gram Panchayat may impose yearly — (a) Tax on occupants of holdings; (b) On professions, trades, callings and employments carried on or held within the local limits of its jurisdiction a tax on the basis of total annual income accrued from such profession, trades, callings and employments. (c) Conservancy Rate, where arrangement for cleaning private latrines, urinals and cesspools is made by or on behalf of the Gram Panchayat within its jurisdiction.

**(B) Sources of funds of the Panchayat Samiti -**

- (1) For every Panchayat Samiti there shall be constituted a Panchayat Samiti Fund, bearing the name of the Panchayat Samiti and the same shall be placed to the credit thereof-

- (a) contributions and grants, if any, made by the Central or the State Government including such part of the land revenue collected in the State as may be determined by the Government;
  - (b) contributions and grants, if any, made by the Zila Parishad or any other local authority;
  - (c) loans, if any, granted by the Central or the State Government or raised by the Panchayat Samiti on security of its assets;
  - (d) all receipts on account of tolls, rates and fees levied by it;
  - (e) all receipts in respect of any schools, hospitals, dispensaries, buildings, institutions or works vested in, constructed by or placed under the control and management of the Panchayat Samiti;
  - (f) all sums received as gift or contributions and all income from any trust or endowment made in favour of the Panchayat Samiti;
  - (g) such fines or penalties imposed and realised under the provisions of this Act or of the bye-laws made there under, as may be prescribed; and
  - (h) all other sums received by or on behalf of the Panchayat Samiti.
- (2) Every Panchayat Samiti shall set apart and apply annually such sums as may be required to meet the cost of its own administration including the payment of salary, allowances, provident fund and gratuity to the officers and employees.
- (3) Every Panchayat Samiti shall have power to spend sums as it thinks fit for fulfilling the purposes of this Act.
- (4) The Panchayat Samiti Fund shall be vested in the Panchayat Samiti and the balance to the credit of the Fund shall be kept in such custody as the Government may, from time to time, direct.
- (5) Subject to such general control as the Panchayat Samiti may exercise from time to time, all orders and cheques for payments from the Panchayat Samiti Fund shall be signed by the Executive Officer.

**(C) Sources of funds of the Zila Parishad -**

- (1) For every Zila Parishad there shall be constituted a Zila Parishad Fund bearing the name of the Zila Parishad and the following shall be placed to it the credit thereof-

- (a) contributions and grants, if any made by the Central or the State Government including such part of land revenue collected in the State as may be determined by the Government;
  - (b) contributions and grants, if any made by a Panchayat Samiti or any other local authority;
  - (c) Loans if any, granted by the Central or State Government or raised by the Zila Parishad on security of its assets;
  - (d) Share in the proceeds of road cess levied in the district;
  - (e) all receipts on account of rates and fees levied by the Zila Parishad;
  - (f) all receipts in respect of any school, hospital, dispensaries, buildings, institutions or works, vested in, constructed by or placed under the control and management of the Zila Parishad;
  - (g) all sums received as gift or contribution and all income from any trust or endowment made in favour of Zila Parishad;
  - (h) such fines or penalties imposed and realized under the provisions of this Act or the bye-laws made there under, as may be prescribed.
  - (i) all other sums received by or on behalf of the Zila Parishad.
- (2) Every Zila Parishad shall set apart and apply annually such sum as may be required to meet the cost of its own administration including the payment of salary, allowances, provident fund and gratuity to the officers and employees.
- (3) Every Zila Parishad shall have the power to spend such sums as it thinks fit for carrying out the purposes of this Act.
- (4) The Zila Parishad Fund shall be vested in the Zila Parishad and the amount standing to the credit of the fund shall be kept in such custody or invested in such manner as the State Government may, from time to time, direct.

**Levy of fees and rates by Panchayat Samiti and Zila Parishad: -**

Subject to such maximum rates as the Government may prescribe a ZP may

(A) levy tolls in respect of any ferry established by it or under its management;

(B) levy the following fees and rates, subject to such maximum rates as the Government may prescribe:

(a) Fees on the registration of vehicles which are not registered under any other law in force at that time; (b) Fee for providing sanitary arrangements at such places of pilgrimage, *haats*, *melas* and public use within its jurisdiction as may be specified by the

Government by notification; (c) Water Rate, where arrangement for the supply of water for drinking, irrigation or any other purpose is made by or on behalf of PRIs within its jurisdiction; (d) Lighting Fee/rate, where arrangement for lighting of public streets and places is made by or on behalf of PRIs within its jurisdiction;

(2) The PS/ZP shall not undertake registration of vehicle or levy fee there for and shall not provide sanitary arrangements at places of pilgrimage, *haats and melas* within its jurisdiction or levy fee there for, if any such vehicle has already been registered by any other authority under any law for the time being in force or if such provisions for sanitary arrangement have already been made by any other local authority.

(3) The scale of fees or rates and the terms and conditions for the imposition thereof shall be such as may be provided under bye-laws.

(4) Such bye-laws may provide for exemption from all or any of the fees or rates in any class of cases.

## **9.2 Register of Immovable properties**

The PRIs shall maintain a register of all immovable properties vested in them or placed at their disposal.

## **9.3 Settlement**

The PRIs generally settle their lands/bus stands/ponds/other immovable properties for a certain period. During test check of the settlement files, the auditor must see;

1. whether the security deposit revised/fixed after every three years in which the security deposit is fixed after adding 15 *per cent* in settlement amount/security deposit of the last year whichever is higher.
2. in case of the properties to be settled, whether the matter was advertised in;
  - (a) at least two state level newspapers if the minimum security money is ` . 50,000 or more;
  - (b) at least two district level weekly/daily newspapers if the minimum security amount is between ₹ 20,000 and ₹ 50,000; and
  - (c) in case the security amount is less than ₹ 20,000, the matter should be informed to the public through general notification by Panchayats/Panchayat Samitis/Zila Parishads etc. Moreover, in this case the matter should be informed to all Block Pramukhs and signature of at least 50 *per cent* Mukhias should be obtained on the general notification in order to give the information regarding settlement to

general public. In any type of advertisement, it must be seen that three dates of settlement should be given at a time so that economy is maintained.

3.If due to any reason, the bid amount is less than the security amount already fixed even after the third attempt for settlement, the final settlement should be done with the highest bidder after informing the matter to and obtaining approval of the higher authority.

#### **9.4 Inspection of Properties**

All chair persons shall visit the properties at least once a year to ensure safety and proper maintenance of such properties. Mukhia/Executive Officer, PS/Chief Executive officer, ZP shall inspect the register and the properties at least once a year during inspection of GP, PS and ZP respectively.

#### **II - ULBs**

**9.5** Bihar Municipal (BM) Act, 2007 provides for the sources of Municipal Fund under section **72** and **73** as follows;

**(i) Financial assistance from State Government (Section - 72) -**

- (1)** The State Government, may, from time to time, give grants or financial assistance to the Municipality with or without direction to the manner in which such grants or financial assistance shall be applied.
- (2)** The State Government may, for giving such grants or assistance, lay down a criteria which may include the conditions of release of such grants or assistance and may provide for the division of Municipalities into different classes for that purpose.
- (3)** The State Government may give grants to the Municipality for implementation, in full or in part, of any scheme included in the annual development plan of the Municipality.

**(ii) Municipal Fund (Prescribed under Section 73 of the Bihar Municipal Act, 2007)**

- (1)** There shall be a fund to be called the Municipal Fund which shall be held by the Municipality in trust for the purposes of this Act, and all moneys realized or realizable under this Act and all moneys otherwise received by the Municipality shall be credited thereto.
- (2)** Subject to such directions as the State Government may issue in this behalf, and keeping in view the classification of municipal areas under Section 7 of BM Act, 2007 the receipts and expenditures of the Municipality shall be kept under such

heads of accounts, including those for water-supply, drainage and sewerage, solid waste management, road development and maintenance, slum services, commercial projects and other account heads as may be specified and the general account head, in such manner, and in such Form, as may be prescribed, so as to facilitate the imposition of user charges and preparation of any subsidy report under this Act.

**Explanation.** - For the purposes of this Section, "commercial projects" shall include municipal markets, market development projects, property development projects and such other projects of a commercial nature as may be specified by the Municipality from time to time.

- (3) Every head of account specified under sub-section (1) shall be split up into a revenue account and a capital account and all items of receipts and expenditures shall be kept appropriately under such revenue account or capital account, as the case may be.

**(A) Constituents of Municipal fund:**

The Municipal fund is normally comprised of: -

- (a) Rents accruing from land or property of ULB
- (b) All taxes, tolls, fines, fees, charges, surcharges, levies, penalties, duties levied by the ULB.
- (c) Interest, profits etc. accruing to the ULB.

**(B) Application of Municipal Fund and Property**

Under section - 74 of the BM Act, 2007, the money credited to the Municipal Fund from time to time shall be applied for payment of all sums, charges and costs necessary for carrying out the purposes of this Act and the rules and the regulations made there under and for payment of all sums payable out of the Municipal Fund under any other law for the time being in force.

**(C) Disposal of property**

Section - 104 of the BM Act, 2007 provides that any property belonging to the Municipality may be disposed of with the prior approval of the State Government in the manner hereinafter provided, namely: -

- (a) the Empowered Standing Committee may sell, or grant lease of or otherwise dispose of by public auction, any movable property and may grant lease of or let out on hire any immovable property belonging to the Municipality,

(b) the Municipality may, with the prior approval of the State Government, for valuable consideration, sell or otherwise transfer, any immovable property belonging to the Municipality which is not required for carrying out the purposes of this Act, and

(c) the Municipality shall not transfer any immovable property vested in it by virtue of this Act, but shall cause the same to be maintained, controlled and regulated in accordance with the provisions of this Act and the rules and the regulations made there under:

Provided that the State Government may authorize, in the public interest, the disposal of such immovable property by the Municipality, if the Municipality so requires, for reasons to be recorded in writing.

**Explanation** - "valuable consideration" shall, in relation to any immovable property, mean anything of considerable value in terms of money or property given in lieu of transfer, by way of sale or otherwise, of such immovable property.

**(i) Sources of Internal Revenue: -**

Section - 126 of the BM Act, 2007 provides for the internal revenue. The internal revenues of the Municipality shall consist of its receipts from the following sources:

- (a) taxes levied by the Municipality,
- (b) user charges levied for provision of civic services, and
- (c) fees and fines levied for performance of regulatory and other statutory functions.

**(iv) Under Section - 127 the Municipality may levy taxes as follows;**

- (1) Subject to the provisions of section - 10, the Municipality shall have, for the purposes of this Act, the power to levy the following taxes: -
  - (a) property tax on lands and buildings;
  - (b) surcharge on transfer of lands and buildings,
  - (c) tax on deficit in parking spaces in any non-residential building,
  - (d) water tax,
  - (e) fire tax,
  - (f) tax on advertisements, other than advertisements published in newspapers,
  - (g) surcharge on entertainment tax
  - (h) surcharge on electricity consumption within the municipal area,
  - (i) tax on congregations,
  - (j) tax on pilgrims and tourists, and



(k) toll –

(i) on roads, bridges, ferries and navigable channel and

(ii) on heavy trucks which shall be heavy goods vehicles, and buses, which shall be heavy passenger motor vehicles, within the meaning of the Motor Vehicles Act, 1988, plying on a public street.

(l) Tax on profession

(2) Subject to the prior approval of the State Government, the Municipality may, for raising revenue for discharging its duties, and performing its functions, under this Act, levy any other tax which the State Legislature has the power to levy under the Constitution of India.

(3) The levy, assessment and collection of taxes under this Act shall be in accordance with the provisions of this Act and the Rules and the regulations made there under, Provided that any person may make self-assessment and make payment of any levy or tax under this Act and rules and regulations made thereunder;

Provided further that if any discrepancy or under-assessment is found in such self-assessment, such person shall be liable for payment of differential amount and a fine of not less than fifty *per cent* and up to 100% of such differential amount.

Under Section - 128 of the BM Act, 2007, the Municipality has the power to levy user charges as follows;

(i) provision of water-supply, drainage and sewerage,

(ii) solid waste management,

(iii) parking of different types of vehicles in different areas and for different periods,

(iv) stacking of materials or rubbish on public streets for construction, alteration, repair or demolition work of any type, and

(v) other specific services rendered in pursuance of the provisions of this Act, at such rates as may be determined from time to time by regulations.

Provided that a Municipality may, having regard to the conditions obtaining in the municipal area, decide not to levy, or postpone the levying of, any of the user charges as aforesaid:

Provided further that the State Government may direct the Municipality to levy any of the user charges as aforesaid, not levied, or postponed, by the Municipality.

