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**OFFICE OF THE
ACCOUNTANT GENERAL
(GENERAL AND SOCIAL SECTOR AUDIT)
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**MANUAL OF THE
EFFICIENCY CUM PERFORMANCE AUDIT SECTION
(REVISED EDITION 2016)**

ISSUED BY:

**ACCOUNTANT GENERAL
(GENERAL AND SOCIAL SECTOR AUDIT)
MADHYA PRADESH**

MANUAL OF THE EFFICIENCY CUM PERFORMANCE AUDIT SECTION

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PREFACE TO THE REVISED EDITION

Since the issue of the first edition of the Manual of the Higher Audit Section in 1961, many changes have taken place in the duties of the Higher Audit Section which necessitates a complete revision of Manual. The section is presently designated as Efficiency-cum-performance Audit Section.

This volume is issued in pursuance of Performance Auditing Guidelines 2014. Best international practices particularly those endorsed by INTOSAI¹/ASOSAI² have been incorporated in this volume. Chapter I of the volume is introductory. Chapter II & III deals with Performance Audit of schemes and ASOSAI Guidelines for dealing with Fraud and Corruption respectively while Chapter-IV is dealing with Performance Audit in IT System. Chapter V of the volume deals with various returns/reports to be maintained by the section. In all the cases of doubt, reference should be made to the original rules and orders themselves and the relevant instructions in the Manual should not be regarded as possessing any authority superior to the original rules and orders. This manual should not be quoted as an authority in any correspondence outside this office.

The ECPA Section is responsible for keeping this Manual up to date.

All the staff of this office, particularly those involved in Performance Audits should be conversant with the procedure and the instructions laid down herein. Suggestions for improvement of the Manual are welcome.

Saurabh K. Mallick
Accountant General

¹ International Organisation of Supreme Audit Institutions-an international and independent body, which aims at promoting the exchange of ideas and experience between Supreme Audit Institutions in the sphere of public auditing.

² Asian Organisation of Supreme Audit Institutions-an international and independent body, which aims at promoting the exchange of ideas and experience between Supreme Audit Institutions in the sphere of public auditing.

CHAPTER 1

MANUAL OF EFFICIENCY CUM PERFORMANCE AUDIT SECTION

CHAPTER I - GENERAL

1.01 Introductory

In the post-independence era the objectives and activities of Government have changed from those of a Police State to a Welfare State. Economic and Social Planning has been introduced to achieve the objectives of a Welfare State. The concept and practices of audit of expenditure have, therefore, also changed to suit the objectives. A mere check of expenditure against provision of funds, sanctions, etc., is thus inadequate. It would now be necessary to make audit findings to indicate whether funds allocated for particular services or purpose were diverted elsewhere and whether, with the expenditure incurred, the objectives set forth could be achieved within the time and cost frames estimated at the time of sanction. It would also be necessary to bring out whether the scarce resources were properly utilized by the administrators for achieving the results/goals set before them. For this purpose, the audit has to review the implementation of the entire programme and evaluate its eventual fruitfulness to the public. Such a check by audit has also to study the system adopted for incurring the expenditure and ensure that it was adequate for observance of the canons of financial propriety. This type of audit, therefore, involves an appraisal of schemes, projects and other activities of the Government to assess their success vis-à-vis the objectives set out. Accordingly, a new system of examination of records relating to schemes, activities and projects was introduced with a view to seeing how far the objectives were achieved, whether the amounts allocated were efficiently used and whether the costs and the time frame originally estimated were maintained. This method originally called "Evaluation Audit" has gradually become the "Performance Audit (PA)" of today, incorporating the ideas and techniques arising from the development of this subject as a part of management science.

1.02 Constitution, Control and Strength

- (i) An ECPA section was, formed with effect from 1st January 1964, in accordance with the instruction of the CAG of India, for conducting the performance audit of Developmental Schemes. In order to enable the section to pay more attention to the PA, it was relieved of the higher audit & propriety audit functions which were transferred to the controlling audit sections of the office.

(CAG's letter No. 2806 Admn, I/8-codes.61 dated 18th November 1963 and sectional order No. HA/18-1(1)/639 dated 19.03.1964 and Pr. AG (Civil and Commercial Audit) orders dated 27-08-2004

- (ii) Earlier the ECPA section was under the direct charge of PAG/AG. At present the ECPA section is under the charge of Sr. Dy .Accountant General (Admn) w.e.f. 18-07-2014. In compliance of directions issued vide office order No.OE-XI/S-4/ Misc/O.O/217, dated 03-11-2014 regarding temporary posting of field staff in the concerned group for which review work is being carried out, field staff available in the ECPA section for review purpose were relieved to the concerned group. A skeleton staff is also provided at the Headquarters for preliminary studies for selection of schemes, co-ordination of the work of the parties engaged on the performance audit/review of schemes, maintenance of records of completed reviews and for follow up action on the audit observations. It is desirable that the team selected for a review continues till the review work is finally completed.

All audit offices should consist of a core group for performance audit, consisting of 20 to 50 officers of the grade of SAOs/AOs and AAOs depending upon the strength or manpower. They will function under the Group officer (Performance Audit). The core group should be allocated to areas like social services, infrastructure and economic sectors etc. The Group officer (Performance Audit) will be responsible for creation of database, studying previous Inspection Reports, selection of topics deciding upon thrust areas interacting with the government and selection of personnel for field parties, providing input in the form of special training, steering the study and finalizing the report. Pr.AsG/AsG(Audit)/DsGA/PDsA may brief and debrief the specialist performance audit teams, establish adequacy of training etc.

As per Headquarters' letter No.211/Rep/CR/AIR/275-2012, dated 8 October 2013 , five percent extra man days is to be allotted in Annual Audit Plan for All India Performance Audit. Headquarters office vide its Email dated 6-6-14 informed to restrict Performance Audits to the major areas and the man days should not exceed 25% to 30% of man days.

(CAG's D.O. letter No. 1033-Rep/73-78(iv) dated 20.06.1980)

(CAG's letter NO. 160-Rep(C)/59-2004 dated 1 July 2004)

(CAG's letter No. 143-Rep(C)100-2003 dated 20 July 2004)

1.03 The System

The work in the ECPA Section comprises (i) preparation for review work and (ii) the actual review work. In the performance of the former task, the section has access all the information and data available in the various sections, branches and control points in the A.G.'s office. It studies the plan literature, programme, budget, performance budgets, evaluation reports, administrative reports, annual reports, reports on financial stock-taking and reports of any special committees appointed by the Government. The actual review work includes review of expenditure statement and performance accounts, scrutiny of sanctions particularly those issued in the month of March. Besides, the normal techniques regularity audit, sanction audit, appropriation audit, propriety audit, the section is also required to conduct economy, efficiency and effectiveness of audit in a micro form, susceptible of being developed into macro studies, where reviews of large scale projects, programmes, schemes in a department or in the State as a whole are undertaken. The ECPA section has the skill, authority and direction to bring together the diverse functional specializations and audit findings developed through them to bring about a co-ordinated and integrated approach for a wholesome review of topic/scheme.

(Extract of Para 9 of the paper circulated in the training programme on ECPA held in July 1983 by Shri R.K. Chandra Shekaran Additional Deputy CAG (Report)).

1.04 Duties and responsibilities

The work of ECPA section consists mainly of preparation of financial review on schemes- (s)/programme(s)/project(s) of public interest in accordance with the instructions contained in PA Guidelines issued by the C&AG and those instructions issued by the CAG of India from time to time. The ECPA section may be entrusted with any other functions by the CAG or the Pr.AG/AG. The functions of ECPA has been described in detail in Chapter-8 of the Second Edition – 2002 of MSO (Audit). The important items of work are, however, detailed below:-

- (i) Performance audit of Government schemes include-
 - correspondence regarding selection of schemes for pilot study;
 - collection of basic data which are essential for the review;
 - processing of cases for preliminary review;
 - Management of the PA field parties.
- (ii) Processing of proposals for any special investigation to be done from the point of view of efficiency-cum-performance audits and formulating guidelines for such investigations;
- (iii) Study of the State government Budgets, Five Year Plan documents, financial reports, etc.
- (iv) Scrutiny of reports of different committees set up by Union and State Governments, having financial bearing (Item 20 of the Annexure to Chapter-2 of Section II of MSO (Tech) Vol.I).
- (v) Examination of the reports of the Estimates Committee and submission of review report embodying the salient features contained in them to the PAG/AG
- (vi) Overall appraisal of the progress and efficiency of the Plan Expenditure up to the end of the year with reference to the results of efficiency audit of individual big projects and schemes. The findings of such an overall performance audit may be suitably mentioned in the Audit Reports of respective Governments. In respect of the Plan expenditure of the Central Government coming under the audit of this office, reviews are

to be furnished to the concerned Directors of Audit to enable him to include in the Civil Audit Report of the Central Government, a consolidated paragraph regarding the expenditure incurred by the Central Government on the Five Year Plan.

(CAG's letter No. 65-Codes/8-6 /II dated 01.12 1962);

- (vii) Scrutiny of Administrative Reports of Government Departments containing, *inter-alia* information regarding Revenue and Expenditure of the Departments for further investigation to find useful audit comments. Arrangement should be made with the appropriate authorities for the regular supply of all the Administrative and other reports of Government Department published periodically. These reports should be generally scrutinized to see that expenditure incurred relates to the functions of the departments and that the departments have not embarked on schemes which are either wasteful and unremunerative or for which regular authorization does not exist. The results achieved by the departments should be analyzed to see if the results could have been achieved by more economical and efficient methods. It should be seen that the departments have not left important sources of revenue unexplored. It should be seen that the internal accounting and audit machinery in the department where large schemes are in operation, is adequate. If any of the schemes relates to State Trading or Manufacture, the desirability of assessing the results of such schemes by preparation of pro-forma accounts, etc. should be considered and suitable suggestions made to the Government. If any, comparative year-wise statistics of revenue collected, expenditure incurred, etc. are given in any of these reports, it should be seen whether there were any marked deviations from normal conditions and whether sufficient and plausible reasons for such deviations were given in the reports;
- (viii) Study of news papers, periodicals, gazettes etc., for picking out therefrom matters of interest to audit;
- (ix) Maintenance of register showing the list of schemes selected for review, the staff deployed for the work, the stage of work done in respect of

each scheme, the number of schemes reviewed and finalized, etc. The register in the following proforma should be submitted to the Group officer on 15th of each month;

Register showing the position of reviews finalized:

S.No	Name of the scheme	Review approved for MP AR para Number	Reason, If the review is not approved	No. of files of appended for the scheme	No of files sent to PAC/ Report Section	Date of Sending to old record	Staff deployed On the review	Remarks
1	2	3	4	5	6	7	8	9

(x) Completion of the reviews according to a time-bound programme prepared by ECPA section at the time of selection of the topic for a review and its transmission to the Report Section in such a manner that there is an even flow of material.

(CAG's D.O. letter No.1033-Rep/73-78 dated 23.06.1980);

(xi) Monitoring the progress and processing of the reviews keeping in view the guidelines and time schedule.

(xii) Such other item of work as may be entrusted to the section by the AG.

1.05 The staff in the ECPA section should study the audit findings on various subjects incorporated in the Audit Reports of the State as also those of other States for the last five years and make themselves aware of the various areas of investigation.

1.06 Consequent upon the transfer of higher audit and propriety audit functions to the controlling sections as mentioned in Para 1.04 of this Manual, no cases should ordinarily be sent, by the Financial Attest Audit Support Section (FAAS) to ECPA Section, for opinion. Such cases should be dealt in the controlling section of the Group. Cases requiring special investigation or further processing need only be

reported to ECPA section for guidance and opinion. It would, however, be remembered that only really important cases requiring detailed study and research, need be sent to ECPA section.

(CAG's circular letter No. 2455-Admn. I/363-60 dated 29.07.1960);

1.07 Examination of cases marked to ECPA section for opinion/investigation

The Sr.AO/AO of the FAAS Sections will consider each case and submit it to the PAG/AG through the Group Officer bringing out full facts of the case and recording a definite and reasoned opinion on points considered necessary to be marked to ECPA section for examination and further processing & opinion. It would be ensured that the case marked to ECPA section should be one, which is likely to develop into a point of real importance.

When a case is referred to ECPA section for opinion/investigation, it will be entered in the Register of cases referred to ECPA section for opinion or examination maintained in the following form:-

1. Serial Number
2. Date of receipt in PA section
3. Section form which received
4. Sectional file No., case No. and year
5. Date of P.A.G.'s orders
6. Subject in brief
7. Date on which submitted to P.A.G. by PA section
8. Brief particulars of orders of P.A.G.
9. Date on which the case was returned to the original section.
10. AAO's dated initial

The register will be submitted to the Branch Officer on the 10th of every month.

Note:

- (1) Cases requiring further investigation by ECPA section beyond the scope of ordinary audit shall be submitted to the PAG/AG for orders even at the initial stage.
- (2) All references from the ECPA section should be attended to promptly and complete information furnished quickly. The responsibility for furnishing all conducted papers on the subject devolves upon the FAAS sections concerned.

1.08 Need for secrecy in conducting PA work

The method adopted for PA investigation may often involve probing into policies of Government and even necessitate questioning the bona-fides of the orders of the various sanctioning authorities. It may happen that facts brought to light be such as are not to be divulged in public interest to any but officers competent to deal with them finally. Leakage of the information on such points may not only cause considerable embarrassment to the Government but also result in possible damage to the prestige of this office. It should, therefore, be ensured that all such cases are treated as secret though they may eventually be brought to the notice of the Legislature, Parliament, etc., through Audit Reports of CAG of India. The instructions laid down for dealing with secret documents should be scrupulously observed by all the members of the staff in dealing with such cases.

CHAPTER-II

Performance Audit of Schemes

2.01 Introductory

Performance Audit (PA) is a specialized technique of audit adopted to evaluate the implementation/execution of developmental schemes/projects to find out if they were implemented/executed (i) with utmost economy at the lowest possible costs; (ii) with utmost efficiency without unnecessary waste of resources and within the time-schedule; and (iii) with utmost effectiveness in achieving programmed objectives and goals by ensuring that intended benefits are derived in real terms.

2.02 Scope of the performance reviews.

The performance review has to be conducted in terms of aims and objectives to see how far the expected results have been achieved from the use of available resources of money, men and materials within the set time schedule. The review should embrace both financial and social aspects. The financial aspect would be to see that the agency (i) maintains effective control over its income, expenditure, assets and obligations, (ii) is responsible for its resources, obligations and operations and (iii) maintains records showing necessary and useful data. The social aspects required to be seen are how far (i) the goals/targets fixed have been achieved and (ii) the intended benefits to the community/area have accrued.

The performance audit thus envisages a comprehensive review of the project/schemes to ascertain (i) how far the physical and financial targets have been achieved (ii) how far the social and economic objectives have been realized; (iii) whether the operations are conducted economically and (iv) whether there are any cases of overpayments, losses, extravagance, avoidable excess or infructuous expenditure due to improper planning, delays in completion of projects, over staffing, over capitalization, unsound pricing policy, etc.

(Audit Guide Series No. 3 issued by O&M Divisions of CAG of India, New Delhi, 1983)

2.03 Techniques of Performance Audit

The following are the main phases of performance audit-

- i) Selection of programme/scheme;
- ii) Study of the selected programme/scheme;
- iii) Determining the scope and objective of the programme/scheme;
- iv) Preparation of the audit plan programme;
- v) Preparation of guidelines for the audit;
- vi) Detailed investigation of the scheme/programme in offices of the agencies controlling and executing the scheme/programme;
- vii) Consultation/discussion with the management on the finding of investigation
- viii) Processing and analyzing the mass of data collected during detailed investigation;
- ix) Arriving at audit conclusions and test these in units of investigation; and
- x) Drafting of performance audit reviews on the selected scheme/programme.

2.04 Maintenance of Data Bank

For facilitating the work relating to the performance reviews, the maintenance of a data bank for keeping all the informatory literature and statistical data relating to the development projects and schemes of the Government needs no emphasis. For this purpose, following arrangement shall exist in the office:-

- (i) Each **FAAS** section should have a complete list of development schemes/projects which are susceptible of performance appraisal and update it with reference to sanctions for new schemes accorded during each financial year and the annual budgets of the subsequent years.
- (ii) A portfolio in respect of each such scheme/programme/project should be maintained by the ECPA section. The portfolios should contain inter-alia the following information:-

- a) Complete details of the programme/scheme etc. covering the objectives, financial and physical targets, performance standards, time schedules for the different components of sanctions, etc.
- b) Expenditure on the scheme/programme'
- c) Statistical and other data for evaluation of standards of performance;
- d) Unusual features noticed in central audit; and
- e) Subsequent changes made in the scheme/programme.

(iii)The ECPA section will take out copies of sanctions relating to schemes, and other material relating to the topics for reviews, copies of reviews or DP's, appearing in the previous Audit Reports of M.P. and other States, relevant press clipping etc. and place them in the concerned portfolios.

{A.G. (Audit)-I, orders dated 09.06.1989}

(iv)The ECPA section should take the help of OAD field parties in collecting and completing the wanting information in the portfolios of schemes from the offices of the concerned heads of departments as and when the parties visit these offices.

(Authority- CAG's letter No. 380-O&M/7-81 dated 26.04.1982)

(v) The data and information gathered for strategic planning for performance audits and risk profile of the entity or programme should be updated periodically, the periodicity being determined by Accountants General depending upon the changes in the entity environment.

(Authority : Para 3.11 of Performance Auditing Guidelines 2014)

2.05 Selection of audit topics for review:

The selection of audits to be taken up requires serious deliberation as the potential areas for audit could be considerable and the Department's capacity in terms of efforts and time is limited. This means that choices must be made with care. It is not always necessary to conduct performance audits of the entity or the programme as a whole. A mix of performance audit subjects to be selected covering either the programme or activities of the entity comprehensively and the subjects for which the scope and audit objectives are confined only to significant aspects of the programmes or activities. The selection of the components or parts of the programme may be guided by the materiality and risk profiles. This will enable to increase the coverage to a large

number of relatively more important and contemporary issues, which may be expected to enhance the perceived and actual value addition through performance audits.

Where desirable, the subjects of performance audit may be selected cutting across various departments or entities. This will provide a platform for performance audit on a theme or thrust area over a cross section of entities, who are entrusted with the responsibility for the programme, activity, etc. Performance Auditors may quite often, find it necessary to extend the scope of audit to other agencies/departments to assess the effectiveness/impact of a programme, irrespective of the fact that their allocation of business is in different sectors (civil, railways, communications, social, economic and service sectors, etc.) or their status may be different (Government Department, Government Funded Institute and Government Companies etc.).

Emerging issues like environmental challenges, sustainable development and information technologies should also find a place in the performance audits of various entities. Programmes, schemes etc. Finally, the problems of significance to people and the community should also be given appropriate emphasis while selecting the subjects of audits.

Some considerations for selection of subjects are :

- (a) **Assessing risks** : Since all the entities and all activities of the entities cannot be audited because of resources constraints, awareness of entities or areas that put the programme or public resources at risk from the point of view of economy, efficiency and effectiveness helps focus audit attention on them. Risk profiling of audited entities, sectors and programmes help in deciding the selection of subjects.
- (b) **Materiality and Significance** : Auditors should consider materiality in all stages of the audit process and in doing so consider not only financial, but also social and political aspects of the subject matter and how to add the most value possible through the audit. Significance of a topic is its importance in the context of the organization, programme or subject. A topic will have a high significance if the project or activity it addresses is central to the functioning of the entity.

- (c) **Visibility** of a subject is an assessment of the interest it generates in the general public and the legislature. While no uniform index of visibility can be prescribed, legislative debates, media reports or articles and subjects of workshops and seminars could serve as an index of visibility.
- (d) **Past audits** by the Department could provide an index of significance, materiality and risk of the subjects.
- (e) **Estimated impact** of the performance audit is also a criterion for prioritization. This could be the impact of improved economy, efficiency and effectiveness of the entity, project or activity which is the subject of performance audit. Impact can be assessed through an understanding of the entity's risk profile and the areas proposed to be addressed by the topic.
- (f) **Coverage** refers not only to previous audit coverage by the Department but also to other independent reviews of the activity. Such reviews may have been conducted by internal audit, external consultants or government committees or the activity could have been subject to programme evaluation. When there has been a substantial review of the activity in recent past, the activity will attract low ranking. Whereas, a higher ranking would be warranted where the audit has been requested by the legislature or by the government and the previous performance audit indicated that such a follow-up should occur; and
- (g) **The stage of the programme development** should also be kept in mind when assessing management performance.

(Authority : Para 3.7 to 3.9 of Performance Auditing Guidelines 2014)

In addition, following instructions of the C&AG of India regarding selection of topics/schemes for reviews should also be borne in mind while selecting the schemes:-

- 1) The basis for review should be our audit findings. The OAD field parties and OAD (Hqrs) Sections should forward extracts of really important points relating to any scheme/programme to ECPA section for consideration. For this purpose, a register will be kept in ECPA section in **Annexure-I** to watch the cases.
- 2) The selection of schemes and the guidelines issued to the field parties for the review should be approved by the PAG/AG before commencement of the work.

(CAG's letter No.1116-Rep/3-66, dated 11-07-1967)

- 3) An opportunity should be taken to discuss the various aspects of the review with the head of the department concerned so as to decide on the audit approach to the review. The Supervising Officers of the audit team conducting the review should personally visit one of the places where the schemes/programmes are being executed. This will facilitate clearer understanding of the scope of the scheme and a better appreciation of the methods of execution which is very necessary because the audit appraisal has to highlight defective system, incomplete surveys etc.

(Authority: CAG's D.O. letter No. 734-Tep/73-78 .II dated 28.05.1979)

- 4) Complete data on all aspects should be collected at the time of the preliminary field investigations through discussions with the field executives.

(Authority: CAG's D.O. letter No. 410-Rep/4-80 dated 03.03.1980)

- 5) In regard to All India Reviews, material collected in the prescribed formats and audit points relating thereto noticed during the test-check of selected units should be furnished to the Co-ordination Directors nominated by the CAG within the prescribed time schedule. The Headquarters' office guidelines usually come by January each year.

(Authority: CAG's D.O. letter No. 950-Rep(c)/97-83 dated 30.04.1983)

- 6) The schemes/programmes should be selected for comment in the Audit Report only after they have been in operation for at least about 3 to 5 years or so. It is not unusual to select schemes with a longer period of gestation, to assess the progress and the impact on the cost of the scheme to see if any significant conclusions of public importance can emerge through such a review. The schemes in which actual expenditure and yield were far below the estimated outlay and yield as also the schemes in which the results/yields have substantially fallen below the expectations although the whole expenditure was incurred, can also be considered for undertaking performance reviews.

(Authority: CAG's D.O. circular No. 206-Admn.-I/8-Codes/61-Vol.-II/ dated 18.11.1963)

2.06 Consultation with State Government for selection of topics for review

While the ultimate selection of the subjects for detailed review is to be made by the AG, an enquiry should be made from the Secretaries to the Government demi-officially in the month of October each year whether they would like any of the scheme (s)/project(s) relating to their department to be taken up for review in audit. Their suggestions should be given full consideration before making proposals to the Headquarters office for approval in January each year. The scheme literature is to be collected in the proforma reproduced in **Annexure-II** to this Manual”.

(Authority: Additional Deputy CAG’s d.o. 488/Rep/61-73 dated 13.03.1973 ; CAG’s d.o. No. 792-Rep.294-78 dated 23-08-1978 and CAG’s do No. 1304-Rep./73-78 dated 19-09-1979) CAG’s General circular No. 03-R(s)/1988 circulated under letter No. 253Rep(s)/0165-86 dated 07.03.1988).

Before setting out to review a scheme/programme, opportunity should be taken to discuss the various aspects of the scheme/programme with the Head of the Department concerned so as to decide on the audit approach to the review.

In case some of the programmes which were selected in previous years but had been left over from the previous reports are proposed to be considered for inclusion in the next report, it would be necessary to send to the headquarters office up to date background information concerning them also.

(Authority: CAG’s D.O. letter No.379-Rep/73-78 dated 14.04.1978)

2.07 Time schedule for completion of PA reviews-

A time-bound programme for the completion of the review should be prepared at the time of selection of the programmes and a watch over the progress of various stages of review till its completion should be kept. To watch the progress in collection of information and in investigation of schemes in implementing units/offices selected for test-check, ECPA section will keep a register showing the following particulars in respect of each review in hand:-

- (i) Name of review
- (ii) Name of Reviewing Officer
- (iii) Date of allotment

- (iv) Audit report for which the scheme is to be reviewed;
- (v) Date on which the questionnaire was issued to field units;
- (vi) Position of completion of investigation vis-à-vis the investigation planned
(Number of units/offices, districts, etc.)
- (vii) Expected date of completion of field work
- (viii) Actual date of completion of field work
- (ix) Position of drafting of the review with the date by which the drafting is
expected to be completed
- (x) Actual date of completion of drafting of the review
- (xi) Expected date of submission of the draft review to DAG
- (xii) Actual date of submission of the review to DAG
- (xiii) Expected date of submission of draft review to A.G.
- (xiv) Actual date of submission of the draft of the draft review to A.G.
- (xv) Date of approval by A.G.
- (xvi) Date of Despatch
- (xvii) Remarks

This register should be submitted to the AG on 5th of each month, with a report, showing the progress made during the previous month in the finalization of questionnaires on various schemes, collection of information, and investigation, tabulation of data, drafting of reviews, etc.

Further, each year, time schedule for midterm and submission of review are also being sent by the Headquarters office.

2.08 Collection of background material for the review

For collection of information required for review, a study of the following documents should be made and copies/extracts of the relevant documents taken wherever necessary.

- a) State Plan literature, programme evaluation reports, administrative reports, plan progress reports, budgets, financial statements, progress reports, press cuttings etc.,
- b) Reports of any special committees constituted for financial stock-taking of projects, programmes etc.,
- c) Sanctions available in the audit sections;
- d) Audit Inspection reports containing paras commenting on the working of the scheme;

- e) Comments on the particular scheme/projects in the Audit Reports for earlier years; and
- f) Review on similar schemes in other States if available in Audit Reports for those states.

2.09 Preliminary study of selected schemes

Before commencing the actual work of reviews, the AG should study the objectives of the schemes and the guidelines/instructions issued by the Govt. for the execution of the scheme and give adequate written directions for conducting the reviews. It would be necessary to prepare a detailed questionnaire for the field audit parties before commencement of the work. Copies of such questionnaires approved by the AG, should be sent to the headquarters' office for issuing supplementary instructions, if necessary. The work on reviews should, however, commence immediately on approval of the questionnaire by the AG.

(Authority: CAG's letter No.360/Rep/73-78 dated 13.03.1979)

The PA field parties should examine the files in the Secretariat leading to the issue of sanctions, plan papers and budget documents, etc. It should also examine the relevant records and files in the Direction offices. To facilitate this particular item of work, the A.G. will keep himself in constant touch with progress of the work and direct the entire process himself.

(Item 4(a) of the Agenda of AG's conference circulated vide No.APP/2-3/78-79/1250-54 dated 30.09.1978)

Since the performance audit needs a higher degree of skill and devotion on the part of the audit team, persons with analytical mind, fund of experience, profound common sense and will to give their best for producing good results should only be selected for the team.

Preliminary study of schemes should be conducted to get a comprehensive insight about all the activities relating to the schemes so as to locate areas/aspects requiring an in depth examination. Such study would include the study of the Acts, Rules, and regulations, budgets and plan documents, performance budget of the department, progress reports, administrative reports,

appraisal reports of the departmental offices/working groups of planning commission, PAC reports, etc.

In the preliminary study for the review of a project it should be seen:-

- i) Whether adequate surveys were made before launching the projects;
- ii) Whether proper feasibility reports were prepared;
- iii) Whether a detailed project report was prepared and, if not, the reasons thereof;
- iv) Whether the specification/performance of the various items of equipment were properly matched. Whether there was any case of non-utilization or underutilization of capacity of any equipment needing further probe, whether proper procedure for inventory control and management necessary for an effective material management existed;
- v) What were the contracting systems laid down;
- vi) What were the operational problems, if any, and how were they got over;
- vii) Whether the project was functioning as expected;
- viii) Whether a proper in-built control mechanism necessary to have an effective control over areas of implementation to check leakage, losses, avoidable and wasteful expenditure, etc., was created; and
- ix) Whether specified performance indicators existed.

The audit parties and the officers entrusted with the supervision of the audit teams conducting the reviews should personally visit the place where the scheme/project was being executed. Apart from providing first hand knowledge and information, such visit would facilitate clearer understanding of the scope and a better appreciation of the methods of execution. The group officer supervising the audit team conducting the review should also visit the field office to have a first hand knowledge and information to enable him to give clear directions to the review staff concerned.

It would also be useful to visit the offices of the Head of the Department concerned, as discussions with authorities would be helpful not only in deciding the nature of investigation to be undertaken but also in getting their suggestions and the required records and data. An insight into the working of the department and the system adopted by the department for implementing the scheme/project as also the difficulties faced in actual

implementation would give an idea for deciding the methods to be adopted for collecting the required information. For this purpose, a report with the executive is of utmost importance.

(CAG's D.O. letter No. 734-Rep/73-78/III dated 28.05.1979; Additional Deputy CAG letter NO. 1361-Rep/73-78(III) dated 06.09.1980)

Detailed guidelines for planning individual performance audits are available in Chapter-4 of Performance Auditing Guidelines 2014.

2.10 Audit plan and guidelines.

On the basis of the preliminary review and the guidelines given by the A.G and the headquarters, a detailed audit plan should be prepared for conducting the review. The plan should contain the lines of investigation proposed, the units to be test-checked and the overall strategy for collecting relevant basis data.

In performance audit of a scheme/programme, the detailed investigation should be conducted in some selected units out of all the units which implemented the scheme/programme. The units selected should be representative in character and decided on the basis of their location (hill areas, plain areas, backward districts, rural districts), population, etc. Districts with heavy outlays should normally be included in the selection. A minimum 30 per cent coverage of initial test-check of data should be conducted. Micro-level data for the state as a whole should be collected out of the coordinating point.

(Authority: CAG's D.O. Letter No. 661-Rep/39-83 dated 5-4-1983)

The questionnaire for collection of basic data relating to the scheme or project, the check list of points and the formats for collection of statistical data should be so prepared as to facilitate critical examination and eventual consolidation. The technical and financial aspects of the schemes/projects, technical journals and any other papers on the subject which might be useful for the audit of the scheme and projects should be carefully perused. The sanctions for grants/subsidies and loans made available by the Government of India and key books like plan documents publication of the ministries should also be scrutinized.

Performance Auditing Guidelines approved (May 14, 2004) by Comptroller and Auditor General of India, replace en-block chapter 8 of Section III of Manual

of Standing orders (Audit), in the context of performance audit. All audits conducted by our department cutting across the sectors and the nature of subjects (viz expenditure, revenue, commercial etc) will be categories and conducted as regularity (Financial and compliance) and performance audit.

(CAG's letter No. 143 Rep(c)/100-2003 dated July 2004)

Performance Audit Guidelines 2004 has been revised and new Performance Audit Guidelines 2014 has been approved by the Comptroller and Auditor General of India which consists of two separate chapters which are Chapter-3 for Strategic Audit Planning and Selection of Audit Topics and Chapter-4 for Planning Individual Performance Audit.

2.11 Field study

The preliminary study would indicate the possible lines for detailed investigation and help in deciding the shape of the review. The data should be interpreted and analysed.

The study should not step into administrative areas and become an administrative audit and should, on the contrary, cover mainly the financial and social projections. The scrutiny should consist of seeing that expenditure incurred is co-related to the objectives of the departments, and that the departments did not embark on activities which were either wasteful and/or unremunerative or which were not covered by the approval of the Legislature or which were undertaken without adequate prior planning. The results should be analysed to see whether they could have been achieved by more economical and efficient methods. It should be seen whether the department had not left any important sources of revenue unexplored. Comparative year-wise statistics of revenue realized, expenditure incurred, etc. should be collected and analysed to see if any marked deviations, occurred and that they were not unjustified.