Section - 129 of the BM Act, 2007 provides power for levying fees and fines. The Municipality shall have the power to levy fees and fines in exercise of the regulatory powers vested in it by or under this Act or the rules or the regulations made thereunder for:

- (a) sanction of building plans and issue of completion certificates,
- (b) issue of municipal licenses for various non-residential uses of lands and buildings,
- (c) licensing of:
  - (i) various categories of professionals such as plumbers and surveyors,
  - (ii) various activities such as sinking of tube-wells, sale of meat, fish or poultry, or hawking of articles,
  - (iii) sites used for advertisements or premises used for private markets, slaughterhouses, hospitals, nursing homes, clinics, factories, warehouses, go downs, goods transport depots, eating-houses, lodging- houses, hotels, theatres, cinema- houses and places of public amusement and for other non - residential uses,
  - (iv) Animals,
  - (v) Carts or carriages, and
  - (vi) Such other activities as require a licence or permission under the provisions of this Act, and
- (d) issue of birth and death certificates.

Under Section - 130 of the BM Act - 2007, the Municipality may levy a surcharge on tax or fee at the rate of 25 *per cent* on a tax, or user charge, or fee or fines or on electricity consumption within the municipal area.

Under Section - 131 of the BM Act - 2007, the Municipality has the power to levy such development charge as may be determined by regulation, from time to time, on any residential building with a height of more than fourteen metres, or any non-residential building, having regard to its location along a particular category of street, its use characteristics, and sanctioned built up area.

Under Section - 132 of the BM Act - 2007, The Municipality may, if so authorized by any other law for the time being in force, realise any tax, development charge, cess, or fee, imposed under that law, or any dues payable under that law, in accordance with the provisions thereof.

Under Section - 133 of the BM Act - 2007, the Municipality may impose consolidated tax: -

(1) Notwithstanding anything contained in the foregoing sections, the Chief Municipal Officer, in lieu of imposing separately any two or more of the taxes described in section 127 sub- section (1) or subject to anyone or more of the said taxes and a drainage tax, or surcharge, may, with the previous approval of the Empowered Standing Committee, impose a consolidated tax, at such rate as it deems fit, assessed on the annual value of holdings situated within the Municipality

(2) Such consolidated tax shall be payable in such proportion by the owners and occupiers of holdings as the Chief Municipal Officer, may determine.

(v) **Assigned Revenue**

Assigned revenues are usually in the nature of a share in the revenues of the State Government. The ratio of the share in revenues is determined on the basis of revenue collected by the ULBs and the recommendations of the State Finance Commission and devolution of funds to ULBs.

Stamp Duty falls in the category of assigned revenue. This is imposed by the State Government and a fixed share as per the provision of the Indian Stamp Duty Act, 1899 is allotted to the Municipalities.

**9.6 Audit of receipts**

Audit of receipts includes an examination of the systems and procedures and their efficacy in respect of:-

- (1) identification of potential tax assesseees, ensuring compliance with laws as well as detection and prevention of tax evasion;
- (2) pursuit of claims with due diligence and that these are not abandoned or reduced except with adequate justification and proper authority;
- (3) prompt investigation of losses of revenue through fraud, default or mistake including, if required, through the review of other similar cases;
- (4) exercise of discretionary powers in an appropriate manner including levy of penalties and initiation of prosecution;
- (5) appropriate action to safeguard the interests of the Government on the orders passed by departmental appellate authorities;
- (6) any scheme as may be introduced by the Government from time to time;
- (7) any measures introduced to strengthen or improve revenue administration;

- (8) amounts that may have fallen into arrears, maintenance of records of arrears and action taken for the recovery of the amounts in arrears;
- (9) other ancillary and non-assessment functions including expenditure incurred by the departments;
- (10) achievement of targets, accounting and reporting of receipts and their cross verification and reconciliation with the accounts records; and
- (11) amounts of refunds, rebates, drawbacks, remissions and abatements to see that these are correctly assessed and accounted for.

### **Grants-in-aid**

Grants-in-aid paid by Government to Local Bodies are of two kinds viz., statutory and non-statutory. A non-statutory grant is further classified as conditional and unconditional. The conditions attached to the utilization of the grant usually take the shape of specification of the particular objects on which or the time within these conditions are fulfilled. Audit is responsible for seeing that these conditions are fulfilled. It should also be seen that the conditions, if any attached to the drawal of the grant have, as seen from the accounts; statement of expenditure prepared for the purpose and the concerned vouchers, been fulfilled and the grants were utilized properly.

Audit of Government assistance in form of grants-in-aid or loans shall be conducted to verify whether systems and procedures are in place and are being complied with for:

- (1) clear enunciation of purpose for the sanction of the Government assistance;
- (2) proper and transparent identification and selection of persons, bodies and authorities for Government assistance with reference to their antecedents, absorptive capacity, financial position, systems and management practices;
- (3) determination of amount of assistance and its timely release;
- (4) proper accounting of assistance by the grantee or the loanee including maintenance of accounts in such form as may be prescribed;
- (5) ensuring the fulfilment of conditions of Government assistance;
- (6) monitoring and ensuring the economical, efficient and effective end use of assistance including achievement of the objectives of assistance;
- (7) refund to the Government of any unutilised amount; and
- (8) in the case of loans, their repayment as prescribed and recovery of interest including penal interest according to applicable conditions.

The various processes and stages of collection and accounting of receipts should be intelligently examined in order to ensure that there are no weak points in the system involving of leakage of receipts or commission of irregularities. The following checks should be applied in audit in addition to those embodied in para 5.2.4 (f) of Chapter 5 of this Manual: -

- (a) adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue.
- (b) such regulations and procedure are being observed.
- (c) where any financial rule or order prescribes the scale or periodicity of recoveries, there is no deviation without proper authority from such scale or periodicity.
- (d) a register of all recurring and non-recurring demands is kept in accordance with the rules and collections are watched against it.
- (e) arrangements for collection are satisfactory and there are no outstanding dues requiring special notice. In case of outstanding dues, the details should be obtained to see that they are not outstanding without adequate reasons. If possible, audit should also suggest some feasible means for the recovery.
- (f) money received are brought to account correctly and immediately and ordinarily there is no undue delay in their remittance into the bank.
- (g) the return of the counterfoils of used Receipts Books is properly watched and the counterfoils are recorded after check so as to ensure that there had been no delay or omission in bringing the receipts to account.
- (h) the most important function of Audit and the area of audit concern in relation to assessment and refunds is to satisfy itself, by such test as it may consider necessary that the internal procedures adequately provide for and actually ensure:-
  - (i) the collection and utilisation of data necessary for the computation of the demand or refund under law.
  - (ii) that the computation and realization of various taxes, fees, rents, royalty, etc. are in accordance with the applicable tax laws;
  - (iii) the prompt raising of demands on tax payers in the manner required by law;
  - (iv) the regular accounting of demands, collections and refunds;
  - (v) the correct accounting and allocation of collections and their credit to the funds of the respective local bodies.
  - (vi) that the relevant and requisite records are being maintained properly;

- (vii) that proper arrangements are in place to safeguard against negligence or omission to levy or collect taxes or to authorise refunds;
  - (vi) that adequate control and monitoring mechanisms have been devised to prevent loss or leakage of revenue.
  - (ix) that there has not been any loss or leakage of revenue on account of lacunae or loopholes in the rules framed for the purpose or on account of avoidable delays in the issue of the necessary notifications and orders;
  - (x) that the machinery for detection of cases of evasion is adequate;
  - (xi) that double refunds, fraudulent or forged refund orders or other losses of revenue through fraud, default or errors are promptly brought to light and investigated;
  - (xii) that claims of tax payers are pursued with due diligence and are not abandoned or reduced except with adequate justification and proper authority;
  - (xiii) that cases pending in courts of law or before appellate authorities have been pursued adequately and appeals, wherever justified or considered necessary, have been filed within the period of limitation, and
  - (xiv) that the estimates of revenue have been realized at the end of the financial year.
- (i) While auditing the accounts of the PRIs and ULBs, the guidelines contained in Chapter - 5, 6, 7, 10, 12, 13, 14 & 15 of Regulation on Audit and Accounts, 2007 regarding Financial Audit, Compliance Audit, Performance Audit, Role of the CAG in audit of PRIs and ULBs, Audit Evidence, Conduct of Audit, Audit Notes and Inspection Reports and Audit Reports should also be kept in mind.
- (j) During audit of the accounts of the PRIs and ULBs, following rules should be kept in mind;
- Auditing Standards for PRIs & ULBs issued by CAG;
  - Manual of Instruction for Audit of PRIs;
- Audit Quality Management Framework;

## **CHAPTER 10**

### **AUDIT OF FINANCIAL STATEMENTS**

#### **10.1 Meaning and need of financial statements**

Financial statements are statements that summarize the financial performance of a ULB during a period, normally a financial year. By going through the financial statements, it is possible to know whether the ULB has generated sufficient earning during the year to meet its development and other expenditure, the assets held by the ULB, and its obligation. Financial statements provide the ULB, the Government, the funding agencies and the valuable information that can be useful in decision-making process and in public interest.

[Municipal Accounting Manual para 13.1]

Financial statements shall give information on the performance, and financial position of each fund, and also of the municipality as a whole.

[Municipal Accounting Rules 2014 chapter 2 para 5.3]

#### **10.2 Basis of Accounting**

All municipalities shall maintain their books of account using the double entry system of book-keeping following accrual accounting principles guided by the Bihar Municipal Accounting Manual.

[Bihar Municipal Accounting Rules 2014 chapter 2 para 4.1]

#### **10.3 Components of Financial statement**

The Annual financial statement shall comprise of –

- a. Receipt and Payments Account in Bihar Municipal Accounting Rules (BMAR) Form No-71
- b. Income and expenditure statement Bihar Municipal Accounting Rules (BMAR) Form No-73
- c. Balance sheet Bihar Municipal Accounting Rules (BMAR) Form No-74
- d. Significant accounting policies adopted by the Municipality in presentation of the financial statements
- e. Notes to accounts, which shall disclose Contingent Liabilities, and such other information as, may be useful in understanding the financial statements clearly.
- f. Comparative amounts shall be entered on the financial statements for preceding financial year except, in the case of the first year to which these rules apply

[ para 122(2) Bihar Municipal Accounting Rules 2014]

#### **10.4 Receipts and Payments Account**

The receipts and payments (R & P) statements is a summary of all cash inflows and outflows during a specific period. It starts with the opening cash and bank balances and ends with the closing cash and bank balances. The R & P are shown summarized at the account head level. It follows the principle:

“Opening Cash and Bank Balances + total receipts for the period = Total Payments + Closing Balances.”

For the purpose of preparing the R&P statement, the receipts and payments sides of the bank book are summarized against individual ledger account.

[ para 13.3(a)(iv) of Municipal Accounting Rules ]

It shall be prepared in Bihar Municipal Accounting Rules (BMAR) Form No-71

#### **10.5 Income and Expenditure Statement**

The Income and Expenditure Statement shows income earned and expenses incurred by the ULB during the period. It also shows the excess of income over expenditure (surplus) or excess of expenditure over income (deficit). In brief it shows the result of operations of the ULB for the period.

[ para 13.3(a)(ii) of Municipal Accounting Manual ]

It shall be prepared in Bihar Municipal Accounting Rules (BMAR) Form No. 73. The details of various items of income and expenditure would be maintained in schedule I-1 to I-18 of Bihar Municipal Accounting Rules (BMAR) Form No. 73.

#### **10.6 Balance Sheet**

The Balance sheet is a statement of assets (what is owned ) and liabilities ( what is owed ) of the ULB as on a particular date. It also shows the net worth or the net result of operations of the ULB since its existence. It is always prepared as on date i.e. as on the last date of a year or a period for which an income & expenditure Account is prepared. The assets are classified under the groups ‘fixed assets’, ‘current assets’, ‘loans and advances’. The liabilities are classified under the “Loans and current liabilities”.

[ para 13.3(a)(i) of Municipal Accounting Manual ]



It should be prepared in Bihar Municipal Accounting Rules (BMAR) Form-74. The details of various items of Balance Sheet would be maintained in schedule B-1 to B-20 of Bihar Municipal Accounting Rules (BMAR) Form No. 74.

### **10.7 Trial Balance**

The process of preparation of financial statements shall be preceded by preparation of Trial balance. The Trial Balance is a list of closing balances in all accounts in the General Ledger and the bank Books. The total of all debit balances should always tally with total of all credit balances. Any difference between the two indicates that there are one or more mistakes in the books of account which have to be located and corrected. Whenever such a difference arises, the entries, carry forward opening balances, totals and ledger postings have to be checked to find out the reasons for the difference and to rectify them.