An in-depth study is thus a *sine-qua-none* of a comprehensive review and should, therefore, cover the system, procedures, planning, implementation and performance of the programmes so as to bring out, inter-alia, the weaknesses and deficiencies as also lapses of various types.

A few illustrative points which may be looked into during the in-depth study are given below for the guidance of the staff conducting reviews;

1. To identify the objectives of the programme;
2. To check if the system of management control and the monitoring mechanism are sound. If not, the weaknesses/lapses in the system should be identified and the results thereof brought out;
3. To correlate the achievements with the targets fixed;

The physical achievements of the programme/review should be co-related with the financial outlay so as to indicate whether the results achieved were or were not commensurate with the expenditure incurred;

(CAG's letter No. 1844-Rep/48-63-I dated 9-10-1963.)

4. To ascertain the extent to which the physical targets could be achieved within the estimated time and how adversely was the overall achievement of goal affected due to the time lag;
5. To analyse the reasons for shortfall in achievements vis-à-vis the targets in consultation with the departmental authorities. Where performance indicators or efficiency norms are available, the performance should be compared with the expectations based on such norms in order to evaluate the level of efficiency.

A critical analysis of reasons for variations from prescribed norms, targets, estimates, etc, should be conducted. The analysis should inter-alia bring out various factors leading to the shortfall like lack of proper co-ordination, nonavailability or inadequate flow of requisite funds from Government, or other sources, abnormal climatic or other factors, non-availability of suitable land, equipment, personnel, etc. It would be necessary to incorporate the various reasons at appropriate places in the reviews.

(CAG's letter No. 456-Rep/73-78 dated 10-05-1978)

6. To see whether technical estimates, detailed programmes and cost schedules are framed and whether the same were adhered by the executing departments. In cases where they were not adhered, it should be seen if it was due to inefficient handling, wastages of time and money or indifferent/inadequate preparation of the original estimates of the schemes;

7. To examine whether there have been any serious avoidable delays in the progress of work resulting in consequential increase in the total cost of the scheme or any loss of revenue due to delayed execution or postponement of certain components of the programme/schemes;
8. To analyse the reasons for delay in execution of schemes and to identify the bottlenecks;
9. To ensure that the units selected for test-check are fairly representative and coverage adequate enough to make the audit findings reasonable and reliable;
10. To find out if there was insufficient or lack of co-ordination among the several agencies involved in the execution of the scheme resulting in delay in execution or wasteful expenditure;
11. To see whether the performance cost and the results obtained compare well with similar scheme in other department;
12. To see whether Programme Evaluation and Review Technique (PERT) were adopted by the department at the project implementation stage and whether proper guidelines for preparation of inventories, prescribing yardsticks of inputs and outputs, review of utilization of plant capacity and manpower, delegation of powers, etc. were issued by the department and were put to use;
13. To evaluate if the anticipated benefits were actually realized and the actual cost benefit-ratio compared well with the projections made at the time of sanctioning the scheme;
14. To assess the extent of achievement of social objectives;
15. To collect copies of all key documents in support of facts and findings; and
16. To ensure that all the requisite data was collected.
(Audit guide series no.4 issued by O&M division of CAG of India, New Delhi, 1983)
17. Audit parties should also include the positive points noticed, in any, in respect to any component of the scheme for which the performance review is conducted.

(PAG's instruction circulated vide no. 923-Rep(s)/misc-2008 dt- 17.09.2008)

2.12 Implementing the Performance Audit

The process of implementing of the performance audit steers through entry conference, issuance of audit engagement letter, data collection process, collecting audit evidence, developing audit findings and conclusions and developing recommendations. Detailed guidelines are available in chapter-5 (Implementing the performance audit) of Performance Auditing Guidelines 2014).

2.13 Contents of the Review

The social efficacy of programme should be the foremost consideration for the performance reviews of programmes and they should not contain a mere mechanical comparison of targets and achievements of the estimated and the actual expenditure.

The reviews should bring out results of audit findings regarding non-achievement of the desired objectives, particularly social objectives, delay achievement of desired objectives without convincing reasons or utilization of resources for purposes other than those specified. Cases of wastages, loss of revenues, financial improprieties and irregularities should also be included, if they are significant and worth mentioning. The reviews may also embrace matters which the CAG may like the Public Accounts Committee to investigate further so that action may be taken to prevent recurrence of lapses and failures.

(CAG's D.O. Letter No. 413-Rep/69-73(i)/dated 13-2-1975 and CAG's circular letter no. 2806 Admn-I/8/codes/61 vol-II dated 18-11-1963)

The data collected from various offices and units should be consolidated for interpretation and analysis for drawing dependable conclusions in the reviews. Non-realisation of Social and economic objectives, non-observance of time schedule and cost-estimates, over-capitalisation, excessive over head expenditure, over staffing, idle personnel, delay in construction of projects resulting in escalation of costs, absence of trained manpower, utilization of plants and machinery below rated capacity, excessive inventories, absence of sound pricing policy, idle plant and equipment, leakage of revenue, overpayments, loss due to pilferages or infructuous expenditure, etc. should be commented in the review.

(Authority- Addl. Dy CAG's D.O. No. 792-Rep/294-78 dated 23-8-1978)

The review should be a realistic and critical appraisal of the scheme. The findings should be specific in each case and should be based on the information collected during preliminary and field studies and the ancillary information collected from other sources. Thus, the matters mentioned in the review should be supported by documentary evidence.

(Additional Deputy Comptroller and Auditor General's D.O. No. 792-Rep/294-78 dated 23-8-1978).

Some important guidelines regarding the methods to be adopted for deciding upon the contents of a review are as under:

- (1) The draft review should be preceded by a discussion with the heads of the departments on various points of the scheme proposed to be commented upon in the review which has led to the audit approach to the review.

(ADA's D.O. 734-Rep/73-78/III dated 28-5-1979)

The committee of the AsG appointed to recommend steps to improve performance audit review had also recommended that the objectives and scope of the review, aspects selected for review, nature of audit investigations proposed to be made, review methodology, etc. should be discussed with the concerned Secretary and/or Senior Officers of the department and their suggestions in this regard invited.

(CAG's D.O. letter No. 1006-Rep/82-83 dated 30-6-1982)

- (2) The audit appraisal should bring out whether the system set up for execution was a sound one, whether surveys were conducted before implementation of the scheme and whether the project reports were sufficiently exhaustive.

(ADA's D.O. No. 734-Rep/73-78 III dated 28-5-1979)

- (3) The CAG has reiterated that the general tendency merely to reproduce the data from administrative reports without its in depth analysis by the audit parties should be curbed. While inclusion of this data in the PA reviews is necessary to protect the position of implementation in the right perspective, it is essential that this data should not only be test-checked to record authenticity but also analysed to give meaningful presentation.

(CAG's D.O. letter No. 1006-Rep/82-83 dated 30-06-1982)

(4) Comments on social benefits cannot always be based on financial and accounting data. The social benefits from the scheme and the proposed comments should be discussed with the departmental officers. The review should not be an administrative report of the department concerned.

(5) The A.G may meet the Secretaries to Government and apprise them of the importance of the audit findings. Opportunity may be taken to keep the Secretaries informed of the results of Audit.

(ADA's D.O letter No. 792-Rep/294-78 dated 23-8-1978)

(6) Audit should not make unfair use of contradictory views opinion expressed in the course of formulation of policies by citing them. Legal and financial advice referred to in any case, however, be cited where necessary, if the financial outcome could be held to have been impaired due to ignoring or over-looking such technical advice.

(7) The department's views should also be included in the review. It should be a balanced report of overall performance of the schemes or the projects instead of stressing only the failures.

(8) The audit appraisal should highlight defective system, incomplete surveys etc, attempt shall also be made to ascertain to what extent social aspects have been achieved at least in schemes which specifically mention such social benefits as one of the aims to be realized.

(CAG's D.O. Letter No. 734-Rep/73-78-II/dated 28-5-1979)

(9) The reviews should be in brief. Introduction has to be kept to the minimum and purely descriptive passages scrupulously avoided.

(Addl. Dy. CAG's D.O. Letter NO. 970-Rep/73-78 dt 20-7-1978)

(10) The reviews in the audit Report are the record of achievements by Audit is a mistaken impression. It is not necessary to highlight all the achievements of Audit in the review. Only matters of public importance should be incorporated.

(CAG's D.O. No. 621-Rep/125-79/dated 4-5-1979)

In order to provide a sufficient time to the Government/Department furnish their replies to the audit review, big reviews may be broken up into two or three self-contained components which can be independently issued to the Heads of the Departments/Secretaries of the Departments for their replies, after

these are approved by the A.G The senior officers should discuss the review with the heads of departments in one or two rounds to ascertain their view points. The final reply in the complete form should be sent to the Secretary concerned. While sending the reviews in batches to the heads of the departments, suitably framed questionnaires should also be enclosed which will enable them to give the needed explanations/ comments.

(CAG's circular No. 9/D.O No. 1006-Rep/82-83 dated 30-6-1982)

2.14 Drafting of Review

- (1) The impact of the Performance audit review depends to a considerable extent on its presentation. The drafting of the review should, therefore, be very precise, coherent and simple to understand. The emphasis should be on quality rather than on quantity and on analysis rather than on lengthy narrations. The reviews, inter-alia, given in a concise, objective and purposeful manner, the significant results of audit investigations regarding the achievement of objectives and the targets, the efficiency and economy with which the programme/scheme was implemented as well as the audit comments on the administrative and control systems. The comments of the department are obtained and points of concurrence and non-concurrence are included along with the reasons for such disagreement. In the drafting of the reviews, the programmes should get precedence over instances of extra expenditure, The problems faced in implementation of programmes/schemes are also to be given due consideration and the reviews should be impartial and balanced rather than over critical. Ultimately, it will be the aspects on which we desire to focus the attention of legislature that should decide the degree of emphasis and sharpness of profile in any programme/project/scheme evaluation. The draft of a audit review should commence with an 'Introduction' containing the background information to given an idea about the details of objects and different components of the programmes/projects. This, should, however, be very brief and present the material in proper perspective since lengthy introductions are likely to drift the attention of the reader.

The thrust of the review should come out clearly from an in-depth study of the targets and achievements, drawback and deficiencies, lacuna and lapses in

execution of projects/programmes. Long and complex paragraphs should end with a 'Summing Up' bringing in sharp focus on the main points. Language used should be impersonal and what is stated should be supported by facts and figures.

(ADA's D.O. No. 792-Rep/294-78 dated 23/-8-1978)

The drafting of a review depends on the material collected and the topic of the review. It may not, therefore, be possible to prescribe a common lay out or framework which can apply to the drafting of all the reviews. However, an illustrative lay out frame-work of a review may broadly be as under:

i. Introduction

- a) Details of the programme/Scheme/Projects;
- b) The background in which it was prepared;
- c) Its objectives;
- d) Organisation created/provided at the apex and unit levels for implementation.

ii) Finance

- a) Financial resources provided for it and the expenditure incurred therefrom for the period from its commencement to date with year wise position during preceding five years;
- b) Central assistance received & utilized
- c) Reasons for savings in the funds provided

iii. Targets and achievements

- a) Position for the period from commencement to date with year wise position for the last five years'
- b) Analysis of the reasons for non-achievement or shortfall achievement of targets.

iv. Test Check

- a) Mention regarding period of accounts and other records and agencies at both the apex and unit levels covered by the test-check;
- b) The period during which the test-check was conducted.

v. Audit comments

- a) All components of the programmes/scheme/project and findings of audit in respect of each of them;
- b) Position of utilization of manpower, materials, machines and money and the operational costs fixed and actual.
- c) Creation of assets as planned and actual;
- d) Social and other objectives-how far achieved along with audit analysis of reasons for shortfall in achievement.

vi. Summing up

Summary of main points mentioned in preceding paragraphs.

vii. Adherence to style guide

The presentation and language of the performance audit report should abide by the 'style guide' of SAI of India. The essence of the style guide is to adopt uniform format and language, render the report simple and reader friendly as well as interesting. Accountability-centered, third person active voice narration by designation enhances the readability and interest of the reader and induces objective response from the entity. It should be followed uniformly.

viii. Attribution of money value of para/sub-para of performance report.

Adequate care should be taken while attributing money value to paragraphs and sub-paragraphs of Performance review proposed for inclusion/included in Audit Report. No money value shall be attributed in the cases of (i) Diversion of funds, (ii) excess/ savings/surrenders of funds, (iii) pendency in receipt of utilization certificates, (iv) time over-run and cost over-run, (v) unspent funds/funds lying in Civil Deposits/Banks, (vi) curtailment of Central Assistance, (vii) unrealized revenue/ outstanding loans, (viii) events noticed by the department, (ix) statistical information used in support of audit comment, (x) any other areas where no audit efforts is involved.

(Authority : H.Q.Circular DO No.1207-Rep(S)/271-2007, dated 16 Nov.2007)

- 2) After approval of the draft-review by the A.G, a 'master copy' thereof should be prepared, reference to the page of the relevant file at which the document containing each particular fact, figures, Government/department reply, etc, mention in the review has been kept should be marked out on the 'master copy. All supporting/key documents relevant to the matter included in the review

should be kept in a separate file with a covering list of all the files opened for the performance audit review.

- 3) A brief epitome of the contents of the review should also be prepared, highlighting the most significant audit findings to enable the reader to get an over-view of the contents of the review by reading the epitome.

(CAG's letter No. 819-Rep(c)/71-85 dated 30-7-1985)

- 4) The Reporting Process has also been given in detail in Chapter-7 of Performance Auditing Guidelines 2014.
- 5) The questions proposed to be suggested to the public Accounts Committee with regard to the review are of great help to facilitate better understanding of the matters contained in the review. The CAG has, therefore, prescribed that such questions in respect of each review should also be sent to the headquarters office at the time of sending the reviews for approval. The questionnaire could even help in drafting the review in a manner which would highlight the issues to be pursued during oral examination of the departmental witnesses by the PAC. The questionnaire is to be sent to the CAG's office along with the draft chapters for all the paragraphs/reviews to be incorporated in them. The group officers are also required to send list of important questions to be suggested to the PAC while returning cases to the Report section after attending to the remarks/observations of the CAG's office.

(CAG's letter No. 709-Rep(c)/186-78 dated 31-5-1978 and circular No.

App/23/78-79/2349-69 dated 30-11-1978)

2.15 The Horizontal review on developmental schemes are prepared for inclusions in both the Central and State Audit Reports. While sending the draft reviews for inclusion in State Audit Reports to Headquarters office for approval, it should be ensured that they include the same facts, figures and comments which were mentioned in the Central Audit Report (Civil). Above aspect should be confirmed specifically while forwarding the final version of the State Audit Report (Civil) for approval of the Comptroller and Auditor General of India. This will be the responsibility of the Audit Officer/ECPA (Hqrs).

(CAG's general circular No. 06-(s)/88 circulated under d.o letter No. 320 Rep (s)/ 15-88 dt 16 March 1988 and orders of AG (Audit)-I dt 24-3-1988 thereon.)

2.16 Performance audit of special nature

1. Plan expenditure:-

In the present era of planning for development activities, the Audit should make an intelligent study of the Five Year Plans of the Central and State Governments and the year wise expenditure on plan schemes incurred by them. The portion of the total plan targets intended to be covered by each year, expenditure should also be ascertained on the basis of the results of the Efficiency Audit of individual big projects and schemes. At the end of each year, an overall appraisal of the progress and efficiency of the plan expenditure up to the end of the year with reference to the total plan targets and anticipations should also be made.

The findings of such an over-all performance audit in respect of the plan expenditure of the State Government may be suitably mentioned in the Audit Report. In respect of the plan expenditure of the Central Government, The A.G. should furnish necessary review to the DACR, New Delhi to enable the latter to include it in consolidated para regarding the expenditure incurred by the Central

Government on the five year plan, in the Civil Audit Report of India.