[ para 13.5 of Municipal Accounting Manual]

A trial balance shall be prepared by extracting all ledger balances under various Account Codes in Bihar Municipal Accounting Rules (BMAR) Form No. 72

[ para 121 of Bihar Municipal Accounting Rules]

The purpose of preparing a Trial balance is to determine the equality of posted debits and to generate a basis 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”**. [Guideline of certification]

### **10.8 It should be seen in Audit whether:-**

- i. all transaction (income, expenditure, assets and liabilities) are correctly classified and stated in sufficient detail;
- ii. all grants sanctioned or received by the municipality during the year, have been accounted properly, and where any deduction is made out of such grants towards any dues of the ULB, whether such deductions have been properly accounted;
- iii. any special funds have been created as per the provisions of any statute and whether the special funds have been utilized for the purposes for which they have been created;
- iv. In respect of contracts that are in existence during the year there are any deviations from the sanctioned plans and the estimates without the sanction of the competent authority;
- v. the ULB is maintaining proper records showing full particulars, including quantitative details and status of fixed assets, whether these fixed assets have been physically

verified at reasonable intervals, whether any materials discrepancies were noticed on such verification and if so, whether the same has been properly dealt with in the books of account;

vi. in case of leasehold property given by the ULB, lease rentals are collected regularly by the ULB and that the lease agreements are renewed after their expiry;

vii. physical verification has been conducted by the ULB at reasonable intervals in respect of stores;

viii. 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;

ix. any material discrepancies have been noticed on physical verification of stores as compared to book records, and if so, whether the same has been properly dealt with in the books of account;

x. proper procedures are in place to identify any unserviceable or damaged stores and whether provision for the loss in this respect, if any, has been made in the accounts;

xi. the valuation of stores is in accordance with the accounting principles laid down in the rules and 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;

xii. the parties to whom loans or advances have been given by the ULB are repaying the principal amounts as stipulated and are also regular in payment of the interest and if not, whether reasonable steps have been taken by the municipality for recovery of the principal and interest;

xiii. advances given to municipal employees and interest thereon are being regularly recovered;

xiv. there exist on adequate internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other assets?

xv. applicable procurement rules and procedures are being followed and if so, significant deviations should be identified and reported;

xvi. the municipality is regular in depositing statutory dues including tax deducted at source, service tax, VAT, cess payable to government etc. and if not, the nature and cause of such delay and the amount not deposited;

xvii. the municipality is regular in remittance of pension and leave encashment contributions or any other amounts which the municipality is liable to remit towards the retirement dues of its employees, including employees on deputation;

xviii. any expense of personal nature of the Officers or employee has been charged to the municipality accounts; if so, the details thereof;

xix. the Bank reconciliation statement has been properly prepared for all the bank accounts of the ULB and the remedial actions including all correcting entries have been taken on timely basis;

xx. the year-end and reconciliation procedures prescribed have been carried out as per the rules;

xxi. all the expenditure incurred by the Municipality are authorized by appropriate provision in the sanctioned budget, whether made originally or subsequently and are in all cases such as are authorized by Act;

xxii. all revenue has been properly assessed, accounted for, collected and recovery action taken on timely basis;

xxiii. all sums due to and received by the Municipality have been brought to account within the prescribed time limits and are in all cases such as are authorized by Act;

xxiv. 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 for the sanctioned plans and the estimates without the sanctions of the competent authority;

xxv. the amounts received as specific grants have been utilized for the purposes as stated in the grant sanction order;

[Chapter 23 para 130(4) of Bihar Municipal Accounting Rules 2011]

Any other matter which the Government, Municipality and / or Authority (as required by the Act ), may have specifically required to be covered as a part of the Audit.

## CHAPTER 11

### AUDIT OF INTERNAL CONTROL

**11.1** Internal Control is an integral process and is effected by an entity's management and personnel and is designed to provide reasonable assurance that the following general objectives are being observed:

- \* fulfilling accountability obligations;
- \* complying with applicable laws and regulation;
- \* executing orderly ethical, economical, efficient and effective operations; and
- \* safeguarding resources against loss.

*(This chapter is broadly based on Internal Control Evaluation Manual of CAG of India)*

#### **11.2 Internal control as an integral process**

(a) internal control is not one event or circumstances, but a series of actions that permeate an entity's activities. These actions occur throughout an entity's operations on an ongoing basis. They are pervasive and inherent in the way the management runs the organization.

(b) Internal control should be built in rather than built on. The internal control system is most effective when it is built into the organization's infrastructure and operations and is an integral part of the essence of and integrated within the basic management process of planning, executing and monitoring.

(c) Built in internal control also helps in cost control. Adding new procedures that are separate from existing ones adds costs. By focusing on existing operations and their contribution to effective internal control, and by integrating controls into basic operating activities, an organization often can avoid unnecessary procedures and costs.

#### **11.3 Components of Internal control**

Internal control consists of five interrelated components:

- Control environment
- Risk management
- Control activities
- Information and communication
- Monitoring

#### **11.4 Role of Audit in Internal Control**

Auditors assessing of internal control procedures implies:

- determining the significance and the sensitivity of the risk for which controls are being exercised;

- assessing the susceptibility to misuse of resources, failure to attain objectives regarding ethics, economy, efficiency and effectiveness, or failure to fulfil accountability obligations, and non-compliance with laws and regulations;
- identifying and understanding the relevant internal control;
- determining what is already known about control effectiveness;
- assessing the adequacy of the control design;
- determining through testing if controls are effective;
- reporting on the internal control assessments and discussing the necessary corrective actions.

### **11.5 Interface between external auditor and internal audit**

(a) The external auditors need to develop a good working relationship with the internal audit units so that experience and knowledge can be shared and work can be supplemented mutually and complemented so that the benefits to be gained can be maximized. Including internal audit observation and recognizing their contribution in the external audit report, when appropriate, can also test this relationship. The external auditors should develop procedures for assessing the internal audit unit’s work to determine to which extent it can be relied upon. A strong internal audit unit could reduce the audit work of the external auditor and avoid needless duplication of work. The external auditors should study the internal audit reports, related working papers and compliance to and settlement of audit findings.

(b) Although internal and external auditors have different and clearly defined roles they do share the same broad purpose of serving parliament and the public by helping to ensure the highest standards of regularity and propriety for the use of public funds and resources and in promoting efficient, effective and economic public administration. Good co-operation maximizes the benefits which can be gained from working together in areas where there is an overlap in the work to be done.

### **11.6 General Checklist for Audit of Internal Control**

Checklist regarding Evolution of Internal Controls

SI No.	Check list	Yes /No	NA	Work Paper Reference
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1	Whether there exists a formal mechanism in the shape of Acts & Policy statements in respect of standards and process for internal control.			
2	Whether the Organizational structure provides for clear reporting lines that establish links between accountability. responsibility and authorization of various activities.			
3	Whether a well-defined delegation of powers exists. with important/exceptional matters being under the powers of higher levels of management.			
4	Whether the objectives of the Organization are well defined and whether there are any specific targets prescribed.			
5	Whether procedural manuals exist in respect of.			
	a. Financial matters (cash. banking. accounting. income. expenditure. budgeting. etc.)			
	b. Staff recruitment, training. performance and discipline			
	c. purchase of goods and services. contracts d. Outsourcing of functions			
	e. Code of personal conduct with guidance on gifts			
6	f. Use of computer systems whether the various officials are given adequate training in their functional areas			
7.	Whether there is separation of duties in such a way that more than one individual is involved in a transaction.			
8.	Whether there are physical access measures restricting access to buildings, information systems. Valuables. etc.			

9	Whether there is a system of supervision one review of the work of various functionaries.			
10	Whether there are systems for taking adequate remedial action in case of theft. Fraud. defalcation etc.			
11	Whether there are adequate safeguards to Protect cash. Valuables and resources through security police escort. Safes, strong rooms. Physical access restriction. Etc.			
12	Whether there are systems to ensure timely rendition of accounts.			
13	Whether there are systems to obtain declaration of assets, intimation of certain high value transaction. etc.			
14.	<p>Administrative control Register:</p> <ul style="list-style-type: none"> <li>a. Expenditure control register</li> <li>b. Advance register</li> <li>c. Pay bill register</li> <li>d. TA and LTC bill register</li> <li>e. Medical claim expenditure register</li> <li>f. Issue register</li> <li>g. Stationery register</li> <li>h. Stock register</li> <li>i. Stock issue register</li> <li>j. Dead stock register</li> <li>k. Investment register</li> <li>l. Register of contracts</li> <li>m. Register of refund of revenue</li> <li>n. Grants-in-aid register</li> <li>o. Sanction register</li> <li>p. Register of cheque books</li> </ul>			
15	EDP controls			

	Examine:			
	<ul style="list-style-type: none"> <li>a. Type of activity/ function computerized</li> <li>b. Whether various reports generated are being authenticated utilized for the purpose for which these have been developed</li> <li>c. Whether provision exists for generating management information system (MIS) reports for control purpose.</li> <li>d. Whether adequate security existed for accessory as well as recording/modification of data only by authorized personnel.</li> <li>e. Whether There exist well defined policy or guidelines on access control the system integrity and community plan in case of disaster.</li> </ul>			



## **CHAPTER 12**

### **INSPECTION REPORTS**

#### **12.1 General**

Reporting is an essential part of any audit as through this process the results of audit are presented to the intended users on the responsible party's compliance with the stated criteria. Compliance audit involves reporting the deviations from the applicable criteria and violations of the applicable rules, regulations etc., so that corrective actions may be taken, and those responsible for such deviations or violations could be held accountable for their actions.

Auditors should consider materiality for reporting purposes and adhere to the principles of completeness, objectivity, timeliness and contradictory process while reporting.

- The principle of completeness requires the auditor to consider all relevant audit evidence before issuing a report;
- The principle of objectivity requires the auditor to apply professional judgement and scepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and balanced manner;
- The principle of timeliness implies preparing the report in due time; and
- The principle of a contradictory process implies checking the accuracy of facts with the apex auditable entity and incorporating responses from responsible officials at appropriate places.

#### **12.2 Duties and Responsibilities of the Inspecting Officer: -**

Normally auditor should be able to issue inspection memos and put up notes. Separate reports, in the form of material for inclusion in the Inspection Report should be submitted by them, by the Assistant Audit Officers in the audit party to the Inspecting officer, based on the actual work done and inspection memos issued by them after taking into account the replies there to. The Inspecting officer will remain responsible for the efficiency of the inspection as a whole, though some items of works may suitably be entrusted to the subordinate staff. He must guide the members of the party in their work and determine the extent of independent action to be allowed to each of its members with reference to their experience, qualities and capacity to act independently. Based on such judgment, the Inspecting Officer may permit individual members of the party to issue audit memos themselves and see them in due course after issue. In cases where it is considered appropriate, he should stipulate that the memos be issued only with his approval. The Inspecting officer should always keep himself

posted with the progress of audit and the observations that have been communicated to the office inspected.

*[Ref: Para 6.1.8 of MSO (Audit)]*

**12.3 Distribution of works: -**

Allocation/distribution of works among the members of the local audit party should be made by the head of the party. The full details regarding the nature of works allocated to each member of the party should also be attached to the Draft Inspection Report.

*[Based on AG(Au)-B-P-155 dt-08 Oct 2015]*

**12.4 Draft Inspection Report (DIR):**

On the completion of each audit assignment, the Inspecting Officer shall prepare a draft inspection report. All officials posted in the Audit Party shall cooperate and contribute in the drafting process in such a manner, as decided by the inspecting officer.

**12.4.1** The culmination of the audit process is the reporting which summarizes the evidence gathered during the conduct of audit and communicates the audit opinion and other findings. It is essential for the auditor to prepare report in such a way so that audit observations are easy for reader to understand. Timeliness of the report is the essence as delay may make the report irrelevant and corrective action may not be practicable.

**12.4.2** The content of the report should be easy to understand and free from vagueness or ambiguity supported by sufficient, relevant and reliable audit evidence and be independent, objective, fair, complete, accurate, constructive and concise.

*[Ref: Para 1.1. & 2.1 of Chapter IV of Auditing standard (As) for PRIs and ULBs]*

**12.4.3** The audit Inspection Report (I.R.) should be complete i.e. it should contain all pertinent information needed to satisfy the audit objectives and to promote an adequate and correct understanding of the matter reported. It should also include appropriate background information.

*(Ref: 2.10. of Chapter IV of Accounting Standards (AS) for PRIs & ULBs)*

**12.4.4** In most cases, a single example of a deficiency is not sufficient to support a broad conclusion or a related recommendation. All that it supports is that a deviation, an error or a weakness existed. However, except as necessary, detailed supporting data need not be included in the report.

*(Ref: Para 2.10.1 of Accounting Standards for PRIs & ULBs)*

**12.4.5** Evidence presented should be true and the conclusions should be correctly portrayed so that the report is accurate. The conclusions should flow from the evidence. The need

for accuracy is based on the need to assure the users that what is reported is credible and reliable. The report should include only information findings and conclusions that are supported by competent and relevant evidence in the auditor's working papers.