(Authority: Para 58 of CAG's MSO (Tech) Vol.I)

2. River valley and Irrigation Projects

The special points which should generally find place in the reviews of river valley and irrigation Projects are:

- i) Undue delay at different stages of sanction and execution of the projects; and
- ii) Non-achievement of the targets of irrigation and revenue even after the completion of the projects.

In such reviews common type of defects/irregularities noticed should be grouped together and certain basic information should be presented in a tabular form. The form given in Appendix-I to this Manual will give some idea of the manner of presentation which may be needful in such cases.

(CAG's Letter No. 162-3/Rep/48-63 dated 29-8-1963)

A review of four or five major projects should be included in the Audit Report of the year, bringing out generally the following aspects:-

- a) Amount of original estimates and the anticipated targets;
- b) Revision of estimates and reason for such revision;
- c) Completion of the projects and schemes according to time schedule;
- d) A critical examination of the total expenditure as compared to estimates;
- e) Estimated potential of irrigation and power in respect of irrigation projects and the actual provision of irrigation and generation of power.
- f) Fulfillment of the objects of the schemes and
- g) Anticipated and actual financial return of the scheme.

In the case of projects likely to take a number of years for completion it shall be necessary to periodically review the flow of expenditure and the quantity of work executed as compared to estimates.

(CAG's DO No. 1386 Rep./203-61 dated 30-05-1961 and CAG's letter No. 809-A/39-A/61 dated 20-10-1962)

3. Centrally sponsored/assisted schemes-

The schemes/projects for which central assistance is received by the State Government fall broadly under the following categories:-

- i) River valley, irrigation or power projects for which a special accounting procedure is prescribed and there is an organized accounts organization.
- ii) Projects and schemes implemented by the departmental drawing and disbursing officers throughout the State, by following the normal treasury rules of the Government for withdrawal of funds from the treasury and for their accountal.
- iii) Commercial and quasi-commercial schemes for which proforma accounts showing the working results of the undertaking are maintained.

Assistance in the form of loans and grants as given by the Government of India for the State Plan Schemes, centrally sponsored schemes as also for other projects and schemes outside the plan. In the case of centrally sponsored

schemes, specific approval to each scheme, indicating the conditions, pattern of assistance, amount of assistance, etc. is accorded by the concerned Administrative Ministry of the Government of India. The reviews should be confirmed to projects costing over Rs.50 lakhs and the centrally sponsored schemes and state plan schemes on which there has been considerable outlay i.e more than Rs.25 lakhs should be selected normally (Appendix-II)

(CAG's Letter No. 1606-Rep/109-64 dated 29-9-1964)

(4) Synoptic Review of Plan Schemes

In Chapter-II of the Audit Report, a synoptic review of the schemes selected for review during the year may be included. For this purpose, ECPA Section will collect data, year to year, in regard to certain big projects and Plan schemes with a view to conduct Performance Audit. At the end of a Plan period (five year Plans or Annual Plans) a review should be attempted for inclusion in the Audit Report, bringing out an appraisal of the plan scheme as a whole to indicate, at the end of Plan period, the total amount of expenditure during the plan period as compared to Budget provision and important sections/schemes where the shortfall has been unduly large. A few of these schemes can also be reviewed in detail and a critical appreciation included in the Audit Report.

(CAG's DO letter No. 1314/Rep./71-1968 dated 1st July 1968)

(5) Financial stock taking of Development Schemes

Financial stock taking of development schemes is required to be undertaken by audit sections in accordance with instructions laid down in Paragraph 520 read with paragraph 56 (4) of the Comptroller and Auditor General's Manual of Standing orders (tech.) Vol-I. This review is applied to projects working to financial results where the estimated cost of the projects is Rs. 50 lakh or over. The Government of Madhya Pradesh in the Finance Department in memoranda Nos.6202-IV-B/67 dated 7th October 1967 and 4814/R-938-IV-B-I/ 68 dated 24th July 1968 have directed every Head of the Department to furnish information in the prescribed proforma once a year by the 1st of September (relating to the financial year ending 31st March preceding) to the Accountant General, Administrative department and the Finance department in respect of every schemes costing Rs. 50 lakhs and above. If any scheme which though not shown in the Statement, yet works towards a financial result and costs more than Rs. 50 lakhs, comes to the notice of any audit section, that section should

immediately request Government to arrange for a financial stock taking of that scheme under intimation to ECPA. The concerned audit sections should complete the scrutiny of the returns by the 30th September and communicate to ECPA, the observations of audit. ECPA section maintains a register to watch the timely receipt of the comments of the [FAAS](#) Section on the statements of financial stock taking. The register is required to be submitted to the A.G periodically. On receipt of comments from the concerned audit section, ECPA will consolidate the audit observations and communicate them promptly to the Head of Departments/Government and forward a consolidated report to Report Section by the 15th October bringing out important points, if any, noticed to consider possible comments in the Audit Report

(CAG's entd. No. 2483- Admn.I/ 393-61 dated 14th October 1963)

Annexure-I
(Reference Para 2.05)

Sl. No.	Name of Office/ division	Reference to Inspection report	Brief description of the case and the irregularities involved or other aspects at issue	Date of receipt of the case in ECPA Section	Further Action taken	Final Disposal
(1)	(2)	(3)	(4)	(5)	(6)	(7)

Annexure-II

(Para 2.06)

Proforma for background note on the scheme proposed to be selected for performance review

1. Name of the programme/scheme
2. Object(s) of the Programme/Scheme
3. Brief description
4. How long in operation and whether the period is considered sufficient to attempt audit evaluation.
5. Where operated (Names of districts, number of units, etc.)
6. Expenditure actually incurred to date (Revenue) and capital expenditure to be indicated separately)
7. Year-wise (for the last 6 to 7 years):
 - a) Receipts
 - b) Plan outlay
 - c) Budget Provision (In lakhs of Rupees)
 - d) Expenditure
8. Nature of accounts maintained at the units
9. Whether declared commercial
10. Agency (ies) through which the programme/schemes was handled and whether records of such agencies are auditable CAG's (D.P..C), Act, 1971
11. Number of districts/Units proposed to be covered in test-check
12. Preliminary audit of findings
13. Points likely to be covered by the review
14. Whether the subject was covered in any earlier draft/ printed audit report, is so, PAC,s recommendations and action taken thereon.

In the covering letter, please indicate the programme/scheme selected for the immediately preceding Audit Report and reasons for non-inclusion of any of them in that audit report.

(Authority:- CAG's letter no. 1304-CAP/73-78 dated 19-9-1979)

APPENDIX-I

(Refer: Para 2.16(2))

Review of River Valley and Irrigation Schemes

In the following.....cases, even after.....toyears from the dates of completion of the objects, either no irrigation has been possible or the area so far brought under irrigation has been much less than that originally anticipate:

i)Irrigation projects.....completed in.....(a)
Target of Irrigation.....acres.

b) Gist of construction: Rs.

Original estimates: Rs.

Revised estimate: Rs.

Actual Cost (up to): Rs.

c) Anticipated return on the capital invested without taking into account interested charges:

Original estimates%

Revised estimates%

1) The irrigated area did not exceedacres in any year so far after completion of the project. The shortfall in irrigation was attributed to.....

2) The increase in the estimated cost of the Project is stated to be due to.....

3) The average annual revenue and working expenses since the completion of the project up to..... workout to Rs..... and Rs..... respectively, there being annual loss/profit of RS.....This falls short of the estimated return on the capital invested without taking into account interest charges by.....%

4) An extra expenditure of Rs.....(Which might possible have been avoided) was incurred on the project as detailed below:

(a)

(b)

5) An expenditure of Rs.....incurred on the following items proved in fructuous due to lack of planning, defective execution, etc.

APPENDIX-II

(Refer : Para 2.16 (3))

Review on plan schemes

- I. Electricity, Multipurpose River Valley, Irrigation and other projects, each estimated to cost more than Rs. 50 lakh for which special accounting system has been prescribed and for which there is a well organized accounts organization.
 1. Name of the project
 2. Account of Central Assistance sanctioned by the Government of India, (wherever available for the specific project)

Loan

Grant
 3. Amount of central assistance paid so far (year wise particulars to be given)

Loan

Grant
 4. Estimated cost or approved outlay of the project
 5. Expenditure incurred on the project (give year wise particulars with the date of commencement of the project)
 6. Whether the project has been completed. If not, the progress of construction
 7. Brief details of the accounting procedure prescribed for the project
 8. State the manner in which the accounts system is working and the adequacy of the accounting arrangements particularly from the point of view of accounting of cash, stores, materials at site accounts, tools and plant, lump sum payments of dues to and recovery of dues from contractors indicate also whether the accounts have been maintained up to date or are in arrears, major irregularities in the maintenance of records, control over works expenditure and particularly in regard to points having a bearing on the utilization of central assistance.
 9. Whether there are heavy arrears under suspense balances (give the extent of arrears).
 10. How far the physical targets have been achieved within the estimated time and cost?

11. How far any returns where these were anticipated are actually accruing?
12. Comments, if any, on the actual return realized with the estimated figures whether proper records for the account of the returns are maintained.
13. Any ground for considering that the final purpose or objects of expenditure have not been achieved in any respect? If so, give details.
14. **General-** Remarks indicating any main points, conclusions which may be considered for inclusion in the Audit Report.

II Schemes for which there are no special accounting system and where the normal treasury procedure of drawing money on presenting bills at the treasury is followed.

(All centrally sponsored schemes/State Plan Schemes on which a substantial expenditure of about Rs. 25 lakhs or more has been incurred in recent years).

1. Name of Scheme
2. Amount of central assistance sanctioned by the Government of India.
Loan Grant.
3. Pattern of assistance, if any prescribed
4. Amount of central assistance paid (give year wise particulars)
5. (a) Expenditure incurred so far (with year wise particulars)
(b) Estimated cost/approved outlay
6. Whether any conditions for utilization of the assistance are prescribed by the Government of India? If so, whether the conditions were fulfilled?
7. Was there any unspent amount? If so was it refunded? When?
8. Whether departmental regulations exist for maintenance of proper inventory of stores, equipment and other assets acquired for the scheme, and any revenue accruing from the scheme. Whether these regulations are adequate and whether the accounts are maintained properly.
9. Are there large amounts drawn in advance on abstract bills for which detailed accounts have not been received? Indicate the amounts for which detailed accounts have not been rendered and the earliest period from which outstanding. In case the advance drawn were in excess and refunded to the

treasury whether the amount so drawn in excess on the basis of which the central assistance was claimed, was refunded to the Government of India?

10. Is any data available with the department to show the final object of the scheme has been achieved?
11. How far the physical targets have been achieved within the estimated time? Whether the physical progress achieved is commensurate with the expenditure incurred how far the performance/cost compared with the forecast as given in the sanctioned scheme. Indicate also major wasteful or in fructuous expenditure and major defects and irregularities having a bearing on the utilization of the assistance, non-fulfillment of the object of assistance, diversion of the assistance for a different purpose.
12. Large arrears in reconciliation of departmental figures with the Accountant General's figures- Is the difference in figures awaiting reconciliation large?
13. How far have returns and benefits (Where they were anticipated) actually accrued?

Example:- In the case of house construction schemes whether the houses constructed have been let out to the eligible persons, and rents are being realized as provided in the scheme and generally whether the purposes of the scheme have been broadly fulfilled.

14. In the case of commercial schemes, give in brief the working results of the schemes (year wise details) Indicate whether proforma accounts on commercial lines are maintained any major defect in the accounting arrangements.
15. **General:-** Remarks indicating any main points or conclusions which may be considered for inclusion in the Central Audit Report.

III Schemes implemented through local bodies, co-operative institution, autonomous boards, etc, by payment of grant-in-aid and loans (Centrally sponsored schemes/states schemes Rs. 25 lakhs)

1. Name of Scheme
2. Amount of central assistance sanctioned by the Government of India.

Loan Grant.

3. Amount of central assistance paid (Give year wise particulars)
4. Name of local body, autonomous board or institution, through whom the schemes is implemented.
5. Amount of assistance paid by the State Government to the institutions, local bodies or autonomous board, etc. (Year wise particulars to be given)

Loan Grant.

6. Whether any time limit was prescribed by the State Government for utilization of the assistance?
7. Was the actual utilization in conformity with the time limits, if any, prescribed by Government?
8. Whether any conditions were prescribed?
9. Have the administrative departments, furnished the utilization certificates for the assistance paid to the above institutions. If not, whether, the refund of the unspent balance has been enforced. Whether the amount so refunded has been taken into account in claiming central assistance?
10. Whether there is adequate machinery in the administrative department to verify the proper utilization of the assistance by the local bodies, etc, the assets created out of the assistance, fulfillment of conditions, the performance of the scheme as a whole, and achievement of the objects for which the schemes is intended? Major defects in this regard may be detailed.
11. If the audit of the autonomous board or institutions conducted by the A.G either under the provisions of the Act and Rules, creating the board or on consent basis, indicate the major defects noticed in the accounting arrangements e.g. Electricity Board, Housing Board, Khadi Village and Industries Board etc and whether the accounts maintained enable audit to verify the utilization of assistance for the objects for which they are intended.
12. **General**:- Remarks indicating any main points or conclusions which may be considered for inclusion in the Central Audit Report.

CHAPTER-III

ASOSAI Guidelines for dealing with Fraud and Corruption

3.1 Introduction

Background

3.1.1 Fraud and corruption have increasingly become important concerns for countries around the world. The role of audit in addressing this concern has come under critical scrutiny. There is an increasing expectation that SAIs should through concerted action, play an effective role in promoting a culture that values honesty, responsibility, and accountability in the exercise of authority and utilization of national resources.

3.1.2 This expectation is embodied in the INTOSAI Auditing Standards in the following words ;

Auditors need to be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results, which could be indicative of fraud, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity. (Paragraph 2.2.4.1, General Standards in Government Auditing)

3.1.3 The XVI INCOSAI held in Uruguay in 1998 discussed “the Role of SAIs in Preventing and Detecting Fraud and Corruption” as one of its themes signifying a growing awareness of the INTOSAI to a problem that affects in varying degrees the individual member countries and collectively poses a challenge for the auditing community.

3.1.4 The Uruguay INCOSAI agreed that corruption in government results in waste of resources and reduces economic growth and the quality of life, and it undermines the credibility of state institutions and reduces their effectiveness. A realization was flagged that a strong correlation apparently exists between corruption and the weakening of state institutions. An understanding emerged that corruption often links up to the socioeconomic environment of the population, like social injustice, poverty, and violence, and that a country’s traditions, principles, and values influence the nature of corruption. While registering the gravity of the challenge posed by corruption, the INTOSAI community also observed that it is difficult to

detect many acts of corruption and to estimate their financial impact as the loss does not necessarily get reported in the financial statements.

3.1.5 The Uruguay INCOSAI adopted the following Accords:

SAIs agree that fraud and corruption are significant problem affecting all countries in varying degrees and that the SAIs can and should endeavor to create an environment that is unfavorable to fraud and corruption. As provided in the Lima Declaration adopted by INTOSAI in 1977, SAIs agreed that they should be independent and have adequate mandates that enable them to effectively contribute to the fights against fraud and corruption. It was also agreed that, where possible, SAIs should:

1. seek an adequate level of financial and operative independence and breadth of audit coverage;
2. take a more active role in evaluating the efficiency and effectiveness of financial and internal control systems and aggressively follow up on SAIs recommendations;
3. focus audit strategy more on areas and operations prone to Fraud and corruption by developing effective high risk indicators for Fraud;
4. establish an effective means for the public dissemination of audit reports and relevant information including, establishing good relationship with the media;
5. produce relevant audit reports that are understandable and user-friendly;
6. consider a closer cooperation and appropriate exchange of information with other national and international bodies fighting corruption;
7. intensify the exchange of experiences on fraud and corruption with other SAIs;
8. encourage the establishment of a personnel management procedures for the public service that selects, retains, and motivates honest, competent employees;
9. encourage the establishment of guidance for financial disclosure by public servants and monitor compliance as part of the ongoing audit process;
10. use the INTOSAI Code of Ethics to promote higher ethical standards and a code of ethics for the public service;

11. consider the establishment of well publicized means to receive and process information from the public on perceived irregularities; and
12. continue work regarding fraud and corruption through INTOSAI existing committees and working groups; for example the Auditing Standards Committee will consider these issues as part of developing implementation guidance as part of a broader standard framework.