*(Ref: Para 2.11 & 2.11.1 in Chapter IV of Accounting Standards for PRIs & ULBs)*

**12.4.6** The Presentation throughout the report be balanced in content and tone. The audit report should be fair and impartial and not misleading and should place the audit results in proper perspective. This means presenting audit results impartially and guarding against the tendency to exaggerate or over emphasise deficient performance.

*(Ref: Para 2.12 Chapter IV of Accounting Standards for PRIs & ULBs)*

**12.4.7** The audit results should be presented in the report persuasively and the conclusions (and recommendations) followed logically from the facts presented. The information presented should be sufficient to convince the readers to recognize the validity of the findings and reasonableness of audit conclusions.

*(Ref: Para 2.13 Chapter IV of Accounting Standards for PRIs & ULBs)*

**12.4.8** The report should be easy to read and understand. Use of straightforward, non-technical language is essential. If technical terms and unfamiliar abbreviations are used, they should be clearly defined.

*(Ref: Para 2.14 Chapter IV of Accounting Standards for PRIs & ULBs)*

**12.4.9** Being concise requires that the report is no longer than necessary to convey the audit opinion and conclusions. Too much detail detracts from the report and conceals the audit opinion and conclusions and confuses the readers. Complete and concise reports are likely to receive greater attention.

*(Ref: Para 2.15 Chapter IV Accounting Standards for PRIs & ULBs)*

**12.4.10** In drafting the report it is essential that a detached, dispassionate and objective attitude is maintained and that expressions suggestive of a political opinion or bias are avoided.

*[Ref: 7.3.27 Chapter – III, Section VII of MSO (Audit)]*

**12.4.11** Efforts should be made to reduce the use of passive voice and complex sentences and to avoid verbosity, parenthetical clauses and inclusion of information extraneous to the comments and strictly not relevant. Inclusion of statistical data that are not quite relevant and not necessary for clear presentation of the issues should be avoided.

*[Para 7.3.30 Chapter – III, Section VII of MSO (Audit)]*

**12.4.12** I.R. should be confined to serious irregularities and to matter of a general nature, which are important enough to be brought to the notice of the authorities and the Government. It should be divided into paragraphs and arranged in order of importance of the subject dealt with; all objections of a similar character or on the same subject should be grouped together. When there are several items of the same nature, they should be entered in a statement; a reference should be made to it in the body of the report.

**12.4.13** Objections and observations arising out of audit should be communicated at the earliest opportunity and should be registered at first in detail in the prescribed records maintained in the audit office.

*[Ref: Para 7.2.2 of MSO (Audit)]*

**12.3 Audit evidence:**

**12.3.1** Sufficient, competent, relevant and reliable evidence should be obtained to support the auditor's judgment and conclusions regarding the body, programme and function under audit.

The audit findings, conclusions and recommendations must be based on evidence. Since auditors seldom have the opportunity of considering all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen.

*[Ref: Para 8.1 of Chapter III of Auditing Standards (PRIs & ULBs)]*

**12.3.2** The following paras will explain audit evidence as an auditing standard:

- (i) The audit findings, conclusions and recommendations must be based on evidence. Since Auditors seldom have the opportunity of considering all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen. When computer based system data are an important part of the audit and the data reliability is crucial to accomplishing the audit objective, auditors need to satisfy themselves that the data are reliable and relevant.
- (ii) Auditors should have a sound understanding of techniques and procedures such as inspection, observations, enquiry and confirmation, to collect audit evidence. The Auditor should ensure that the techniques employed are sufficient to reasonably detect all quantitative material error and irregularities.

- (iii) In choosing approaches and procedures, consideration should be given to the quality evidence, i.e. the evidence should be sufficient, competent, relevant, reliable and as direct as possible so as to fulfil the need for interferences to be made.
- (iv) Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of audit. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the Auditor's significant findings and conclusions.
- (iv) Adequate documentation is important for several reasons. It will:
  - (a) Confirm and support the Auditor's opinions and reports;
  - (b) Increase the efficiency and effectiveness of the audit.
  - (c) Serve as a source of information for preparing reports or ensuring any enquiries from the audited entity or from any other party.
  - (d) Serve as evidence of the Auditor's compliance with auditing standards;
  - (e) Facilitate planning and supervision.
  - (f) Help the Auditor's professional development.
  - (g) Help to ensure that delegated work has been satisfactorily performed;  
and
  - (h) Provide evidence of work done for future reference.
- (vi) The Auditor should bear in mind that the content and arrangement of the working papers reflect the degree of the Auditor's proficiency, experience and knowledge. Working papers should be sufficiently complete and detailed to enable an experienced Auditor having no previous connection with the audit subsequently to ascertain from them what work was performed to support the conclusions.

[Ref: Para 8.2.1 to 8.2.6 of Chapter-III of Auditing standard for audit of PRIs & ULBs)]

### **12.5. Format of Inspection Reports**

The Inspection Report of an audit unit should provide a perspective of the unit level compliance and may comprise the following parts:

**Part I – Introduction-** This part may commence with an overview of the audit unit and may provide its functional/geographical jurisdiction, budget, financial performance and a perspective of the relative significance of the unit in the overall hierarchy of the department in pursuit of organisational goals. This may be followed by a brief explanation of the scope

of audit, the sampling procedure followed and the audit sample – including the implementing units, the subject matter(s) selected and the sources of criteria that have been adopted to evaluate the selected subject matter(s). It may indicate that the audit has been conducted in accordance with the applicable Auditing Standards of CAG.

**Part II – Audit findings**–This part shall contain all findings – both positive and negative findings that pertain to the audit unit and may be arranged in two distinct parts - Part IIA and IIB - the first part comprising significant audit findings relating to evaluation of the regularity related subject matter(s)/ specific subject matter(s) and propriety related subject matters and the second part – IIB comprising other incidental findings relating to both regularity and propriety aspects. The audit findings should be organised in decreasing order of materiality and significance, if possible.

Presentation of audit findings shall conform to the Auditing Standards and other reporting principles enunciated in this chapter and clearly bring out the applied criteria, the results of evaluation of the subject matter against the criteria highlighting the cause and effect relationship. Audit findings may also appropriately indicate the extent of non-compliance and whether they involve systemic issues or represent isolated cases of non-compliance.

**Part III – Follow up on findings outstanding from previous reports**–This part may indicate the progress of settlement of audit findings outstanding from previous Inspection Reports and list out the findings that continue to be outstanding.

**Part IV– Best practices** – Any good practices or innovations, if noticed, during the course of audit may be mentioned.

**Part V – Acknowledgement**– This part may contain the acknowledgement of the extent of audit units’ cooperation in all matters including production of records called for in Audit. It may also contain details of persons holding the leadership positions in the audit units.

*[Para- 6.5 of C&AG’s Compliance Auditing Guidelines -2016]*

#### **12.6 Discussion with head of audit entity: -**

A discussion note including a brief of audit observations and reply thereon by the entity duly signed by the head of the entity should be prepared and mailed/faxed to the Group Officer. The receipt of reply of all audit observations should be ensured and the cases wherein head of entity refused to furnish reply to audit observations should also be mentioned by the party head.

*[AG(Au)-B-P-155 dated 8<sup>th</sup> October 2015]*

## **12.7 Fraud, illegal acts and other non-compliance: -**

(i) When auditors conclude based on evidence obtained, that fraud or an illegal act, either has occurred or is likely to have occurred they should report relevant information. Auditors need not report information about fraud or an illegal act that is clearly inconsequential. Auditors should also report other non-compliance (for example a violation of contract provision) that is material to the financial statements.

*(Ref: Para 10.1 of Accounting Standards for PRIs & ULBs)*

(ii) Whether a particular act is, in fact, illegal may have to await final determination by a court of law.

*(Ref: Para 10.2 of Accounting Standards for PRIs & ULBs)*

(iii) Thus, when auditors disclose matters that have led them to conclude that an illegal act is likely to have occurred, they should take care not to imply that they have made a determination illegally.

*(Ref: Para 10.3 of Accounting Standards for PRIs & ULBs)*

(iv) In reporting material fraud, illegal acts, or other non-compliance, the Auditors should place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and be quantified in terms of money value, if appropriate. In presenting material fraud, illegal acts or other non-compliance, Auditor should ensure that standard for objectives, scope and methodology, audit results and presentation standards, as appropriate, are observed. Auditors may provide less extensive disclosure of fraud and illegal acts that are not material in either a quantitative or qualitative sense.

*(Ref: Para 10.4 of Accounting Standards for PRIs & ULBs)*

(v) When auditors detect fraud, illegal acts, or other non-compliance that are not of material nature, they should communicate those findings to the audit entity, preferably in writing and should refer to such communications in their report on compliance. Auditors should document in their working papers all communications to the audit entity about fraud, illegal acts and other non-compliance.

*(Ref: Para 10.5 of Accounting Standards for PRI & ULB)*

(vi) Management is responsible for taking timely and appropriate steps to remedy fraud or illegal acts that Auditors report to it when fraud or an illegal act involves assistance received directly or indirectly from Government or any other agency (for example, State Government Grants), the Auditors may have a duty to report it directly (to the Government/any other agency) if management fails to take remedial steps.

*(Ref: Para 10.6. of Accounting Standards for PRIs & ULBs)*

(vii) Auditors should obtain sufficient, competent and relevant evidence (for example, by confirmation with outside parties) to corroborate assertions by management that it has reported fraud on illegal acts.

*(Ref: Para 10.7 of Accounting Standards for PRIs & ULBs)*

#### **12.8.1 Time allowed for drafting of Inspection Report and issue thereof:**

(i) The Draft Inspection Report must be prepared and uploaded to the mail ID of the office within seven to ten days from the date of the completion of audit.

*[AG(Au)-B-P-155 dated 8<sup>th</sup> October 2015]*

(ii) The inspection Report forwarded by the Inspecting officer is to be scrutinised and edited in the head office with reference to the evidence. At the time of vetting the IRs, the Branch Officer in the head office should satisfy himself that only such objections or audit – observations which merit inclusion in the report have been included there in and record a certificate to the effect that the IR includes objections of a serious nature only. After approval by the Group officer, the edited IR is to be issued.

*[Ref: Para 6.1.24 of MSO (audit)]*

(iii) The Inspection Report presenting all the findings shall be issued within 30 days of completion of audit to Auditee Units with a copy to the corresponding next higher level in the organisational hierarchy and to the lead team if constituted. A period of four weeks may be allowed to the Auditee Units to provide responses to the audit findings contained in the Inspection Report.

*['Para 6.4 of C&AG's Compliance Auditing Guidelines -2016']*

#### **12.8.2 Title Sheet-**

In submitting the Draft IR to the head office, the audit party should attach a title sheet in the proforma as given in Annexure- X duly filled in.



## **12.9 Follow up of Inspection Report: -**

Adequate, prompt and proper follow up action by the entity on and in the light of audit conclusions projected will enhance the effectiveness of audit and promote public accountability.

Systems and procedures should be in place and implemented for securing appropriate conclusions and preventive follow up action on audit reports. In subsequent audits and otherwise, the auditors should examine and report whether satisfactory action was taken on the audit reports.

*(Ref: Para 3 Chapter IV of Accounting Standards for PRI & ULBs)*

### **12.10.1 Objection Book: -**

(i) An objection book as shown in the format enclosed herewith may be maintained in vetting section(s) at head office.

(ii) Individual money value objections or paragraphs included in inspection reports such as those relating to recovery of overpayments, non-availability of financial sanction etc. should be pursued to finality and should not be dropped from the objection books or inspection reports.

To raise an objection and not pursue it further without any valid reason sends wrong signals to the organisations subjected to audit. An objection should not be treated as having been settled in the absence of reply since settlement is possible based on the merits of the reply alone. Inspection reports should be vetted properly to avoid the inclusion therein of “wrong objection” taken by field parties.

*[Ref.: Para 7.1.21 & 7.1.22 of MSO (Audit)]*

The Accountant General should ensure that the Group Officer and the Audit Officer responsible for settlement/adjustment and clearance of objections devote their un-remitting personal attention to this task. When it is decided to withdraw an objection once raised, either on reconsideration or in the light of information made available subsequently, the authority to whom the objection was originally addressed should be informed forthwith/so that he can keep a note of the withdrawal of the objection.

*[Ref.: Para 7.2.13 & 7.2.14 of MSO (Audit)]*

The responsibility for settlement of objections and other points raised in audit devolves primarily upon disbursing officers, heads of offices and controlling authorities. To assist the Finance or Department concerned of the Government in enforcing financial and accounting

discipline, the Accountant General is expected to maintain a constant and careful watch over objections and to keep the controlling authority fully acquainted with not only individual instances of serious disregard of financial rules and orders but also generally with the progress with the clearance of objections. The procedure to be followed in this regard should be determined by the Accountant General in consultation with the Finance Department.

*[Ref.: Para 7.1.11 of MSO (Audit)]*

Half Yearly lists of inspection reports and objections outstanding for over six months or one year should be sent to the departments concerned to enable them to have an idea of the pendency and expedite their settlement.