3.1.6 In furtherance of the INTOSAI framework, ASOSAI intimated in December 2001 a project³ for strengthening the Regional Training Capability which focuses on the improving audit skills for fraud detection. One of the major focus areas of the project is the development of regional guidelines on fraud and corruption, an initiative that received formal sponsorship of the ASOSAI in the meeting of the Governing Board held in Manila in October 2002.

3.1.7 It is hoped that these Guidelines will become a useful reference and guidance material for the SAIs of the region and would be instrumental in sensitizing auditors to concerns arising from fraud and corruption and would assist them in taking timely and appropriate actions.

DEFINITIONS AND CORRELATION

3.1.8 Para 3.2 of the Guidelines, which deals with conceptual issues related to fraud and corruption, lists some of the many general and specific definitions of fraud and corruption. The multiplicity of definitions underscores the various ways in which fraud and corruption are perceived and conceptualized. In their broadest connotation the terms fraud and corruption can be defined as follows:

FRAUD involves deliberate misrepresentation of facts and or significant information to obtain undue or illegal financial advantage.

CORRUPTION involves effort to influence and/or the abuse of public authority through the giving or the acceptance of inducement or illegal reward for undue personal or private advantage.

3.1.9 Fraud is most likely to involve deliberate misrepresentation of information that is recorded and summarized by an entity; its impact can be compared to an accounting error and would involve issues such as measurement, occurrence, and

³ The project is being implemented with Asian Development Bank funding and support.

disclosure. Fraud poses a serious problem from an audit perspective because it is normally accompanied by efforts to cover/falsify/misdirect entity records and reporting. The efforts to misrepresent may involve the management itself-an aspect that has received considerable attention in the wake of major corporate failures. When management gets involved in the perpetration of fraud, the activity assumes the proportion or the additional bearing of corruption. Fraud and corruption are therefore interlinked, although certain types of fraud do not necessarily qualify for being viewed as corruption can be perpetrated by an individual or a small group. The problem which corruption poses for audit is that it links up as a concept with the acts of bribery. It is possible to conceive of situations where bribery may have a direct impact on financial statements for example where a corporation pays an influential decision-maker a bribe to secure a contract. In such situations the issue of proper disclosure is involved because the corrupt practice of the illegal payment/expense is normally covered up through an accounting or reporting fraud. However, in many instances corruption does not necessarily result into transactions that are recorded and reported by the entity. This especially applies to situations where a position of authority or discretion available under rules is enchased by an official in the public sector. Such corruption, which because of its widespread prevalence, may be most responsible for undermining the social fabric and the credibility and functioning of state institutions, does not normally get reflected in information that comes in the purview of audit.

3.1.10 The guidelines therefore propose that while fraud and corruption should be perceived independently for their numerous implications, the auditors should be well aware of the complex correlation between the two. In the Guidelines the two will be treated in combination, but attention would be drawn to possibilities of separate treatment, wherever the situation so warrants.

RESPONSIBILITIES FOR PREVENTION OF FRAUD AND CORRUPTION

3.1.11 It is an essential function of Management to establish controls and safeguard assets of the entity. It is also a primary responsibility of management to meticulously record all material transactions and fairly report the results of the operations of the entity. The primary responsibility for establishing an environment that prevents valuable entity assets from being lost through fraud

and corruption therefore clearly rests with the management. Further, since good management practices require the establishment of adequate controls and checks, the responsibility to detect fraud and corruption is a natural corollary of the responsibility to establish an environment that prevents and deters fraud and corruption. This responsibility includes the taking of remedial steps, including such disciplinary/punitive/legal action as the circumstances may warrant and also includes the obligation to bring about changes to policies and procedures for ensuring that similar cases will not happen again.

3.1.12 This reaffirmation and unambiguous recognition of the primary role and responsibility of the management, however, does not relieve the auditor of his responsibility to provide a credible assurance within his SAIs audit mandate about the actions taken by the management or those that may materially affect the picture that emerges from the audited financial reports. This responsibility covers situations where the financial reports or other auditable record may be materially misrepresented and the misrepresentation may or may not have taken place with the knowledge or involvement of the management. This responsibility of the Auditor is the extension of his responsibility to provide assurance about the audited entity and its financial statements and his obligation to make the management (either in each entity individually or through reports to the legislature) aware of any weakness in the design or operation of the accounting and internal control systems which are reviewed by him in the discharge of his professional duties. Although auditors are not primarily responsible for preventing fraud and corruption, audit can be a significant influence in reducing fraud and corruption. By conducting an audit that is sensitive to the risk of fraud and corruption, the auditors can make a proactive contribution to prevent fraud and corruption.

AUDIT MANDATE

3.1.13 While the legislative framework and mandate determine the policies and audit guidance adopted by each SAI, these Guidelines recommend that in its interpretation of its primary audit mandate, an SAI should be cognizant that public perceptions about fraud and corruption pose a serious risk to the credibility of its findings in individual audits and its national responsibility and role. Depending on their peculiar circumstances, the SAIs should actively

consider adopting a formal policy or strategy for deterring fraud and corruption in the organizations covered in their audit jurisdiction. These guidelines are based on the awareness that SAIs should have an adequate level of mandate to deal with cases of fraud and corruption in planning and conducting an audit and that this mandate is, usually inherent in the audit mandate. However, if an SAI feels constrained in its investigation of suspected fraud or corruption cases in the performance of its normal audit work, it should seek reinforcement of its audit mandate. This reinforcement could be in the shape of a regularity provision specifying that the SAI would be notified in all cases where fraud or corruption are suspected or reported.

3.2 UNDERSTANDING FRAUD AND CORRUPTION

3.2.1 Fraud and corruption includes both those committed by the government employees or management of an auditee (internal fraud and corruption), and those perpetrated against the auditee by outside individuals or groups (external fraud and corruption). Internal fraud and corruption may result in benefits being obtained either from the organization (e.g. theft of cash/assets, falsification of payroll data), or from a third party (e.g. the theft of patients' property). The latter may not result in immediate loss to the auditee, but it may result in a liability for restitution where positions of trust have been abused. Examples of external fraud and corruption include making fraudulent claims for government grants and benefits or suppliers issuing false or duplicate invoices.

3.2.2 Whereas the loss to the auditee is usually fairly apparent in cases of fraud as defined above, in the case of "corruption" the corrupt government employee may benefit from the act, but there may not be any loss to the auditee or effect on financial information. Both fraud and corruption are by definition without proper authority and involve breach of trust and therefore irregular.

3.2.3 There are many general and technical definitions of fraud. In most countries fraud and corruption are legal concepts, although they are referred to in various ways. One of the factors distinguishing fraud from error is whether the underlying cause is intentional or unintentional, although intent is often difficult to determine, particularly in matters involving the use of judgment.

DEFINITIONS OF FRAUD

3.2.4 XVI INCOSAI URUGUAY 1998 viewed fraud as a legal concept which involves acts of deceit, trickery, concealment, or breach of confidence that are used to gain some unfair or dishonest advantage; an unlawful interaction between two entities, where one party intentionally deceives the other through the means of false representation in order to gain illicit and unjust advantage.

3.2.5 According to SPASAI Fraud Guide, “fraud is a generic term which embraces all the means that human ingenuity can devise, which are resorted to by one individual to get an advantage over another by false representations. There is no finite rule to define fraud as it includes surprise, trick, cunning and unfair ways by which another is cheated.

3.2.6 Fraud, as it is commonly understood today, means dishonesty in the form of an intentional deception or a wilful misrepresentation of a material fact. Lying the wilful telling of an untruth, and cheating, the gaining of an unfair or unjust advantage over another could also be used to further define the word fraud because both that and dishonesty denote intention or willingness to deceive.

3.2.7 The Canadian Audit Guide 21 on Fraud awareness refers to fraud as an action where there is a loss of a valuable resources resulting from a false representation made knowingly, without belief in its truth. Such actions could result in charges being laid under various applicable Canadian laws.

3.2.8 According to the National Audit Office of UK, fraud involves the use of deception to obtain an unjust or illegal financial advantage as well as intentional misstatements in, or omissions of amounts or disclosures from, an entity’s accounting records or financial statements. It also includes theft whether or not accompanied by misstatements of accounting records or financial statements.

3.2.9 The Fraud Examiners Manual views fraud as any intentional or deliberate act to deprive another of property or money by guile, deception or other unfair means. Similarly International Standard of Auditing (240) also treats fraud as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

3.2.10 Essentially, fraud refers to intentional misrepresentation of financial information by one or more individual among the management, employees or third parties. It involves the use of deception to obtain an illegal financial advantage.

3.2.11 Fraud may involve:

- manipulation, falsification or alteration of records or documents,
- misappropriation/misapplication of assets,
- Suppression or omission of the effects of transactions from records or documents, recording of transaction without substances, □□misapplication of accounting policies.

ELEMENTS OF FRAUD

3.2.12 The basic elements of fraud can be summarized as follows.

- there must be at least two parties to the fraud, namely the perpetrator and the party who was or could have been harmed by the fraud, otherwise known as the victim;
- a material omission or false representation must be made knowingly by the perpetrator
- there must be intent by the perpetrator that the false representation be acted upon by the victim;
- the victim must have the legal right to rely on the representation;
- there must be either actual injury or a risk of injury to the victim as a result of the reliance;
- there generally is an attempt to camouflage; and
- Fraud involves betrayal of trust.

DEFINITIONS OF CORRUPTION

3.2.13 Corruption is a complex issue. While its roots are grounded in a country's particular social and cultural history, political and economic development, bureaucratic traditions and policies, one can generalize to state that corruption tends to flourish when institutions are weak and economic policies distort the marketplace.

3.2.14 The following definition of corruption is provided by Asian Development Bank in the Anti-corruption policy: "Corruption involves behavior on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed.

3.2.15 The Anti-Corruption Act of the Republic of Korea defines the term "act of corruption" as the act of any public official's abusing his position or authority or violating laws and regulations in connection with his duties to seek gains for himself or any third party.

3.2.16 The Chartered Institute of Public Finance and Accountancy of UK defines corruption as the offering, giving, soliciting or accepting of an inducement or reward, which may influence the action of any person. That is, an individual receives a bribe as a reward or incentive for action or inaction contrary to the proper conduct of his or her duties, for the direct benefit of a third party.

3.2.17 The World Bank defines corruption as the abuse of public power for personal gain or for the benefit of a group to which one owes allegiance.

3.2.18 Klitgaard⁴ (1996) developed a model to explain the dynamics of corruption.

$$\text{Corruption} = \text{Monopoly power} + \text{Discretion} - \text{Accountability}^4$$

ELEMENTS OF CORRUPTION

3.2.19 An act of corruption would comprise one or more of the following elements:

- There must be at least two parties to an act of corruption, namely the person who offers the reward or inducement and the party accepting it;
- There must be misuse of office or position of authority for private gain;

⁴ World Bank Publications, Pillars of Integrity, the Importance of SAI's in Curbing Corruption.

- There is either an offer and/or acceptance of inducements;
- An attempt to solicit an offer of inducement or reward as benefit for performance of an official act;
- Any act through which public or entity property is dishonestly misappropriated;
- There may be an attempt to camouflage; and
- Corruption involves breach of trust.

FACTORS THAT INFLUENCE FRAUD AND CORRUPTION

3.2.20 It is useful for auditors to understand the motivational and organizational/environmental factors of fraud and corruption. The presence of these factors does not necessarily mean that fraud and corruption have occurred. Rather, awareness of their presence should increase the auditor's sensitivity to that possibility. The key factors generally associated with fraud and corruption are as follows:

MOTIVATIONAL FACTORS

3.2.21 Motivation and opportunity are the elements that generally underlie the commission of fraud and corruption. These could take the form of:

- Economic motivation- financial need or gain is the most common motivation for fraud and corruption. Often, persons convicted of fraud and corruption complain that they had unbearable financial problems for which there was no legitimate recourse.
- Greed- persons with power and authority often commit fraud and corruption because they are motivated by greed.
- Prestige or recognition- persons may feel they deserve more prestige or more recognition. These persons are often motivated by jealousy, revenge, anger, or pride. They often believe that they are superior to others, that they are shrewd enough to confound and confuse others and can commit fraud and corruption without being discovered or detected.
- Moral Superiority- persons may also be motivated by a cause or values that they feel are morally superior to those of the victim, or the government in this case.

ORGANIZATIONAL/ENVIRONMENTAL FACTORS

3.2.22 The organizational atmosphere and its perception play a major causative role in perpetration of fraud and corruption.

3.2.23 Where management is perceived as insensitive, insecure, impulsive or too strict, illiterates employees and judges performance either on short term results or without considering operational constraints, the disgruntlement in the employee is likely to result in instances of fraud and corruption.

3.2.24 Systems and procedures adopted in organizations and organizational policies are particularly important. An organization in which the corporate policies are unclear, there is inadequate internal control, excessive regulations, red-tapism, inadequate accountability or history of programme abuse is likely to have more instances of fraud and corruption.

3.2.25 An understanding of the organizational atmosphere will enable an auditor to assess whether there is a higher risk of fraud and corruption in the entity and planning of the audit could be suitably modified. Poor management structure and policies are indicated by a high turn over of employees, absenteeism, poor documentation, low awareness or regulatory requirements and lack of transparency in reward systems.

3.2.26 It is important for the auditor to also understand that very often the perpetrator of fraud and corruption rationalizes his actions with some kind of justification. For instance an employee accused of fraud and corruption is likely to rationalize his action by saying or believing that his low pay justifies the action or since everybody is doing that he is also well within his right to do it; while a contractor could justify his acts of fraud and corruption as a cost of doing business or problems of securing contract from a government entity.

TYPES OF FRAUD AND CORRUPTION

3.2.27 Some of the most typical fraud and corruption are as follows:

- Bribery is the giving, receiving offering or soliciting of any “thing of value” in order to influence a person in the performance of, or failure to perform, his/her duties.
- False statements and False Claims occur whenever a person knowingly and willfully falsifies a material fact or makes a false or fictitious representation or files a false or fictitious claim that results in economic or financial loss to the person to whom the false representation has been made.

- Embezzlement is the fraudulent conversion of personal property by a person in possession of that property where the possession was obtained pursuant to a trust relationship. Examples of means to conceal embezzlement are the use of kiting or lapping scheme.
- Kiting occurs when a person withdraws cash from a bank on cheques deposited by a person for which the cash has not yet been collected by the bank. To conceal the fraud, the person continuously writes cheques against non-existent account balances (“kites” cheques from bank to bank).
- Lapping occurs when a person steals cash from payment of accounts receivable, and continuously uses cash from other payments of accounts receivables to conceal the initial theft (“laps” two consecutive accounts).
- Conflict of interest occurs when a person has an undisclosed economic or personal interest in a transaction that adversely affects that person’s employer.
- Phantom Contractor is a non-existent company whose, invoice is submitted for payment by a person involved in the purchase process.
- Purchases for Personal Use. A person may purchase items intended for personal use or may make excess purchases of items needed, some of which are then diverted to personal use.
- Split Purchases. Contracts are split into two or more segments to circumvent the procurement authority limitations, and thus to avoid competitive bidding. This may involve bribery from the contractor to a person of the other party.
- Collusive Bidding, Price Fixing or Bid Rigging. Groups of prospective contractors for a contract form an agreement or arrangement, to eliminate or limit competition. This agreement may also involve bribery.
- Progress Payment Fraud. The contractor requests progress payments based on falsified information submitted to the other party.
- Over or under invoicing. Occurs when there is deliberate misstatement of the invoice value as compared with goods or services received or supplied.
- Extortion is the use of authority to secure unlawful pecuniary gain or advantage.
- Nepotism and Favoritism unlawful use of public office to favor relatives and friends.
- Loss of Revenue on account of tax or duty evasion can include different situations where revenue due to the government is not received or paid.

- Unfair Recruitment favoritism exercised in the process of recruitment for unlawful gain.
- Computer Fraud is any fraudulent behavior connected with computerization by which a person intends to gain a dishonest advantage. For instance, salami-slicing is a computer fraud where fractions of interest calculations are transferred to a personal account.