*[Ref.: Para 7.1.12 (iii) of MSO (Audit)]*

### **12.11 Review of previous IRs**

(i) The Inspecting Officers as well as Assistant Audit Officer of the Audit Party should devote the first day to the study of the old outstanding Paras of previous IRs and suggest whether it is worthwhile to pursue them

(ii) Persistent irregularities should be incorporated as a fresh Para in the current Inspection Report.

(iii) The Paras that cannot be settled should be updated and taken into current I.R. giving a reference to the year where the objection was originally raised by audit.

(iv) Paras which cannot be settled for want of sanctions, write off orders may be clubbed into a single Para with brief details of old Paras (duly updated) forming sub-paras there under and incorporated in the current IR dropping the earlier ones. This action should be taken as a last measure. The thrust should be either to develop an objection into a draft Para or settle it in view of the satisfactory reply furnished thereof.

*[Ref.: Para 19.3.12 of MIA on PRI]*

### **12.12 Audit Objection Committee (AOC):**

Inspection reports and objections which could not be settled through discussions at lower levels should be referred to Audit Committees, each consisting of Secretary to Government or Head of Department concerned and sufficiently senior representatives of the Accountant General and the Finance Ministry/Department.

Department of Finance, Govt. of Bihar vide resolution No. 2252 dated 03.03.2010 has provided for three tier system for Review/ Compliance of Audit Reports. It consist of a district level Audit committee headed by DM/DDC at the district Level, Department level

Audit committee headed by Principal Secretary and a High level Audit Committee headed by Principal Secretary of Finance Department.

*[Ref: Para 7.1.12 (vi) M.S.O(Audit)]*

## **CHAPTER 13**

### **AUDIT REPORT**

#### **13.1 General**

13.1.1 Articles 149 and 151 of the Constitution of India read with the CAG's (DPC) Act, 1971, empower the CAG of India to audit the accounts of PRIs and ULBs of Bihar and submit his report to the Governor of Bihar who causes it to be laid before the State Legislature. The Audit Report relating to local bodies is prepared by the AG (Audit) under the directions of the CAG of India.

13.1.2 Till the year 2013-14, the work done by Local Audit Department with regard to the Audit Report of local bodies was incorporated in the Report of the Examiner of Local Accounts, Bihar. First Audit Report of CAG for local bodies, based on the draft paras/reviews relating to PRIs and ULBs was prepared by the LB(Report) Section for the year 2014-15 and the report was laid before the state legislature on 04 April 2016. This Report embodies the cases which came to notice in course of test audit of accounts during the year 2014-15 as well as those which had come to notice in earlier years.

#### **13.2 Contents of Audit Report**

13.2.1 The general lay out of the Audit Report of local bodies is given below:

##### **Part- A PRIs**

Chapter I- An overview of functioning of the PRIs in Bihar which draws attention towards accountability mechanism, source of funds, recommendations of central and state finance commission, maintenance of accounts and records, reconciliation of balances, response to audit observations and impact of audit.

Chapter II- Points arising from Performance Audit on selected projects/schemes/themes pertaining to PRIs.

Chapter III- Result of compliance audit in the form of paragraphs depicting significant audit findings relating to evaluation of the regularity related subject matter(s)/ specific subject matter(s), propriety related subject matters, cases of losses, write-off and of wasteful or nugatory expenditure .

##### **Part- B ULBs**

Chapter IV- An overview of functioning of the ULBs in Bihar which draws attention towards accountability mechanism, source of funds, recommendations of central and state finance commission, maintenance of accounts and records, reconciliation of balances, response to audit observations and impact of audit.

Chapter V- Points arising from Performance Audit on selected projects/schemes/themes pertaining to ULBs.

Chapter VI- Result of compliance audit in the form of paragraphs depicting significant audit findings relating to evaluation of the regularity related subject matter(s)/ specific subject matter(s), propriety related subject matters, cases of losses, write-off and of wasteful or nugatory expenditure .

### **13.3 Utility of Audit Reports of Local Bodies**

The Audit Report shows the extent to which:-

- (i) Government rules and orders have been complied with by the local bodies;
- (ii) the funds placed at their disposal were regularly and prudently spent; and
- (iii) their policy of revenue collection has been effective.

### **13.4 Process of preparation and finalisation of Audit Reports of Local Bodies**

The process of preparation and finalisation of Audit Reports involves the following main stages:

- (1) Preparation and issue of draft paragraphs
- (2) Finalisation of draft Audit Report and its approval by CAG
- (3) Printing and submission of the Audit Report

### **13.5 Selection of material**

Though it is difficult to lay down any hard and fast rule with regard to the choice of the material to be included in the Audit Report, the following points may serve as guidelines in selecting material for the Audit Report of Local Bodies:

- (a) cases involving transgression of statutory provisions, rules or orders and other cases which have led to or are likely to lead to substantial loss of public money may be selected for comments.
- (b) sub-judiced cases should be mentioned in such a way as may not prejudice the claim or defence in court.
- (c) the very old cases should not normally be included.
- (d) matters which are predominantly administrative or technical in character should not be included on grounds of financial propriety.
- (e) audit as a normal rule should not criticise the decision of the administrative authorities in regard to nature and quantum of disciplinary action taken/punishment imposed.

### **13.6 Preparation and issue of draft paragraph of Local Bodies**

- 13.6.1 On receipt of acceptance of facts mentioned in the factual statement issued by LB (DP cell) and/or comments from the Government; it is decided whether a draft para may be prepared or not.
- 13.6.2 The preparation of audit reports deserves a lot of attention and care since it is the final product of all audit activities. The major aspect to be borne in mind should be the presentation of audit findings in the best possible manner.
- 13.6.3 While preparing the draft paragraph, therefore, the unnecessary descriptive material contained in the factual statement should be pruned and only essential aspects retained. Cases of same type and substance should be clubbed together and material of really important substance and quality duly condensed and summarised should be included in the draft paragraph.
- 13.6.4 **In addition to above it should be seen that:**
- (a) the draft paragraphs are not very lengthy and do not include unnecessary material;
  - (b) they give all relevant information with dates where necessary and lay correct emphasis on the exact points to be brought out in paragraphs;
  - (c) all words and phrases likely to cause resentment or unpleasantness are avoided;
  - (d) the paragraphs are so worded that the facts speak more than the comments;
  - (e) in such of the draft paragraphs, more particularly reviews which might be understood better with supporting maps, charts, sketches etc. such material having proper authenticity are given at appropriate places; and
  - (f) the thrust of the paragraphs and reviews come out clearly.
- 13.6.5 In order to have uniformity and improvement in the style of reporting, the CAG of India circulated a copy of the 'Style Guide' for Audit Report vide No.113-Audit (AP)/6-2003 dated 27.8.2003. He again insisted on adopting the style guide and format for reporting vide letter No.215/ Audit/(AP)/6-2003 dated 3.12.2004 right from the draft paragraph stage.
- 13.6.6 The draft paragraph so prepared is then issued to the Government after obtaining approval of the Principal Accountant General (PAG) /Accountant General.
- 13.6.7 After issue of draft paragraph every effort is made to get replies from the State Government to the draft paragraph. In case where despite efforts, replies are not received, a sub-para may be suitably embodied in each draft paragraph to indicate the

date on which the case was reported to Government and the fact that the reply has not been received.

13.6.8 The draft paragraphs prepared for inclusion in the Audit Report are sent to the CAG's office in convenient batches as and when the material is ready. After taking into account the comments of the CAG on the draft paragraphs sent in batches, final draft of the Audit Report is prepared, *inter alia*, bringing the draft paragraphs up to date in respect of information which they contain. Due attention is given to the observations, if any, made by the Government on the references made to them.

### **13.7 Finalisation of Audit Reports of Local Bodies**

13.7.1 After all the batches of draft paragraphs have been vetted by the CAG, the material is arranged in the form of chapters taking into account the remarks of CAG's office and the replies of Department/Government.

13.7.4 The latest position in each case is indicated in the paragraphs included in the Report and changes, if any, made are also to be suitably explained in the annotated copy of the draft Report to be sent to CAG's office for final approval.

#### **13.8 Printing and submission of the Audit Report of Local Bodies**

13.8.1 Audit Reports of Local Bodies had to be got printed from private press after obtaining quotations and accepting the lowest one.

13.8.2 Printed copies of English and Hindi version each are then forwarded to the CAG's office along with a summary of important points for signature by the CAG. After signature, these copies are submitted to the Governor of the State. As soon as the Audit Report of Local Bodies is submitted to the Governor by the CAG, the State Government is requested to present the same to the State Assembly immediately if it is then in session or at its next session if it is not then in session. After the Audit Report is presented to the Legislature (the point on which decision is yet to be taken by the State Government), the summary of important points highlighted in the Audit Report is released to the Press for publicity.

# **Annexure**



**Annexure I**

(Referred to in para 2.5 (a) (ii))

**Register of Probable Draft Paras**

<b>S. No.</b>	<b>Name of Office</b>	<b>Period of Inspection Report</b>	<b>Para No.</b>	<b>Nature of irregularity</b>	<b>Amount</b>	<b>No. &amp; date of report to the Head of Department</b>
<b>1.</b>	<b>2.</b>	<b>3.</b>	<b>4.</b>	<b>5.</b>	<b>6.</b>	<b>7.</b>

<b>No. and Date of report to Government</b>	<b>Remarks</b>	<b>Order of Government, if any</b>	<b>Whether draft sent to Report Section</b>	<b>Whether included in the Audit Report</b>	<b>Remarks</b>
<b>8.</b>	<b>9.</b>	<b>10.</b>	<b>11.</b>	<b>12.</b>	<b>13.</b>

**Annexure II**

**(Referred to in para 2.5 (b) (ii))**

**Intimation of Audit**

**Office of the Accountant General (Audit)**

(Name of the State & Station)

To

Shri \_\_\_\_\_

Designation

Complete Address

Dear \_\_\_\_\_

In accordance with our Annual Audit Plan and the Quarterly Audit Programme communicated to your Head of the Department vide this office letter No. \_\_\_\_\_ dated \_\_\_\_\_ (as modified vide our office letter No. \_\_\_\_\_ dated \_\_\_\_\_ and also displayed on our office \_\_\_\_\_ website \_www.\_\_\_\_\_ under the caption \_\_\_\_\_ ) Financial/Compliance Audit (write only as applicable) of the accounts and /or transactions of (name of the office) will be taken up by the audit team of this office from DD/MM/YY to DD/MM/YY. The audit team will comprise of Shri \* \_\_\_\_\_ Sr. AO, Shri \* \_\_\_\_\_ AAO \_\_\_\_\_ and \_\_\_\_\_ (Fill names or state that the names of audit team will be intimated later on).

\*Indicate ID Card No. of each member of the audit team after his/her name.

**2. Broad objectives of audit are as under:**

**(Compliance audit)**

- (i) To confirm whether the activities of government/public sector entities are in accordance with the relevant laws, regulations and authorities that govern such entities. More specifically, it may involve examining to what extent the audited entity follows rules, laws and regulation, budgetary resolutions, economy instructions, policy, established codes, or agreed upon terms, such as the terms of a contract or the terms of a funding agreement;
- (ii) System of internal control, internal audit in relation to budgetary assumption, financial statements, compliance and financial reporting;
- (iii) To audit Transparency and competitiveness in contracts and procurements;
- (iv) To examine and report upon propriety in expenditure that has a significant bearing on mandate/operations and budgetary grants of the organisation/entity;

- (v) Value for money derived from individual or a set of material transactions;
- (vi) To examine the stores and stock accounts, ..... where applicable;
- (vii) Banking and cash management issues (in case of autonomous bodies); and
- (viii) Audit the IT applications, etc.

(Financial Audit)

- (a) Financial statements are prepared in accordance with acceptable accounting standards/rules.
  - (b) Financial statements are presented with due consideration to the circumstances of the audited entity;
  - (c) Sufficient disclosures are presented about various elements of financial statements;
  - (d) The various elements of financial statements are properly evaluated, measured and presented; and
  - (e) Evaluation of the internal control that assist in safeguarding assets and resources, assures the accuracy and completeness of accounting records and in complying with financial laws and regulations.
3. The period covered under the audit shall be (O/N; Fill in the period to be covered in audit).....which may also include examination of documents/transactions of the previous year's, considered relevant by the audit team.
4. Consistent with contemporary professional practice and provision in CAG's Regulations on Audit and Accounts 2007 (Regulation 183) our audit team would seek an entry conference at appropriate top/senior level, having control and authority over the subjects under the present audit. The entry conference will be an opportunity for the audit team to explain the audit objective criteria and examination of the internal control system.
- It is desirable that the entry conference is held on the first working day of the audit period. On the conclusion of the audit, the audit team would request you for an exit conference (Regulation 191) in which audit findings communicated to the audit entity will be discussed.
5. The request for entry and exit conferences will be made formally by the Head of the Audit Team. We request you to kindly make it convenient to hold the meetings on the opening and closing days of audit respectively.
6. Our audit shall be conducted with reference to the Auditing Standards and Regulations on Audit and Accounts-2007 issued by the Comptroller and Auditor General of India under.
7. Under Section 18 of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act 1971, it is the responsibility of the person in charge of any office or

department, the accounts of which have to be inspected and audited by the Comptroller and Auditor General of India, to afford all facilities for inspection by the audit team and comply with the request for information in as complete as a form as possible and with all reasonable expedition. Our audit team shall request for information and documents, indicating the expected time within which these may be provided. We expect that the documents held by the audite entity should be available within the same day and the information would be made available within the time indicated in the information seeking memo.

8. Attention is drawn to Regulation 169, which provides that the form, type and extent of data, information and documents required for audit test and the nature of shall be determined by Audit Officer and that the data, information and documents would also include those obtained by auditable entity from the third party and relied upon by the audit entity in its performance of functions.

9. We also draw your attention to Regulation 172, which enjoins that where required by audit in special circumstances the auditable entity shall conduct physical verifications of stores, stocks, assets etc. in the presence of the Audit Officer.

10. We request you to please provide appropriate and reasonable office accommodation and other office amenities to the audit team similar to the facilities available for the personnel of the organization.

11. We suggest that you may nominate a liaison officer sufficiently of senior level for day to day coordination in the audit functions.

12. We bring to your kind notice that in the event of unreasonable delay in supply of information and documents leading to partial, selective or complete withholding of data/information leading to material scope limitation, the audit team may be compelled to suspend the audit after bringing it to the notice of the head of the office in writing and bring the matter to the notice of higher management.

13. While compilation of information requested for by audit may require sometime furnishing of documents held by the audite entity should be made within the same day since these are readily available.

14. It may be mentioned here that failure to produce necessary records/documents or to respond to the clarifications sought by the audit team would tantamount to preventing a Government officer from performing his/her duties and could, therefore, invite action under Section 175-186 of the Indian Penal Code.

15. Our audit teams have been directed to return the documents as soon as their examination is over. We expect to issue an inspection report containing the results of audit within 30 days of conclusion of audit for the response of the department.

16. We will acknowledge the acceptance of audit findings and conclusions and remedial measures assured/taken by the audit entities in our inspection report if remedial measures are taken during the course of audit itself.

17. We hope that your office maintains a file register/register of documents held along with the cash book will be required on the very first day of audit. These and other documents forming the basis of information furnish with reference to the questionnaire.

18. Depending upon the volume of work and supply of information/documents, the period of audit may be extended.

19. We bring to your kind notice that our team would expect only working environment assistance in their day to day working and documents and information and **nothing more**. Should you feel it necessary to contact senior officers you are most welcome to contact the Senior Deputy Accountant General/Deputy Accountant General of audit at telephone numbers .....and their e-mails..... and, if necessary, even the Principal Accountant General/Accountant General(Audit) at telephone number ..... and on e-mail .....

20. In case you have any doubt in regard to the genuineness of audit team reporting for audit in your office, please feel free to request them to confirm their identity with reference to valid ID cards issued by this office to its audit inspection staff.

Looking forward to a constructive engagement.

**Kindly acknowledge the receipt.**

Yours sincerely,

**Annexure III**

**(Referred to in para 2.5 (b) (ii))**

**A. List of Records/Registers to be maintained by ZilaParishads and PanchayatSamitis as per Bihar PanchayatSamiti and ZilaParishad (Budget & Accounts) Rule, 1964.**

<b>Sl. No.</b>	<b>Form No.</b>	<b>Name of Cash Books and Documents maintained in Samiti/Parishad</b>
1.	A-1	Imprest Cash Book (Rule 48)
2.	A-2	Bill Register (Rule 56)
3.	A-3	Travelling Allowance Bill Register (Rule (56)
4.	A-4	Contingent Expenditure Register (Rule 56)
5.	A-5	Supply Order Register (Rule 56)
6.	A-6	Supply Order Register (Rule 56)
7.	A-7	Salary Bill (Rule 57 and 60)
8.	A-8	Absentee Statement (Rule 57)
9.	A-9	Increment Certificate of Salary (Rule 59)
10.	A-10	Subsidiary Cash Book (Rule 71)
11.	A-11	Cash Book (Rule 77)
12.	A-12	Cashier's Cash Book (Rule 78)
13.	A-13	Daily Collection Register (Rule 81)
14.	A-14	Deposit Order or Cash Register (Rule 82)
15.	A-15	Abstract of Income Register (Rule 83)
16.	A-16	Abstract of Expenditure Register (Rule 84)
17.	A-17	Deposit Account (Rule 83)
18.	A-18	Classified Abstract of Income and Expenditure (Rule 84)
19.	A-19	Adjustment Register (Rule 85)
20.	A-20	Abstract Register (Rule 88)
21.	A-21	Outstanding Advance Register (Rule 92)
22.	A-22	Outstanding Deposit Register (Rule 93)
23.	A-23	Annual Income Account (Rule 94)
24.	A-24	Annual Expenditure Account (Rule 94)
25.	A-25	Fixed-demand Audit Register(Rule 95)

26.	A-26	Investment Register (Rule 96)
27.	A-27	Loan Register (Rule 97)
28.	A-28	Loan Appropriation Register (Rule 98)
29.	A-29	Form of Receipt (Rule 84)
30.	A-30	Asset Register(Rule 100)
31.	A-31	Demand Register(Rule 103)
32.	A-32	Stamp Register(Rule 106)
33.	A-33	Stationery Register(Rule 112)
34.	A-34	Government Grant Register(Rule 112)
35.	A-35	Annual Expenditure Statement(Rule 114)
36.	A-36	Monthly Statement(Rule 116)
37.	A-37	Allotment Register(Rule 119)
38.	A-38	Duty Register(Rule 120)
39.	A-39	Undisbursed Salary Register(Rule 121)
40.	A-40	Received & Adjusted Cash Draft Register (Rule 122)
41.	A-41	Lapsed Deposit Register (Rule 123)
42.	A-42	Index Register (Rule 123)
43.	A-43	Stock Register (Rule 130)
44.	A-44	Form of Agreement for small works (Rule 131)
45.	A-45	Form of Agreement for contract (Rule 131)
46.	A-46	Form of agreement for supply of materials (Rule 131)
47.	A-47	Form of lump sum contracts (Rule 131)
48.	A-48	Work Register (Rule 132)
49.	A-49	Measurement Book (Rule 133)
50.	A-50	Attendance Register (Rule 133)
51.	A-51	Payment Register for contractor (Construction) (Rule 133)
52.	A-52	--
53.	A-53	Labour Bill of Work Charged labourers (Rule 133)
54.	A-54	Contributory Scheme Register. (Rule 84)

**B.List of Records/Registers to be maintained by Gram Panchayats as per Bihar Gram Panchayat Accounts Rule, 1949.**

**C. List of Records to be maintained by municipalities as per schedule II of Bihar Municipal Accounting Rules, 2014.**

<b>Sl. No.</b>	<b>Form No.</b>	<b>Name of Cash Books and Documents maintained in Gram Panchayat</b>
1.	A-1	Cash Book (Rule 7)
2.	A-2	Permanent Advance Register (Rule 22)
3.	A-3	Quarterly Outstanding Advance Register (Rule 15)
4.	A-4	Register of Public Works (Rule 27)
5.	A-5	Annual Order of Expected Material Form [Rule 28 (1)]
6.	A-6	Budget Estimate of expected Receipt and Expenditure (Rule 29)
7.	A-7	Prescribed List (Rule 46)
8.	A-8	Supplementary Prescribed List [Rule 47 (A) (i)]
9.	A-9	Form of License [Rule 49 (2)]
10.	A-10	Token [Rule 49 (2)]
11.	A-11	Form for Selling of Cattle [Rule 55 (1)]
12.	A-12	Muster Roll (Rule 62)
13.	A-13	----
14.	A-14	Demand and Collection Register (Rule 66)
15.	A-15	Collection Receipt Form (Rule 66)
16.	A-16	Form for Attachment of Properties (Rule 69)
17.	A-17	Register of Attached Properties (Rule 73)
18.	A-18	Form of Warrant for Attachment (Rule 74)

1. Cash Book (BMAR Form No - 1)
2. Register for cash drawn/disbursed (BMAR Form No - 2)
3. Bank Book (BMAR Form No - 3)
4. Journal Book (BMAR Form No - 4)
5. Ledger (BMAR Form No - 5)
6. Function wise Income Subsidiary Ledger (BMAR Form No - 6)
7. Function wise Expenses Subsidiary Ledger (BMAR Form No - 7)
8. Receipt Voucher (BMAR Form No - 8)
9. Payment Voucher (BMAR Form No - 9)
10. Contra Voucher (BMAR Form No - 10)



11. Journal Voucher (BMAR Form No - 11)
12. Voucher Number Register (BMAR Form No - 12)
13. Bill for Municipal Dues (BMAR Form No - 13)
14. Summary Statement of Bill Raised (BMAR Form No - 14)
15. Receipt (BMAR Form No - 15)
16. Register of Cheques Received (BMAR Form No - 16)
17. Collection Register (BMAR Form No - 17)
18. Memorandum of Collection (BMAR Form No - 18)
19. Summary of Daily Collection (BMAR Form No - 19)
20. Register of Bills for Payment (BMAR Form No - 20)
21. Payment Order (BMAR Form No - 21)
22. Cheque Issue Register (BMAR Form No - 22)
23. Demand Register (BMAR Form No - 23)
24. Summary Statement of demand adjusted raised for the period in respect of (Property & Other Tax) (BMAR Form No - 24)
25. Register of Civil Suits (BMAR Form No - 25)
26. Register of Decrees (BMAR Form No - 26)
27. Register of Miscellaneous Sales/Auction (BMAR Form No - 27)
28. Grant Register (BMAR Form No - 28)
29. Utilisation Certificates (BMAR Form No - 29)
30. Advice showing the details of Delegated Loan Raised (BMAR Form No - 30)
31. Summary Statement of Status of Capital-Work-in-Progress/Deposit Works/Delegated Loan (BMAR Form No - 31)
32. Contractors Bill (Facing Sheet) (BMAR Form No - 32)
33. Nominal Muster Roll (BMAR Form No - 33)
34. Daily Labour Report (BMAR Form No - 34)
35. Register of Works (BMAR Form No - 35)
36. Royalty Register (BMAR Form No - 36)
37. Register of Land (BMAR Form No - 37)
38. Register of Immovable Properties (other than land) (BMAR Form No - 38)
39. Register of Movable Properties (BMAR Form No - 39)
40. Asset Replacement Register (BMAR Form No - 40)
41. Scale Register (BMAR Form No - 41)

42. Pay Bill Acquittance Roll of Permanent or temporary Establishment of the .....Municipality for the Month of..... (BMAR Form No - 42)
43. Periodical Increment Certificate (BMAR Form No - 43)
44. Unpaid Salary Register for the year 20....20.... (BMAR Form No - 44)
45. Detailed Statement of the Permanent/Temporary Pensionable Non Pensionable Establishment of the.....As it stood on 1<sup>st</sup> March (Annual Return of Establishment) (BMAR Form No - 45)
46. Detailed Statement of New Employees, leave, etc (Annual Return of Establishment) (BMAR Form No - 46)
47. Register of Stores (BMAR Form No - 47)
48. Material Receipt Note (BMAR Form No - 48)
49. Material Issue Note (BMAR Form No - 49)
50. Summary of material issued to other departments for the month of.....( BMAR Form No - 50)
51. Statement of Closing Stock (BMAR Form No - 51)
52. Log Book for Vehicles (BMAR Form No - 52)
53. Summary of Driver's Note Book pertaining to trips, etc. performed by the Municipal Cars and Lorries for the month of.....( BMAR Form No - 53)
54. Detailed Bill of Other Expenditure (BMAR Form No - 54)
55. Statement of Closing Stock (BMAR Form No - 55)
56. Register of Advances (BMAR Form No - 56)
57. Register of Employee Loans and Advances (BMAR Form No - 57)
58. Register of Interest on Loans to Employees for the year 20...20.. (BMAR Form No - 58)
59. Register of Permanent Advance (BMAR Form No - 59)
60. Stamps Register (BMAR Form No - 60)
61. Stationery Stock Register (BMAR Form No - 61)
62. Register of Investments (BMAR Form No - 62)
63. Register of Deposits (BMAR Form No - 63)
64. Deposit Refund Advice (BMAR Form No - 64)
65. Summary Statement of Deposits Adjusted (BMAR Form No - 65)
66. Register for Securities (BMAR Form No - 66)
67. Register of Loans (BMAR Form No - 67)