IDENTIFICATION OF HIGH RISK AREAS

3.2.28 An understanding of the audited entity should enable the auditor to identify potential high-risk areas and suitably modify audit procedures and techniques. Some of the commonly perceived high risk areas are:

- contracts of service/procurement;
- inventory management;
- sanctions/clearances;
- programme management;
- revenue receipt;
- cash management;
- general expenditure; and
- other areas with public interface.

SAIs would have to, based on experience and perceptions, identify such risk areas while planning audits.

CONTRACT FRAUD AND CORRUPTION

3.2.29 Procurement of goods and services is a major activity in the government sector and is traditionally prone to fraud and corruption. Understanding fraud and corruption in contracts may therefore be beneficial to the auditor. An illustrative list of the forms fraud and corruption can take in the area of contracts is given at Appendix-III to enhance the Auditor's understanding.

3.2.30 The audit of Contracts in most SAIs, therefore becomes an area of focus for the Auditor who has to be particularly sensitive to the possibility of Fraud in this area. Appendix-IV lists out the warning signs that an auditor needs look out for. These would alert him to the necessity of further scrutiny or intensive examination. The size of the sample or the techniques adopted could also be suitably adjusted.

COMPUTER FRAUD

3.2.31 With the increased use of information technology in the function of entities and increased introduction of IT systems the auditors needs to understand that the perpetration of fraud and corruption and consequently detection of such instances become more complicated.

3.2.32 Computer fraud could involve the manipulation of a computer or computer data by whatever method in order to dishonestly obtain money, property” of some other advantage of value or to cause loss.

3.2.33 The Auditor has to be particularly ‘aware of the audit trail, of the checks and balances of IT systems, of the levels of control and needs to also have a fair idea of how processing controls can be circumvented by the perpetrator of fraud and how data can be accessed and manipulated. It is particularly important for the auditor of the IT system to assess in his audit the level of security controls built in and if these are in tune with the sensitivity of data.

3.2.34 Audit evidencing in an IT environment is often more complex than traditional manual audit. In an IT environment not only it is necessary to understand the techniques of assessing system and data soundness but also necessary to establish means of collecting evidence. The standards of audit evidence collection have to be set by the SAIs in consonance with the legal framework and regulations in which the audit is carried out.

3.2.35 Since this is an emerging field of audit and is also undergoing rapid changes the SAIs may consider the pooling of information on the IT audits conducted and techniques adopted.

3.3 TREATMENT OF FRAUD AND CORRUPTION

BASIC PRINCIPLES

Auditing Principle⁵

3.3.1 The SAI should consider compliance with the INTOSAI auditing standards in all matters that are deemed material. (Paragraph 1.0.6(a))

INTOSAI Guidance⁶

⁵ “Auditing Principle” here refers to Basic Principles as given in the INTOSAI Standards.

⁶ “INTOSAI Guidance” refers to the explanation of the Basic Principles, General Standards, Fields Standards and reporting standards given in the INTOSAI Standards.

In general terms a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report (paragraph 1.0.9)

Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material for example where the law or regulation requires it to be disclosed separately regardless of the amount involved. (Para 1.0.10)

In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item in relation to:

- a) the overall view given to the financial information;
- b) the total of which it forms a part;
- c) associated terms;
- d) the corresponding amount in previous years (paragraph 1.0.11)

ASSOSAI Guideline⁷

While determining materiality levels for different audit areas the SAI may take into account adjustments to the materiality level that may make audit more responsive to risk arising from fraud and corruption.

Auditing Principle

3.3.2 The SAI should apply its own judgment to the diverse situations that arise in the course of government auditing (paragraph 1.0.6 (b))

INTOSAI Guidance

Audit evidence plays all important part in the auditor's decision concerning the selection of issues and areas for audit and the nature, timing and extent of audit tests and procedures. (Paragraph 1.0.16)

ASOSAI Guidelines 2

SAIs should apply its own judgment to determine the extent of audit investigation to be undertaken in cases of suspected fraud and corruption.

Auditing Principle

⁷ "ASSOSAI Guideline" is the specific audit guideline on fraud and corruption as recommended by ASOSAI.

3.3.3 With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating effectively. (Paragraph 1.0.6©)

ASOSAI Guidelines 3

With an increasing concern on fraud and corruption SAIs are expected to demonstrate that the audit addresses these concerns. The SAIs should actively consider adopting a formal policy or strategy for deterring fraud and corruption.

Auditing Principle

3.3.4 Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information. (Paragraph 1.0.6 (d))

Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets. (paragraph 1.0.6 (e))

Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations (paragraph 1.0.6 (f))

INTOSAI Guidance

The correctness and sufficiency of the financial reports and statements are the entity's expression of the financial position and the results of operations. It is also the entity's obligation to design a practical system which will provide relevant and reliable information. (paragraph 1.0.24)

The SAIs should work with the accounting standards setting organizations to help ensure that proper accounting standards are issued for the government. (paragraph 1.0.26)

ASOSAI Guideline 4

SAI should review whether applicable accounting standards ensure adequate recognition of assets and liabilities and disclosure of true financial position inclusive of any

losses resulting from fraud and corruption. In case it observes any deficiency in this regard it should work with the audited entity and the accounting standard setting body to remove the deficiency.

ASOSAI Guideline 5

The responsibility for adequate and timely disclosure of any cases of fraud and corruption rest with the management and the responsibility of ensuring reliability and results of operation must include concerns arising from risk of fraud and corruption. Through its audit the SAI must evaluate and report on the adequacy and competence with which the management has discharged this responsibility.

Auditing Principle

3.3.5 The existence of an adequate system of internal control minimizes the risk of errors and irregularities (paragraph 1.0.6 (g))

INTOSAI Guidance

It is the responsibility of the audited entity to develop adequate internal control system to protect its resources. It is not the auditor's responsibility. It is also the obligation of the audited entity to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with, and that probity and propriety are observed in decision making. However, this does not relieve the auditor from submitting proposals and recommendations to the audited entity where controls are found to be inadequate or missing (paragraph 1.0.31)

ASOSAI Guideline 6

SAIs should be alert to shortcomings in systems and controls that are likely to provide an environment conducive for fraud and corruption and should proactively report to the management to improve the control environment and minimize the risk of fraud and corruption.

Auditing Principle

3.3.6 Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit (paragraph 1.0.6 (h))

INTOSAI Guidance

The SAI must have access to the sources of information and data as well as access to officials and employees of the audited entity in order to carry out properly its audit responsibilities. Enactment of legislative requirement for access by the auditor to such information and personnel will help minimize future problems in this area (paragraph 1.0.33)

ASOSAI Guideline 7

Legislative enactment can ensure that all suspected and detected cases of fraud and corruption are reported to audit by the management. If considered necessary SAI can reinforce their mandate to investigate cases of fraud and corruption by seeking legislative enactments on these lines.

Auditing Principles

3.3.7 All audit activities should be within the SAI's audit mandate (paragraph 1.0.6 (i)).

INTOSAI Guidance

The full scope of government auditing includes regularity and performances audit (paragraph 1.0.38).

Regularity audit embraces:

- a) attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- b) attestation of financial accountability of the government administration as a whole;
- c) audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
- d) audit of internal control and internal audit functions;
- e) audit of the probity and propriety of administrative decisions taken within the audited entity; and
- f) reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed (paragraphs 1.0.39)

Performance audit is concerned with the audit of economy, efficiency and effectiveness and embraces:

- a) audit of the economy of administrative activities in accordance with sound administrative principles and practices and management policies;
- b) audit of the efficiency of utilization of human, financial and other resources including examination of information systems, performance measures and monitoring arrangements and procedures followed by audited entities for remedying identified deficiencies; and
- c) audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity and audit of the actual impact of activities compared with the intended impact (paragraph 1.0.40)

ASOSAI Guideline 8

Normally sensitization of different types of audits undertaken by SAIs to fraud and corruption can be brought about under their existing mandates. However, where SAIs feel constrained, they can seek additional mandate.

Auditing Principle

3.3.8 SAIs should work toward improving techniques for auditing the validity of performance measures (paragraph 1.0.6 (j))

INTOSAI Guidance

The expanding audit role of the auditors will require them to improve and develop new techniques and methodologies to assess where reasonable and valid performance measures are used by the audited entity. The auditors should avail themselves of techniques and methodologies of other disciplines (paragraph 1.0.46)

ASOSAI Guideline 9

The auditor should make the management aware that the absence or lack of application of reliable and valid performance measures and indicators could increase the possibility of occurrence of fraud and corruption.

GENERAL STANDARDS

General Standard⁸

3.3.9 The SAI should adopt policies and procedures to recruit personnel with suitable qualifications (paragraph 2.1.2 (a))

The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern (paragraph 2.1.2 (d))

INTOSAI Guidance

It should be open to the SAI to acquire specialized skills from external sources if the successful carrying out of an audit so requires in order that the audit findings, conclusions and recommendations are perceptive and soundly based and reflect an adequate understanding of the subject area of the audit. It is, for the SAI to judge, in its particular circumstances, to what extent its requirements are best met by in-house expertise as against employment of outside experts. (paragraph 2.1.18)

ASOSAI Guideline 10

The SAI should have an adequate inventory of skills to deal with cases of fraud and corruption. In the detailed examination of cases of fraud and corruption where an SAI feels the need to involve outside professional expertise, such professional opinion should only serve to augment the audit conclusion, the ultimate responsibility for the conclusion remaining with the SAI.

General Standard

3.3.10 The SAI should adopt policies and procedures to develop and train SAI employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff (paragraph 2.1.2 (b))

⁸ “General standard” here refers to General Standards as given in the INTOSAI Standards.

INTOSAI Guidance

The SAI should take adequate steps to provide for continuing professional development of its personnel, including as appropriate, provision of in-house training and encouragement of attendance at external courses (paragraph 2.1.6)

The SAI should establish and regularly review criteria, including educational requirement for the advancement of auditors and other staff of the SAI (paragraph 2.1.8)

ASOSAI Guideline 11

In considering the portfolio of skills that the SAI should have to meet the requirements of its audit mandate, the SAI should pay particular attention to training its auditors to deal with concerns about fraud and corruption, including experience gained from past fraud and corruption cases. Training could include developing forensic auditing skills provided that forensic investigation is covered by the mandate of the SAI.

SAIs could consider sharing of information and knowledge of techniques, procedures and skill development in order to develop expertise in this area.

General Standard

3.3.11 The SAI should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits. (paragraph 2.1.2 (c))

INTOSAI Guidance

Communication to staff of the SAI by means of circulars containing guidance, and the maintenance of an up-to-date audit manual setting out the SAI's policies, standards and practices, is important in maintaining the quality of audits. (paragraph 2.1.14)

ASOSAI Guideline 12

SAI should consider reviewing the manuals, policies and prospectus from the perspective of conducting audits that are sensitive to fraud and corruption and dealing with suspected cases of the nature.

General Standards

3.3.12 The auditor and the SAI must be independent. (paragraph 2.2.1 (a))

SAIs should avoid conflict of interest between the auditor and the entity under audit (paragraph 2.2.1 (b))

INTOSAI Guidance

While the SAI must observe the laws enacted by the legislature, adequate independence requires that it not otherwise be subject to direction by the legislature in the programming, planning and conduct of audits. The SAI needs freedom to set priorities and program its work in accordance with its mandate and adopt methodologies appropriate to the audits to be undertaken (paragraph 2.2.9)

The legal mandate should provide for full and free access by the SAI to all premises and records relevant to audited entities and their operations and should provide adequate powers for the SAI to obtain relevant information from person or entities possessing it. (paragraph 2.2.19)

ASOSAI Guideline 13

The SAIs need to demonstrate that they are independent not only in a legal sense but in a practical sense as well so that they can perform an effective role against fraud and corruption. Demonstration of independence in practical audit work includes avoidance of any possible conflict of interest situation.

The SAI should be in a position to carry out an independent risk assessment and prioritise its audit planning accordingly.

Where necessary the SAI should work for legislation that would allow it access to all records and information required in the examination of cases of fraud and corruption.

ASOSAI Guideline 14

Without compromising on their independence to plan and conduct audit the SAIs should consider establishment of means to receive and process information from the public on suspected cases of fraud and corruption.

General Standard

3.3.13 the auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (paragraph 2.2.1 (d))

INTOSAI Guidance

The SAI must be, and be seen to be, objective in its audit of entities and public enterprises. It should be fair in its evaluations and in its reporting of the outcome of audits.

(paragraph 2.2.40)

ASOSAI Guideline 15

Since complete evidence about cases of fraud and corruption may not be available to the SAI, due care should be exercised in arriving at an audit conclusion. In many circumstances additional tests may have to be performed and additional evidence acquired than would normally be considered appropriate and necessary for arriving at an audit opinion.

ASOSAI Guideline 16

In investigation and reporting cases of fraud and corruption the SAIs should be aware of the risk that perpetrators of fraud and corruption seek protection for their acts by accusing the auditors of libel and slander. The SAIs could consider working towards changes in their legislation which protects their auditors against such allegations and likely legal proceedings.

FIELD STANDARDS

Planning

Field Standards⁹

3.3.14 The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

(paragraph 3.0.3 (a))

INTOSAI Guidance

In planning an audit, the auditor should:

- a) identify important aspects of the environment in which the audited entity operates;

⁹ “Field Standard” here refers to Field Standards as given in the INTOSAI Standards.

- b) develop an understanding of the accountability relationships;
- c) consider the form content and users of audit opinions, conclusions or reports;
- d) specify the audit objectives and the tests necessary to meet them;
- e) identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weaknesses;
- f) determine the materiality of matters to be considered;
- g) review the internal audit of the audited entity and its work program;
- h) assess the extent of reliance that might be placed on other auditors, for example, internal audit;
- i) determine the most efficient and effective audit approach;
- j) provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations; and
- k) provide for appropriate documentation of the audit plan and for the proposed field work. (paragraph 3.1.3)

The following planning steps are normally included in an audit:

- a) Collect information about the audited entity and its organization in order to assess risk and to determine materiality;
- b) Define the objective and scope of the audit;

- c) Undertake preliminary analysis to determine the approach to be adopted and the nature and extent of the enquiries to be made later;
- d) Highlight special problems foreseen when planning the audit;
- e) Prepare a budget and a schedule for the audit;
- f) Identify staff requirements and a team for the audit, and
- g) Familiarize the audited entity about the scope objectives and the assessment criteria of the audit and discuss with them as necessary.(paragraph 3.1.4)

The SAI may revise the plan during the audit when necessary.

ASOSAI GUIDELINE 17

When planning his audit the auditor should assess the risk that fraud may cause the financial statements to contain material misstatement or record material irregular transactions.

- The auditor may keep in view that the risk of fraud and corruption could be higher in certain organization like those involved in procurement of goods and services.
- The auditor may keep in view when a fraud is conducted there is deliberate effort to conceal the facts and distract the auditor.
- For planning the audit the auditor should have a complete understanding of the auditee including the environment in which the entity operates the level of internal control and the past performance of the auditee especially previous instances of fraud and corruption,

ASOSAI Guideline 18

Based on the risk assessment the auditor should develop the audit objective and design audit procedures so as to have reasonable expectation of detecting and evaluating material misstatement and irregularities arising from fraud and corruption. In case of high risk audit the audit team should be selected keeping in view the requirement of such audit.

ASOSAI Guideline 19

The SAI should keep in view the need for flexibility in terms of budget, time and expertise of the audit team particularly when fraud and corruption are suspected or discovered in the course of audit.

Supervision and Review

Field Standard

3.3.14 The work of the audit staff at each level and audit phase should be properly supervised during the audit and documented work should be reviewed by a senior member of the audit staff. (paragraph 3.03 (b))

INTOSAI Guidance

All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalized. It should be carried out at each part of the audit progresses. Review brings more than one level of experience and judgment to the audit task and should ensure that:

- a) all evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;
- b) all errors, deficiencies and unusual matters have been properly identified documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s); and
- c) changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities. (paragraph 3.2.4)

ASOSAI Guideline 20

For ensuring that all audits dealing with actual cases of fraud and corruption are adequately supervised, the SAI should develop policies, including a comprehensive supervision checklist, regarding supervision levels and procedures for managing the investigation of fraud and corruption.