- 68.** Register of Sinking Funds (BMAR Form No - 68)
- 69.** Register of Bonds/Debentures (BMAR Form No - 69)
- 70.** Earmarked Funds Register (BMAR Form No - 70)
- 71.** Receipts And Payments Account for the Period From.....to.....( BMAR Form No - 71)
- 72.** Trial Balance for the period from.....to.....( BMAR Form No - 73)
- 73.** Income and Expenditure Statement for the Period from.....to..... (BMAR Form No - 73)
- 74.** Balance Sheet of .....ULB as on.....( BMAR Form No - 74)
- 75.** Budget Estimation Sheet Format for the Period (BMAR Form No - 75)
- 76.** Budget Estimate Consolidation Format (BMAR Form No - 76)
- 77.** Summary of Budget for the Period (BMAR Form No - 77)
- 78.** Major Account Head wise Budget for the Period (BMAR Form No 78)
- 79.** Summary of Function wise Budget for the Period (BMAR Form No - 79)
- 80.** Summary of Field wise Budget for the Period (BMAR Form No - 80)
- 81.** Quarterly Budget Variance Report for the Period (BMAR Form No - 81)
- 82.** Format of Output & Outcome in Budget Estimates (BMAR Form No - 82)
- 83.** Application for additional allotments by transfer on account of expenditure not provided for in the Budget Estimate (BMAR Form No - 84)
- 84.** Document Control Register/Stock Account for Receipt/Cheque Book (BMAR Form No - 84)
- 85.** Form of Security Bond (BMAR Form No - 85)
- 86.** Statements of Receivables (BMAR Form No - 86)
- 87.** Statements of Payables (BMAR Form No - 87)
- 88.** Ward wise Works Liability Summary Report (BMAR Form No - 88)
- 89.** Revenue Trend Analysis (BMAR Form No - 89)

### **Annexure IIIA**

**(Referred to in para 5.2.4 (e))**

#### **Audit of Cash Management System**

##### **List of essential documents to be checked and documented**

1. Obtain allotment details from the DDO.
2. List of total cash books (main and subsidiary) maintained by the DDO;
3. List of bank accounts operated by DDO;
4. Bank pass book and bank statement of all the A/c duly signed and sealed by bank authority.
5. No. and Series of cheque book issued by bank in respect of each bank A/c.
6. No and Series of cheque book issued by treasury in respect of P.D. A/c. and P.L. A/c and.
7. Details of P.D. A/c, P.L. A/c, its statement of deposit and withdrawals duly signed and sealed by treasury officer.
8. Register of Demand Draft received from other offices/ authority.
9. Advance Register.
10. Bank reconciliation statement.
11. Total number of sources from which funds were received by the DDO;
12. Quantum of funds received from these sources by the DDO.
13. Details of places (source wise) where these funds were kept as of date;
14. Details of expenditure incurred (source wise) out of total funds received;
15. Expenditure (source wise) incurred from cash book;
16. Verify transactions of bank statement with transaction shown in cash book;
17. Quantify number of transactions which were not routed through cash book;
18. Match opening balance and closing balance of cash book (source wise) with places where funds were kept (source wise);

19. Evaluate the method of payment i.e. whether it was paid directly to the beneficiary or through another agency;
20. If other agencies involved in government transactions; examine whether proper approval was obtained for such transactions;
21. Evaluate authenticity of payment orders made to outsider agencies; and
22. Stock Register of money receipts / cheque books.

**Checklists: It should be seen during audit whether:-**

1. cash book is maintained in prescribed form;
2. cash book pages are machine numbered;
3. cash book contains a certificate on the first page regarding the number of pages duly signed by the competent authority;
4. entries of receipts and expenditure are made promptly every day in the cash book and attested by DDO every day after verification of receipts and payments with challans and voucher;
5. the entries in the cash book are checked by an officer not connected with the writing of cash book;
6. surprise check of cash balance is conducted periodically by authorities not responsible for maintenance of cash book and a certificate to the effect that the cash balance found during physical verification agreed with the book balance is recorded;
7. huge cash balance is maintained, in comparison with requirements for immediate disbursement;
8. bank reconciliation is prepared regularly and differences between balances as per bank pass book and cash book are being investigated and cleared;
9. subsidiary cash books are maintained; the transactions therein are accounted for in the main cash book promptly;
10. all receipts (including cheques, drafts, etc) are posted in accounts and deposited into Government Account on the same day or next working day;
11. Bank accounts have been opened with proper approval;
12. there is a need and justification of having more than one bank account;
13. the PD account was operated where it was required;

14. any amount received towards revenue of the Government was duly credited in government account;
15. the bank in which amount was deposited was legal in accordance with the provision of the Reserve Bank of India or other regulatory authority;
16. proper approval has been obtained in file in each case of payment;
17. the payments are properly authorised and recorded immediately in the accounts;
18. the payments are credited in the accounts of the authorised payee only;
19. cheque books are kept in safe custody and the prescribed procedures is duly observed;
20. the paid cheques accompanying the Bank scroll are examined to find out that there are no unauthorised alterations in the names of payees and the amounts payable. In cases where such alterations are found even under attestation of the DDO, the cases are checked with reference to the related paid vouchers and sanction;
21. adequate care is taken in issuing cheques in lieu of cancelled/time barred cheques with reference to relevant records;
22. control records are maintained to watch progress of revenue and expenditure against estimated receipts and allocated funds;
23. variation between actual expenditure and budget allocation are examined at appropriate level and wherever necessary re-appropriation is approved by specified authorities;
24. adequate systems and arrangements are available for determination of allotment of funds to various drawing and disbursing officers and their timely release;
25. the control registers prescribed under the BFRs, BTC for exercising check over expenditure are properly maintained in the prescribed manner;
26. there are adequate arrangements for communication of allotments to the drawing and disbursing officers concerned;
27. there is adequate machinery for exercising expenditure control and monitoring expenditure incurred by field units;
28. the monthly expenditure statements are received timely from the drawing and disbursing officers, arrangements made for their documentation and analysis and are they utilised for the purpose of exercising effective control over expenditure;
29. there is a mechanism to prevent irregular diversion of funds and exercising control over utilisation and prevention of diversions;
30. there are adequate arrangements for monitoring expenditure on schemes and their adequacy;

31. there is a mechanism to prevent irregular opening of bank account and parking of fund beyond financial year;
32. instructions issued from time to time by the Finance Department for observing fiscal prudence and austerity in expenditure management are complied with;
33. there is a mechanism to ensure return of money not spend within the financial year during which it was authorised by the legislature;
34. cases of fraud and corruptions are noticed since last audit;
35. DDO has taken action to prevent and detect fraud/corruption and taken steps to strengthen internal control systems; and
36. any guidelines are issued by department with regard to control of fraud and corruption.

## **Annexure IIIB**

**(Referred to in para 5.2.4 (e))**

### **Audit of Cash Book**

General examination of the Cash Book is conducted to ensure that it is being maintained properly in the prescribed form and the provisions of rules in this regard are being observed. It should be seen inter alia that: -

- (i) All transactions of receipts and payments are correctly recorded in a cash book strictly in the order of occurrence and on the dates they actually took place and attested by the Head of the Office in token of check.
- (ii) The totals of the cash book if not checked by the officer-in-charge of the cash book are verified by a responsible subordinate other than the writer of the cash book who initials it as correct.
- (iii) The cash book is closed and balanced on the prescribed dates.
- (iv) Bank Reconciliation Statement has been prepared by the Audit Unit in each month.
- (v) At the end of each month, the cash in the chest is verified by the officer in charge of the cash book who has to mention in his own handwriting and over his dated signatures the cash actually found at the time of verification and whether the same tallies with the balance appearing in the cash book.
- (vi) There are no erasures or interpolations and that errors are rectified properly.
- (vii) Adequate security as envisaged in Rules in respect of the Cashier has been obtained, accepted by competent authority and relevant document kept in the safe custody of the department.
- (viii) There is no tendency to keep an unduly large cash balance in hand and that cash in hand of cashiers, etc. does not exceed the amount of security taken from them.
- (ix) A complete account of the permanent advance held, if any, is available in the cash book, full details of the cash in hand and unrecouped vouchers are being worked out and clearly recorded whenever the cash book has been closed.
- (x) The expenditure has not been incurred in excess of the permanent advance by spending irregularly from departmental receipts or other undisbursed balances of amounts drawn from treasury for different specific purposes.
- (xi) Full details of the money (other than permanent advance) held in the cash balance are also worked out and recorded in the cash book whenever the cash book has been closed.
- (xii) In the case of undisbursed amount of pay and allowances, if paid in cash, the dates of their withdrawal are recorded and no item is held in hand undisbursed for more than three months.
- (xiii) There is no evidence of removal of or tampering with the pages of the cash book, and that its pages are duly machine numbered; that the certificate of count of pages contained in a cash



book is recorded under the signatures of the Head of the Office in the fly leaf before bringing the same in use.

- (xiv) The expenditure has not been incurred in excess of the permanent advance by spending from the departmental receipts which is a serious irregularity.
- (xv) When the cash book is closed at the end of the financial year, it is to be seen that the permanent advance is fully recouped and does not exceed the sanctioned amount of the advance.
- (xvi) In the case of annual audit of accounts having annual periodicity, in addition to the detailed check of accounts of one month, arithmetic accuracy of cash book should be checked for one more month selected as heretofore, at random. This should include checking of the opening balance for proper carry forward from the closing balance of the months selected for the security to the next month. In the case of biennial or triennial audits and audits in arrears, checking of arithmetical accuracy of the cash book may be confined to two months selected for test check.

**Annexure IV**

(Referred to in para 5.2.4 (h))

**Bank Reconciliation Statement for 'X' Bank as on 31.3.20.....**

<b>Particulars</b>	<b>Amount (Rs.)</b>
Bank Balance as per Cash Book	
Add: Cheques issued but not presented into bank (a cheque-wise list to be appended)	
Add: Cheques drawn but not actually issued to parties (a list to be appended)	
Add: Cheque issued and payment stopped (a list to be appended)	
Add: Credits of investment proceeds in Bank (e.g. Fixed Deposits) accounted by the bank but not accounted for in Cash Book	
Add: Amount (Cash or Cheque) deposited by the depositor(s) into bank but not accounted for in Cash Book	
Add: Credit given by Bank either for interest or for any other account but not accounted for in Cash Book	
<b><i>Sub-total</i></b>	
Less: Cheques Deposited but not cleared	
Less: Payments directly made by the bank but not accounted for in Cash Book	
Less: Cheques deposited but dishonoured	
Less: Service Charges / Bank Charges or any other charge levied by the Bank but not accounted for in Cash Book	
<b>Bank Balance as per Pass Book/Bank Statement</b>	

## Annexure V

(Referred to in para 7.29)

### List of Documents required to be seen in Audit of PRIs & ULBs

1. Cash Book
2. Cheque Books
3. Receipts Books
4. Pass Book of Accounts in Treasury, Bank, Post Office etc.
5. Transfer Entry Books
6. Vouchers
7. Muster Rolls with daily reports
8. Register of measurement books
9. All measurement books relating to the works selected for analysis.
10. Works Abstracts
11. Register of Works
12. Contractors Ledger
13. Schedule of Rates
14. Files of Agreements
15. Register of liabilities
16. Register of sanction of estimates
17. Register of buildings and lands
18. Stock accounts
19. Register of stock
20. Tools and Plant account
21. Register of tools and plants
22. Road Metal Returns
23. Register of cheque and receipts books
24. Works order books
25. Register of bills received and disposed of
26. Register of survey reports and survey report files
27. Progress reports of works (Physical and Financials)
28. Detailed estimate of the work
29. Project report of the work

30. Guard file of the work (or line chart in respect of roads), Level books
31. Material at site accounts of the work
32. Manufacturing accounts (in respect of kilns/Machinery)
33. Register of deposits
34. Register of Miscellaneous Works

## Annexure VI

(Referred to in para - 7.2.12)

### Scrutiny of Running and Final Bills

#### (a) Running Bills

The following points should, inter alia, be seen while checking Contractor's running bills: -

- (i) The work is covered by an estimate. Each item of the bill should be compared with the corresponding items in the estimate to see that the expenditure is not in excess of the provision.
- (ii) If there is no estimate, it should be seen that the sanction of the competent authority to incur expenditure without sanctioned estimate exists.
- (iii) The claim is covered by an agreement, each item of the bill should be checked with reference to the corresponding item in the agreement to see that the rates paid and quantities executed are correct.
- (iv) If there is any item not covered by the agreement, it should be seen that extra item slip has been sanctioned for it by the competent authority.
- (v) The classification recorded on the bill is correct.
- (vi) The bill should be checked arithmetically.
- (vii) The quantities billed should correspond to the measurements recorded in the measurement book.
- (viii) The recoveries are made in accordance with the agreement.
- (ix) The previous advances are adjusted.
- (x) The bill has been passed by the competent authority.
- (xi) The Asstt. Engineer/Executive Engineer has recorded the required certificates on the bill.