When fraud and corruption are suspected in the course of audit, the auditor should report the matter to the official of the SAI in accordance with the SAI's policy on supervision levels.

Study and Evaluation of Internal Control

Field Standard

3.3.16 The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control. (paragraph 3.0.3 (c))

INTOSAI Guidance

The study and evaluation of internal control should be carried out according to the type of audit undertaken. (paragraph 3.3.2)

Where accounting or other information systems are computerized, the auditor should determine whether internal controls are functioning properly to ensure the integrity, reliability and completeness of the data. (paragraph 3.3.4)

ASOSAI Guideline 2

The changes and improvements in the internal control system made by management when there have been previous instances of fraud and corruption or in response to changes in the auditee environment should be particularly studied and evaluated during audit.

ASOSAI Guideline 22

Increasing use of IT systems by auditees requires that the auditor should have access to reliable and verifiable system-based audit trails to evaluate the internal control. For meeting this objective legislation or executive guidance should ensure that audit is viewed as a stakeholder in the system development.

Compliance with Applicable Laws and Regulations

Field Standard

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

In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results.

Any indication than an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedures to confirm or dispel such suspicions. (paragraph 3.0.3 (d))

INTOSAI Guidance

The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may indirectly impact the results of the audit. When audit steps and procedures indicate that illegal acts have or may have occurred, the auditor needs to determine the extent to which these acts affect the audit results. (paragraph 3.4.4)

Without affecting the SAI's independence, the auditors should exercise due professional care and caution in extending audit steps and procedures relative to illegal acts so as not to interfere with potential future investigations or legal proceedings. Due care would include consulting appropriate legal counsel and the applicable law enforcement organizations to determine the audit steps and procedures to be followed (paragraph 3.4.7)

ASOSAI Guideline 23

Whenever a material instance of failure to comply with the applicable laws and regulations is observed the auditor should without automatically assuming the management and staff are dishonest investigate the control failure with an appropriate degree of professional skepticism. He may also examine if the supporting evidence has been tampered in any manner or any individual(s) could have benefited from the material violation.

Audit Evidence

Field Standard

3.3.18 Competent, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusions regarding the organization, program, activity or function under audit. (paragraph 3.0.3 (e))

INTOSAI Guidance

A auditor should have a sound understanding of techniques and procedures such as inspection observation, enquiry and confirmation, to collect audit evidence. The SAI should ensure that the techniques employed are sufficient to reasonably detect all quantitatively material errors and irregularities (paragraph 3.5.3)

ASOSAI Guideline 24

When auditors suspect the possibility of fraud and corruption, they should establish whether it has taken place and there has been resultant effect on the financial reporting especially whether the certificate requires the qualification.

ASOSAI Guideline 25

When auditors intend to report on fraud and corruption, they should ensure the reliability of audit evidence by verifying it with source documents including third party evidence. Auditors should carefully determine how much evidence they should gather in support of audit conclusions. Auditors should also keep in view that the evidence gathered by them and the conclusion drawn by them could become the basis of legal or disciplinary proceedings. (some of the sources of evidence and factors that may be considered in searching for evidence are listed in Appendix-V).

ASOSAI Guideline 26

Since many records are produced by computers in the usual and ordinary course of work, auditors should understand how to collect and handle those records as audit evidence. Collecting computer evidence requires careful planning and execution. Auditors should examine whether appropriate controls are in place in order to ensure the authenticity of computer evidence.

Analysis of Financial Statements

Field Standard

3.3.19 In regularity (financial) audit and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements (paragraph 3.0.3 (f)).

INTOSAI Guidance

Financial statement analysis aims at ascertaining the existence of the expected relationship within and between the various elements of the financial statements, identifying any unexpected relationships and any unusual trends. (paragraph 3.6.2)

ASOSAI Guideline 27

Auditors need to be alert to deviations from acceptable accounting standards including disclosure requirements particularly when there is suspicion of fraud and corruption.

REPORTING STANDARDS¹⁰

Reporting Standards

3.3.20 At the end of each audit the auditor should prepare a written opinion or report. As appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective fair and constructive. (paragraph 4.0.7(a))

It is for the SAI to which they belong to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.

(paragraph 4.0.7 (b))

¹⁰ “Reporting Standard” here refers to Reporting Standards given in the INTOSAI Standards.

INTOSAI Guidance

In formulation and following up recommendations, the auditor should maintain objectivity and independence and thus focus on whether identified weakness are corrected rather than on whether specific recommendations are adopted. (paragraph 4.0.26)

ASOSAI Guideline 28

When in the opinion of the auditor the financial statements include material fraudulent transactions, or such transactions have not been adequately disclosed or the audit conducted by the auditor leads him to the conclusion that instance (s) of fraud and/or corruption have taken place and when the auditor has adequate evidence to support his conclusion, he should qualify the audit certificate and/or ensure that his findings are adequately included in his audit report. However, the term fraud or corruption may not be used in a conclusive sense unless such action is established in a court of law.

ASOSAI Guideline 29

The report may contain auditors recommendations for the changes in the system and procedures that could prevent recurrence of such instances.

ASOSAI Guideline 30

In following up on reported cases of fraud and corruption the auditor should determine whether the necessary action is being taken with due regard to urgency that the situation demands and become aware of the changes in the systems and procedures which could be validated through subsequent audits.

Appendix-III

(Reference Para 3.2.29)

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 unauthorized information. **Changes in Original Contracts-** Changes are made in the original contract requiring flow of additional funds from the government 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 contract 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 Representation- 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- Purchases are made from a fake supplier or 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 favor a certain contractor or supplier.

Appendix-IV

(Reference Para 3.2.30)

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 in bidding and selection stage
- The specifications are not clearly defined
- A very limited number of offers is 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 explanations
- Unwarranted contract extension
- Complaints about the quality of goods and services received
- Inadequate inspections and quality assurance of goods and services received
- Evidence of over charging and duplicate billings
- Dubious invoices
- Insufficient pre-audit of contractor payments
- Contracts repeatedly awarded to one contractor
- Unduly high labor payments

Appendix-V

{ Reference Para 3.3.18(ASOSAI Guideline 25)}

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 transaction, 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; and
- Consider the possibility of collusion.

Sources of Evidence

Documents from the auditee: During the course of examination of books of accounts, auditors investigate various documents that serve as evidence for the audit. These documents may be originals 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 government 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/Observation: Auditors can notice possibility of fraud and corruption through the examination of inspection/observation/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 analyze both financial and non-financial information, which can indicate abnormal trends. In that case, auditors need to concentrate on particular areas.

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

(Authority to Chapter III of this Manual, ASOSAI Guidelines for dealing with fraud and corruption October 2003, Approval during the IX ASOSAI Assembly October 20-26, 2003 Manila Philippines enclosed to CAG's letter No. 283-Audit/M&C/252-2000 dt 08-11-2004).

CHAPTER-IV

Performance audit in IT environment and performance audit of IT systems

4.01 While performance audit of IT systems in SAI India, is managed and controlled by the specialized IT audit group, the performance auditors may come across large number of cases wherein they will have to conduct audit where data and information system are entirely or largely maintained in an IT environment. The performance auditors will, therefore, be called upon to develop detailed guidelines for audit in IT environment and seek collaboration with the IT audit wing, where specialized skill and knowledge are required. Some of the more important considerations to be kept in view while auditing in IT environment are given below. These may have to be expanded and developed further, depending upon the entity IT environment and emerging techniques.

Performance auditing in IT environment

Introduction

4.02 Information Technology (IT) is being increasingly used for public sector programme planning, execution and monitoring. The sharing or integration of information between entities raises issues such as the risk of security breaches and unauthorized manipulation of information. Auditors should not only be aware of the uses of IT, they should also develop strategies and techniques for providing assurance to stakeholders about value for money from the use of IT, security of the systems, existence of proper process controls and the completeness and accuracy of the outputs.

4.03 The value of good IT systems is that they can be an efficient and effective programme delivery mechanism. They have the potential to deliver existing services cheaper and also to provide a range of additional services, including programme performance information, with greater efficiency, security and control than are available from manual system.

However, IT systems also have the potential to result in major systematic errors, with a resulting greater impact on entity's performance than would be possible in manual systems.

4.04 It also highlights a range of important considerations for performance auditing in an IT environment and is not intended to substitute for detailed guidelines that SAIs may need to be developed to suit entities IT environment.

4.05 The approach towards performance auditing in IT environment should involve the following inter-related processes.

- obtain an understanding of the entities IT systems and determine their significance to the performance audit objective;
- identify the extent of IT systems auditing required to achieve the performance audit objective (eg Audit of systems development; audit of environment and applications controls) and employs specialist IT auditors to undertake the task; and
- develop and use appropriate computer Assisted Audit Techniques(CAATs) to facilitate the audit.

4.06 A performance audit in an IT environment should:

- identify any deficiencies in IT controls and the resulting effect on the efficiency, economy and effectiveness of the performance of the entity;
- examine the IT system development and maintenance practices of the entity, compared to industry's better practice;
- compare the IT strategic planning, risk management and project management practices of the entity, with industry's better practice and in relation to the corporate governance framework of the entity;
- determine whether system outputs meet entity quality and service delivery parameters, and
- assess whether the IT systems enhance the economy, efficiency and effectiveness of the entity's programme management, in particular in relation to programme planning, execution, monitoring and feedback.

Planning and resourcing

4.07 As with any audit, performance auditing in an IT environment needs to be planned. The planning process should frame audit objectives with reference to the objectives of the entity in adopting/introducing IT systems and should include audit concerns relating to security, controls and value for money. The planning phase should also identify the IT systems, computer systems and software packages being used by the entity. Planning will also need to identify the major potential risks and exposures of IT systems in the entity.

4.08 Performance auditing in an IT environment requires specialist skills and appropriately trained personnel with IT audit and accountancy skills should be dedicated to the task. The services of consultants may need to be considered for the more specialized technical areas. The SAI will also need to consider acquisition of appropriate hardware and software tools. Personnel will require extensive training to remain abreast of technological developments and IT audit techniques.

Performance auditing involving IT system development

4.09 A performance audit involving IT systems development should determine if the entity:

- has the appropriate executive approvals for the development of the IT system, ie that IT management fits within the corporate governance of the entity;
- has appropriate project management processes in place to manage the project;
- has met required targets of time, cost, system function and value for money;
- uses an appropriate system development methodology; and
- has processes in place, including the involvement of Internal Audit, to ensure that the new system includes all the necessary controls and audit trails, and is likely to meet the requirements of the entity and its stakeholders.

Performance auditing involving operational IT systems

4.10 The following list contains some of the more important concerns that the auditor would be expected to consider and should be modified as required for the specific entity being audited;

- the strategic and operational management of IT within the entity, including assurance that IT is included in the overall corporate governance of the entity;
- IT project management within the entity, including the entity's record in meeting Legislative and other deadlines;
- the risk management practices of the entity in relation to IT;
- IT system design, development and maintenance controls;
- compliance with standards, including external standards;
- application controls;
- processing controls, including audit trails;
- business continuity arrangements;

- data integrity, including sampling of data (possibly using CAAT's);
- access controls and the physical and logical security of networks and computers, including Internet firewalls;
- controls to safe guard against illegal software;
- performance management and measurement; and
- other issues that arise during the audit.

4.11 In making the assessment the auditor may:

- review files and other documents relevant to the development and operation of the IT system;
- use appropriate software packages to test the central and networked computing system controls;
- test a sample of transactions (including the use of CAATs) to validate the systems and relevant controls; and
- interview key staff members.

Performance aspects of auditing in an IT environment

4.12 The auditor may also examine whether the IT system has enhanced the efficiency with which the entity manages its programmes/activities and whether the conversion to an IT system has any beneficial results for the stakeholders in the entity.

4.13 The auditor may also be expected to asses if the IT systems have facilitated improved programme management. Some areas to be considered include:

- IT should support the objectives of the entity and, therefore, is an integrated part of its operations;
- IT operations require highly qualified staff;
- The contribution of IT to operations is measured in operational efficiency terms;
- The gains of IT may not be realized without appropriate organizational changes; and
- Normal value for money measures may be more difficult to apply.

4.14 In addition to assessing whether the entity's IT system represents value for money, the performance auditor may also be expected to assess whether the IT environment has contributed to transparency, accountability and good governance.

Computer Assisted Audit Techniques

4.15 Auditors are increasingly using Computer Assisted Audit Techniques. CAAT's utilize custom developed software programmes to aid in the execution of the audit. They can be used for both sampling of system transaction data and for testing the system as a whole. CAAT's tools can be developed to:

- access and extract information from auditee database;
- total, summarise, sort, compare and select from large volumes of data in accordance with specified criteria;
- Tabulate, check and perform calculations on the data; □ Perform sampling, statistical processing and analysis;
- Provide reports designed to meet particular audit needs; and
- Facilitate audit planning and control e.g. Electronic audit working papers that support effective indexing, review and reporting.

4.16 CAATs can be used to validate the processes in the program or to analyse the data. The auditors should develop Computer Assisted Audit Techniques and provide training to the staff of the entity. CAAT's tools should be developed/modified keeping in view the IT environment in the entity and the audit objectives.

4.17 CAATs can be utilized in performance audits of both IT and non-IT environments.

4.18 SAI India had adopted Microsoft office, IDEA and Structured query Language (SQL) as standard CAATs. Microsoft office includes Excel and Access. While Excel is used in performing 'What if' analysis, statistical analysis. Access is used for handling large volumes of data and running queries. IDEA is general audit software which is used for data analysis, data extraction, data conversation, sampling etc. SQL is used mainly in RDBMS environment to query data directly. The advantage with the use of SQL is that the data can be collected in CDs or other portable medium

and interrogation of the data can be carried out without bothering too much about data conversion.

Specialized and Support audit techniques/software

4.19 COBIT (Control Objectives for Information and Related Technology) is a generally applicable and accepted standard for good Information Technology security and control practices that provide a reference framework for management, users, and information system audit, control and security practitioners. COBIT, is internationally accepted as good practice for control over information, IT and related risks. It enables an enterprise to implement effective governance over the IT that is pervasive and intrinsic throughout the enterprise. In particular, COBIT's management guidelines contain a framework responding to management's need for control and measurability of IT by providing tools to assess and measure the enterprise's IT capability for the 34 COBIT IT process. The tools include:

- Performance measurement elements (outcome measures and performance drives for all IT processes).
- A list of critical success factors that provides succinct, non-technical best practices for each IT process
- Maturity models to assist in benchmarking and decision-making for capability improvements.

4.20 Team Mate is audit management software developed by Price Waterhouse Coopers. Team Mate is an electronic work paper package that simplifies and enhances the effectiveness of audit documentation process. The Software has the following four components:-

Team-a risk assessment tool for preparing risk based audit plan;

Team schedule-a tool for scheduling staff resources to audit;

Teammate (EWP)- a electronic work paper system; and Teamcentral- a web based issue tracking system.

4.21 Crystal Ball is a software developed by the General Accounting Office, United State to analyse the effect of varying inputs to a modeled system on the outputs. The software used Monte Carlo simulation in conjunction with a cost estimation

spreadsheet on the costs to give a range of values and the probability or the certainty of the values. The software is useful for performing cost and uncertainty analysis.

- 4.22 Earned Value Analysis (EVA) is a quantitative tool of measuring the value of work actually done on a particular date during the life cycle of project and based on that, to forecast the project cost and schedule performance. The three objects of EVA are to measure the progress of the project; to provide schedule and budget variances on a particular date; and to forecast the completion date and cost of completion of the project. By integrating these three important measurement, EVA provides consistent, numerical indicators with which one can evaluate and compare projects. The EVA is a powerful tool for evaluation of ongoing projects, particularly those with long gestation.

Internet

- 4.23 The Internet is becoming increasingly important as a research, planning, communication and reporting tool. Auditors should be sufficiently familiar with the Internet to be able to use it to facilitate the conduct of performance audits and to understand the implications for performance auditing, of its use by agencies.