#### (b) Final bills

In addition to above, the following points should be seen:

- (i) The contractor has signed the bill and measurement book and the payment is in full and final settlement.
- (ii) The check measurement has been exercised to the required extent.
- (iii) The expenditure on the work does not exceed the amount of sanctioned estimate by an amount which would require sanction of a revised estimate.

- (iv) The work has been completed within the stipulated period or the sanction to extension in time limit has been accorded by the competent authority in case the same was not completed as scheduled.
- (v) The deviations in the quantities as proposed to be executed and as actually executed have been suitably explained.
- (vi) In case of works involving material, the bill should be checked with reference to the material at site account.
- (vii) The work has been executed according to the departmental design and specifications.

## Annexure VII

(Referred to in para 7.3 (7.3.2))

### **Types of Fraud and Corruption in Contracts**

The following types of fraud and corruption have been reported in contracting for goods and services:

- **Bribery and Kickbacks** – Money or any other form of reward or favour is exchanged between a public functionary and a provider of goods and services in order to obtain some benefit e.g. acceptance of substandard goods or obtaining unauthorised information.
- **Changes in Original Contracts** – Changes are made in the original contract requiring flow of additional funds from the local body to the contractor, which may affect the basis on which the contract was awarded to the contractor in the first instance. This may also involve front-loading of contract in the hope of increasing the price of the original through change orders or subsequent modifications to the contract.
- **Duplicate payments** – The contractor claims and receives payment for the same service or work done or goods supplied under the same or different contracts.
- **Collusive or Cartel Bidding** – Contractors form cartels to fix artificially high prices for goods and services supplied by them.
- **Conflict of Interest** – Contracts are awarded on the basis of vested interests of the decision makers.
- **Defective Pricing** – The contractor submits inflated invoices.
- **False Invoices** – The contractor submits invoices for goods that have not been delivered or do not properly represent the quantity or quality of goods and services supplied or work done as per contracted specifications.
- **False Representations** – The contractor falsifies the goods specifications or his ability to provide certain services.
- **Splitting of Purchases** – The purchases of goods and services are split either to avoid open competition or having to seek the approval of higher authority.
- **Phantom Contractor** – Purchase are made from a fake supplier & contractor.
- **Pilferage of Public Assets** – Public funds are used to acquire goods for personal use or public assets pilfered by officials.

- **Tailored Specifications** – Specifications and time limits are manipulated to favour a certain contractor/supplier.



## Annexure VIII

**(Referred to in para 7.3 (7.3.3))**

### **Warning Signs of Possible Fraud and Corruption in Contracts**

Procurement and contracting of goods and services present different opportunities for fraud and corruption at different stages of the procurement and contracting processes. The auditor would be well advised to look out for warning signs corresponding to each stage. These warning signs indicate the increased risk factor in contracts and serve as red flags for the auditor.

- Requirements defining stage
  - Inadequate needs analysis.
  - Inadequate information about potential suppliers.
  - Inadequate review of existing and required inventory.
  - Unduly short supply period.
  - Needs analysis is product rather than needs oriented.
  - Someone other than the user defines the user requirements.
  - Unwarranted involvement of senior officials.
- Bidding and selection stage
  - The specifications are not clearly defined.
  - A very limited number of offers are received.
  - Documentation indicates unusual involvement of an official.
  - Suspicion about conflict of interest.
  - Evidence of early receipt of information by some contractors.
  - Request for proposal is not properly advertised.
  - Unusual handling of the bidding process.
  - Evaluation criteria is not consistent for different offers.
  - Exceptions to the tender deadlines.
  - Changes in the bids made after their formal receipt.
  - Lowest responsive bidder is not selected.
  - Contractor submits unrealistic bid indicating collusion or bid rotation.
  - Unusual withdrawal of bids.
  - Re-bid results identical to original bids.
  - Successful contractors use competitors as sub-contractors.
  - Justification for single source procurement is inadequate.

- Contract performance and evaluation stage
  - Changes in a contract result in the large increase in the cost of goods and services.
  - Changes made without adequate explanation.
  - Unwarranted contract extension.
  - Complaints about the quality of goods and services received.
  - Inadequate inspections and quality assurance of goods and service received.
  - Evidence of overcharging and duplicate billings.
  - Dubious invoices.
  - Insufficient pre-audit of contractor payments.
  - Contracts repeatedly awarded to one contractor.
  - Unduly high labour payments.

## Annexure IX

(Referred to in para 7.3 (7.3.3))

### Sources of evidence and factors to be considered for search of evidence

#### **Audit Evidence**

In searching for the evidence of fraud and corruption the auditor must:

- Always search for the strongest possible evidence.
- Investigate without delay, as evidence can be destroyed, lost or forgotten.
- Not ignore small clues or leads.
- Look for facts that confirm or refute suspicions.
- Concentrate on the weakest point in the fraud and corruption.
- Identify and summarize the evidence indicating that fraud and corruption may have been committed.
- Identify the possible scenario of fraud and/or corruption.
- Summarize and explain the accounting and control systems involved, the paper trail involved in the transactions, and the deviations from the systems.
- Explain patterns used in covering up the fraud and corruption.
- Identify the possible extent of the fraud and corruption.
- Consider the possibility of collusion.

#### **Source of Evidence**

**Documents from the Audit entity:** During the course of examination of books of accounts, auditors investigate various documents that serve as evidence for the audit. These documents may be original or photocopies depending upon their importance.

**Report of Internal Auditor:** The internal auditor may have identified instances of deviation from normal procedure.

**Interviews:** Auditors can obtain important information from various local body employees. Since they may have noticed internal control failure made by managers and fraudulent activities perpetrated by other employees, interviews may be useful in detecting material misstatements caused by fraud and corruption.

**Inspection/Observations:** Auditors can notice possibility of fraud and corruption through the examination of inspection/observations/physical verification reports (e.g. forged document,

inventory not in existence or inferior quality). Where any auditor relies on physical observation for an audit conclusion, this would need to be supported with properly documented evidence.

**Questionnaires:** Auditors may gather important and helpful information by using questionnaires.

**Confirmation with other related parties:** Auditors sometimes obtain information directly from other related parties (e.g. bank balance confirmation from the bank, Debtor's balance confirmation from individual debtors etc.). If the figures provided by these agencies do not tally with the books of account, they should check in detail to find out the reason for discrepancy.

**Results of Analytical Review:** Auditors analyse both financial and non-financial information, which can indicate abnormal trends. In that case, auditors need to concentrate on particular heads.

**Expert Opinion:** Auditors may seek expert opinion about a suspicious case. The experts' opinion becomes evidence if auditors can rely on that opinion in assessing fraud and corruption.

## Annexure X

(Referred to in para 12.8.2)

Annexure II

TITLE SHEET (TO BE SUBMITTED ALONG WITH DRAFT INSPECTION REPORT)		
	<b>PART A</b> Summary of audit results	
1	Name of the organization audited	
2	Name of party personnel	
	(i) Sr. Audit Officer/Audit Officer	
	(ii) Asst. Audit Officer/Supervisor	
	(iii) Senior Auditor/Auditor	
3	Period of audit	
4	Dates of commencement and completion of audit (Extension of time, if any, granted may be separately indicated)	
5	Whether Entry Conference was held with the Audited Entity? If yes, enclose Minutes /Record of discussions. If no, provide reasons	
6	Number of potential paras (drawing reference to para nos) included in Part —IIA of the Inspection Report	
7	Number of paras (drawing reference to para nos) relating to fraud or misappropriation, presumptive fraud and leakage of revenue etc	
8	Paras relating to persistent irregularities etc that need to be brought to the notice of HOD through Management Letter.	
9	Briefly mention the challenges faced during audit (nonproduction of records, manpower or resource constraints, scope limitation etc) and how they were addressed during the course of audit	
10	Suggestions for overcoming such challenges in future audits	

I 1	Whether Exit Conference was held and draft Inspection Report discussed with the Head/Nodal Officer of the Audited Entity. If no reasons may be indicated.				Minutes as per Annexure A to be enclosed.	
12	Date of submission of Draft Inspection Report and all working papers to Hqrs. (may be submitted within a period of 7 working days from the date of conclusion of audit)					
13	Reasons for delay in submission of draft IR etc. to Hqrs with reference to the allotted time period, if any.					
14	General remarks, if any					
	<b>Part B</b> (Details of Audit Process followed)					
1	Whether the allocation of duties amongst each member of the Audit Team (SAO/AO/AAO/Sr. Auditor/Auditor) was prepared in line with the planned broad assignment plan and acknowledged by the respective party members? If no reasons and justification may be provided.				Allocation of duties as per Annexure B to be enclosed	
2	Sampling methodology adopted (Use as many rows as needed)				List of files/vouchers/other documents reviewed may be enclosed	
	Sl No	Section/ Wing being audited	Nature of document	No selected for review	Percentage of selection	Sample method adopted
		Purchase/Works/ Establishment etc	Files / Vouchers etc	(Indicate actual number selected)	(Indicate percentage for each category)	Random/ Stratified/ Judgmental etc
3	Whether focus areas identified and procedures applied were as planned (with reference to the plan as approved by Group Officer before commencing the audit)? If no, reasons and justification may be provided.					
4	Whether all issues marked for examination by Group Officer on supervision/Hqrs section have been addressed?				Compliance to Group Officer comments on supervision to be enclosed as per Annexure C.	
5	Whether all work assigned as per allocation of duties were				Certificate as per Annexure	

	completed? If no, provide whether the reasons and justification are provided.	D to be enclosed.		
6	Briefly indicate the potential focus areas for next audit			
7	Whether daily diaries indicating the documents/records checked by team members of the Audit Team have been prepared, signed and enclosed?	Daily Dairy as per Annexure E to be enclosed for each member		
8	Whether a certificate of obtaining sufficient and appropriate evidence (key documents) for the audit observations included in the Draft Inspection Report has been provided?	Certificate as per Annexure F to be enclosed		
9	Whether the key documents have been referenced in the para and the source of evidence has been provided as footnotes?			
10	Please indicate the position of outstanding paras of previous Inspection Reports as under.			
	Period of Inspection Reports	No of paras outstanding (opening)	No. of paras outstanding (closing)	Reasons for the paras remaining outstanding
	1	2	3	4
11	Whether a certificate that the audit was conducted in accordance with the CAG's Auditing Standards 2017 has been provided?	Certificate as per Annexure F to be enclosed		
12	Whether a certificate that the audit party has complied with the Audit Quality Framework and Code of Ethics has been provided?	Certificate as per Annexure F to be enclosed		
Dated :		Sr. Audit Officer/Audit Officer		

Sample Format of Minutes/Record of Discussions at the conclusion of Audit

Minutes of the Minutes held \_\_\_\_\_ on to discuss audit observations to be included in the draft inspection Report for the period relating to the Ministry of \_\_\_\_\_/Audited

Entity \_\_\_\_\_

Present:

From Ministry's side	From Audit side

(Note:- The minor and procedural irregularities which were noticed during the course of audit have either been settled on spot after taking assurance from the auditee or have been issued to the Ministry in the shape of Test Audit Note).

The audit observations were discussed in detail and necessary clarifications, wherever sought, were given from the Audit side.

It was pointed out by Audit that initial replies from the Ministry in respect of audit observations were still awaited and the same may be furnished on priority. In response, the Ministry assured to send the replies at the earliest possible.

The meeting ended with vote of thanks.

(Signature)	(Signature)
(Name & Designation)	(Name and Designation)
From Ministry's side	From Audit side

B

Proforma for Duty list of each member of the Audit Team

Duties assigned	Noted and signed (Acknowledgement)
SAO/AO : Name 1.	



AAO/Supervisor : Name 2.	
Sr. Auditor/Auditor : Name 1. 2.	

Annexure C

Follow up of supervision by the Group Officer

Name of the Audited Entity	Date of Supervision	Comments /Queries of the Group Officer	Action taken by the Audit Team on Comments/Queries

Annexure D

Certificate at the conclusion of Audit

We have examined all the issues as per the duty list (except the following) and necessary audit observations based on audit scrutiny, have been issued.

Sl. No.	Brief particulars of the issues which could not be seen in audit	Reasons therefor [non availability of records, time constraints, shortage of manpower, other constraints/reasons] etc.
1		
2		

Sr. Audit Officer/Audit Officer

E

Daily Diary of each member of the Audit Team

Date	Brief details such as file number, item of work done, records seen and examined etc

(Signature)

(Name of the Officer & Designation)

Certificate

It is certified that:

- a) sufficient and appropriate evidence (key documents) for the audit observations included in the Draft Inspection Report have been obtained and have been submitted along with the Draft Inspection Report
- b) that the audit was conducted in accordance with the CAG's Auditing Standards 2017
- c) the audit party has complied with the Audit Quality Framework and Code of Ethics

Sr. Audit Officer/Audit Officer