Reporting

- 4.24 The performance audit report should be drafted so as to minimize the use of technical terminology with a view to making it easily understandable to management, members of the legislature and to the general public. Whether the use of technical terms is inescapable, these should be adequately explained.

(Authority: Para 1.47 and Appendix 'B' of Performance auditing guidelines approved by CAG May 14, 2004)

Chapter V

Miscellaneous

5.01 Co-ordination of arrangements for audit of new schemes

In view of the multifarious activities of the Union and various State Governments, it is considered desirable to have a reorientation of the Audit of the new and expensive schemes launched by these Governments. The ECPA section is to keep a note of the sanctions to important schemes and organize special audit drives regarding the new schemes of particular type or the vital features of all new schemes in the light of the audit results so far obtained. Important irregularities noticed in the audit of such schemes are also to be incorporated in the Audit Report. The Sr.AOs/AOs and AAOs of FAAS sections should freely report to the ECPA Section particulars of any important large projects, State Trading Schemes or other sanctions received by them in respect of which they consider that a re-organisation of the normal audit procedure is necessary. All such references may be made to the ECPA Section through the respective Group Officers. The ECPA Section should examine the information received from the various sources mentioned above carefully and expeditiously and submit to the Accountant General proposals for the formation of Special Section or for the allocation of Special Audit to individual Audit Sections as the case may be. After approval by him, the particulars of the scheme and the section to which the special audit functions relating to the scheme have been entrusted should be noted in a register by the ECPA Section. A Special Audit Section nominated by the Accountant General will be responsible for examining whether adequate arrangements for accounting have been provided for and whether it is necessary to reorganize the existing audit procedure and to prepare an elaborate Audit Manual setting forth in complete details the special procedure for audit that will have to be followed by the staff. It should organize a special higher audit of the project of scheme on lines which should be settled in consultation with ECPA Section and with the approval of the Accountant General. The objections to be taken up in propriety audit should be submitted to the Accountant General through the ECPA Section, whenever possible. The ECPA Section will suggest to the Accountant General a time limit within which the Audit manual should be completed by the Special Audit Section and obtain his orders thereon. Compliance with these orders should be watched by the ECPA Section.

(Letter No. 11-SP/Admn./272-49 dated 27th February 1950 and 732 Admn./177-50 dated 21st April 1950 and 99 RS/27-Admn./49 dated 19th July 1951 from Comptroller and Auditor General of India)

When new schemes come to the notice of FAAS Sections, it is of utmost importance that urgent action should be taken firstly for the prescription of an adequate accounting system and secondly for laying down a detailed procedure for central as well as local audit of such schemes. ECPA sections should arrange to send to the FAAS Section concerned and to the OAD extracts of such new schemes or activities whenever they come to the notice of that section either through newspapers and periodicals or through budget literature and duplicate copies of sanctions or when details of any new scheme are received and it is felt that audit of schemes needs proper scrutiny or special attention. Accountant General or Group Officer should write “Publicise” on such correspondence whereupon FAAS/ECPA should take further action on such cases.

The FAAS section concerned should ensure that all relevant papers relating to such new schemes are sent to ECPA Section for note and return. In ECPA Section, such letters/cases should be recorded in a register showing, inter-alia, the number and date of the sanction, authority issuing the sanction, brief particulars of the scheme/activity and the section dealing with the scheme. The section concerned should take necessary action on the letter and before the accounting and audit processes are finalized, route the case through ECPA Section for the Accountant General’s approval. This will enable ECPA to watch through the register referred to above that necessary action has been taken promptly on such letters by the section concerned and that the audit and accounting arrangements are finalized. The remarks column should be utilized by ECPA to note the progress and final disposal. The register should be reviewed fortnightly by Assistant Audit Officer/ECPA Section and submitted to the Accountant General on 5th of each month with a synopsis indicating the cases outstanding together with reasons thereof.

The FAAS Section should take prompt action to secure full particulars and detailed literature relating to the scheme so that timely action is taken for laying down a suitable procedure for the audit and accounting of the transaction of the scheme.

5.02 Administrative Reports issued by State Government

The annual administrative and other reports issued by the State Government and Heads of Departments contain material which is important from financial and audit points of view. These reports should be obtained and studied in ECPA Section with a view to seeing if there is any material to be pursued from a higher audit point of view. The section will watch receipts and disposal of these reports regularly through a register which besides serving as a ready catalogue will also be a ready reference register to indicate the action

taken on the reports. The reports will be kept in the section itself and the inspection Staff of the OAD are advised to consult the relevant administrative reports before commencing an inspection. With a view to equipping ECPA Section with an up-to-date library of such reports, etc., it has been suggested that local audit parties may ascertain in the course of visit to departmental office whether any fresh administrative reports have been brought out, and if so a copy thereof may be collected and passed on the ECPA Section. If a copy is not made readily available, full particulars about the publication may be made available to ECPA section.

5.03 Assistance received by one Government from another Government for establishing an industry

Since it cannot be considered justifiable that one Government should receive assistance from another Government for establishing an industry, all such cases will prima facie, qualify for mention in the Audit Report.

Note: Concession granted to small scale industries may be considered as justifiable against the background of the present day Government Policy.

(CAG's circular letter No. 780/Rep/273-59-11 dated 17.03.1961 and D.O. No. Rep/3-1/60-61 / 14 dated 27.03.1961 and File Rep/3-1/60-61)

5.04 Supply of copies of Rules and Regulations, general letters, etc. to the Section

As the scrutiny of Rules and orders issued by the State Government forms an integral part of the work in ECPA section, it is necessary that the section should be fully posted with copies of all Rules and Regulations which should be kept corrected/up-to-date. (b) Similarly, the section should be supplied with a copy of each general letter received from the Comptroller and Auditor General of India and the Government of Madhya Pradesh.

5.05 Calendar of Returns

A calendar of Returns is to be maintained in the form printed in Appendix-VI to this Manual for the observance of due dates prescribed for the various items of works. It should be submitted to the Branch Officer every week on Monday and to the Group Officer on 15th of each month.

5.06 Manual correction Register

Instructions and decisions of permanent nature relating to ECPA Sections of the office should be incorporated in the PA Manual with full reference to the number and date of the letter/case etc. AAO incharge of ECPA section will be responsible for maintaining the manual up-to-date. A register of corrections will be maintained in which duly approved typed copies of the correction slips should be placed. The draft corrections to the manual will be submitted for approval to the Accountant General. The register of correction slips will be submitted to the Accountant General on the last working day of each month. The correction slips will be printed quarterly and will be made over to the section by 30th April, 31st July, 31st October and 31st January.

5.07 Time limit for retention of Review files in the section

The review files containing the master copy and the relevant original papers may be retained by the office for five years after the discussion of the review by the Public Accounts Committee.

5.08 Duties of Senior Auditors in ECPA section

They are required to study literature on Five Year and Annual Plans, Progress Reports, Annual Reports, Inspection Reports, Sanctions, Budget estimates, Audit Reports, PAC Reports, etc.; and submit proposals for selection of schemes for performance audit. They should discuss with the Assistant Audit Officer and chalk out the various proforma in which information should be called for regarding schemes or works under review so that the performance of the scheme in various aspects could be assessed. They should also pursue the cases and maintain the relevant registers like Register of files and files up-to-date and submit them to the Assistant Audit officer when necessary. They have to be diligent in collecting information from the various offices which they are directed to visit for the purpose.

5.09 The ECPA has to scrutinize the press clipping that are of importance from the audit point of review and also these which are helpful for future reviews, the former are to send to Accountant General (Audit)-II Bhopal for onward transmission to the Headquarters office. Extracts of such clipping are to be retained in ECPA. Extracts of such clipping may also be sent to respective Group Officers etc. for necessary action on them. Action taken will be ascertained from the section concerned and communicated to headquarters office. The clipping which are helpful for review to be taken up in future should be filed in

respective portfolios in ECPA. For this purpose, the newspapers received by the officers of the office of the Accountant General(General and Social Sector Audit), Madhya Pradesh, Gwalior will be sent to ECPA after marking the specific material to which attention of ECPA is to be drawn.

(Authority: CAG DO letter No. F-66/O&M/87 dated 07/08-07-1987 read with AG (Audit)-I/Sectt./88-382-389 dated 07-11-1987 and AG (Audit)-I order dated 31-01-1989).

5.10 The Human Resources Committee has recommended that RTI, Mumbai and iCISA should initially be the training centers for the core group in performance audit. The performance audit skills would have to be identified and a special training module prepared covering statistical sampling, elementary economics, IT, evidence gathering techniques etc.

The Co-ordination Committee established by the CAG for Performance Audit Management and Review has desired that the monthly consolidated status report on training of SR. AOs/AOs/AAOs may be sent to ADAI (RC). Due date of reaching of the report of a particular month to the Principal Director (Performance Audit) shall be the 10th day of succeeding month.

In order to facilitate furnishing of the monthly report in tabular form two proformae are shown below. RTIs and RTC are to furnish the report in proforma-I. The field offices are to furnish report on training conducted in their in-house training set up in proforma-II.

Proforma-I

Monthly consolidated status report on training in “Performance Audit” conducted in RTI/RTC during the month

Sl. No	Name of the user office	Total number of officers identified for training	Progressive total of officers trained upto the last month	Officers trained during the month	Total number of officers trained by the end of the month (col.4+col. 5)	Number of officers yet to be trained (col.3-col.6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)

Proforma-II

Monthly consolidated status report on training in “Performance Audit” conducted by the office of in in-house training set up during the month of

Number of officers identified for training in in-house training set up	Progressive total of officers trained upto the last month	Officers trained during the month	Officers trained upto the end of month (col.2+col.3)	Officers yet to be trained (col.1-col.4)
(1)	(2)	(3)	(4)	(5)

(CAG’s letter No.361/Trg.Div/21-2004 dated 01.10.2004 and CAG’s letter No.315/Trg. Div/21-2004, dated 14.10.2004)

5.11 Appendices : Following appendices are also appended to this manual, namely:

Appendix VII: List of important matters which may be taken up in PA section.

Appendix VIII: Procedure for calling for the Secretariat files.

Appendix-VI

(Reference Paragraph 5.05 of the Manual)

Calendar of returns

	Name of Return	To whom due	When due	Authority
(1)	(2)	(3)	(4)	(5)

Part-I

Returns due to outside Authorities

	Casual			
	Register of cases dealt	Comptroller and Auditor General	When he visits this office on the manual tour	Para 1.07

Part-II

Items of works due for submission to Gazetted officers and other section of the office

	Weekly			
1.	Calendar of Returns	Gazetted officer	Monday	Para 5.05 of this manual
2.	Report on the receipt and disposal of telegrams	Gazetted officer	Monday	GS No. 195 dated 09.02.1967
3.	Hindi letters	Sr. AO/AO	Monday	Para 312 of MOP
4.	English letters	Sr. AO/AO	Monday	Para 187 of MOP
5.	CAG letters	Sr. AO/AO	Monday	Admn./165 dated 04.11.1965
6.	Urgent letter	Sr. AO/AO	Monday	Para 187 of MOP
7.	Circular letter	Sr. AO/AO	Monday	Para 312 of MOP
8.	Miscellaneous letters	Sr. AO/AO	Monday	Para 315 of MOP
9.	Opinion case	Sr. AO/AO	Monday	Para 187 of MOP
10.	Register of work done by typist in the section	Sr.AO/AO/AAO/ Monday	Daily	OE 16/Type 667 dated 21-10-1988
11.	Service postage stamp register	AAO/SO	Monday	AG (Au)-I/Sectt./83/388 dated 07-11-1987
12.	Press clipping from local newspaper (nil report if no clipping)	Secretary to Accountant General (G&SSA)	Monday	Para 4.09 of ECPA manual

Fortnightly

1.	Unanswered list of letters received in the section	Gazetted officer	5th and 20th	
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Monthly

1.	Arrear report	Gazetted officer	5 th of the following month	
2.	Register of cases received from other sections for opinion/ investigation	Gazetted officer	10th	Para 1.07 of PA manual
3.	Register of distribution of codes and manual	Gazetted officer	15th	Para 81 to 83 of MOP
4.	Assistant Audit Officer Note Book	Gazetted officer	5th	Gwalior office OO No. 31 dated 21-09-1954
5.	Statement of Events	OE XIV	11th	
6.	Register of pending cases	Gazetted officer	15th	
7.	Register showing the details of works done by the members of the section	Gazetted officer	5th	OO No. 11 dated 09-06-1956
8.	Sectional Dead Stock Register	Gazetted Officer	15th	GS/Ex.Br./7 47 dated 18-11-1965
9.	Register showing the progress of review till its completion	AG (G&SSA)	5th	Para 2.07 of ECPA Manual
10.	Register showing the list of schemes selected for review, staff deployed, stage of work done and reviews finalized	Group officer	15th	Para 1.04 of ECPA manual
11.	Closing of Attendance Register	Sr. AO/AO	1st	TM/198 dated 02-05-1957 and Para 3 of MOP
12.	Statement of strength of the section	OE-XI, XII	1st	Admn.I/SAS/2631 dated 26-11-1979
13.	Incumbency Register	Sr. AO/AO	1st	--
14.	Stationary Indent	Stationary Branch	5th	Para 348 of MOP

15.	Report regarding progressive use of Hindi and Bi-lingual office orders issued	Hindi Cell	5th	Hindi Cell/STR/105 dated 07-05-1986
16.	Auditors Note Books	AAO/SO	5th	Admn.XI/dated 02-06-1977
17.	Report on dispatch register	Sr. AO/AO	10th	TM/Misc./22 dated 02-08-1959
18.	Digest of important and interesting cases	Sr. AO/AO	10th	AG/Audit-I orders dated 01-07-1987
19.	Calendar of return	AG	15th	Para 5.05 of ECPA manual
20.	Register showing particulars of new and expensive schemes reported by FAAS section to which special audit marked	Accountant General	5th	Para 5.01 of ECPA manual
21.	Register of cases relating to efficiency audit of schemes reported by DAG (OAD)	Sr. AO/AO	20th	Para 2.05 (i) of ECPA manual
22.	Register showing action taken on the Administrative reports	Sr. AO/AO	20th	Para 5.02 of ECPA Manual
23.	Manual correction register	Accountant General	Last working day of month	Para 5.06 of ECPA Manual
24.	Register of complaints involving grievances and allegation	Accountant General	Last day of month	OE XII/Gr.II/ STR/ 4125-31 dt 20-01-89
25.	Monthly consolidated status report on training of Sr. AOs/AOs/AAOs/ SOs	CAG office ADAI (RC)	10 th day of succeeding month	Para 5.10 of ECPA Manual

Quarterly

1.	Periodical census of files	Gazetted officer	10 th of April, July, October, January	
2.	Report regarding progressive use of Hindi in the prescribed proforma	Hindi Cell	1 st of April, July, October, January	OE-II/281 dated 28-11-1969
3.	Material for Audit Bulletin and Digest of important and interesting cases, personalia etc.	FAAS (Co-rd)	5 th of April, July, October, January	AGI's orders dated 01-07-1987
4.	Material for DO letter to CAG of India	Secretary to AG (G&SSA)	5 th of May, August, November, February	CAG's No. 2179 dated
5.	Report on forecast of internal and external arrears in the section	FAAS (Co-rd)	25 th of June, September, December, March	TM III/OO/135 dated 05-08-1980
6.	Register to watch timely receipt of comments of financial stock taking	Accountant General	25 th of of April, July, October, January	Para 2.15 (5) of ECPA Manual
7.	Sending correction slips by PA Manual to other sections	Other sections	30 th of April	Para 5.06 of ECPA manual

			31 st July, 31 st October 31 st January	
8.	Report on checking of proper maintenance of portfolios	Group officer	15 th of April, July, October, January	Para 2.04 (iii) of ECPA manual

Half yearly

1.	Dictionary of references	Gazetted officer	15 th of February, August	Para 5.1 of MOP
2.	Certification of manualisation of notifications, circulars, etc. and half yearly review of pasting of corrections to the various codes and manuals	FAAS (M)	15 th of February and August	TM-I/VI/66/25 dated 14-09-1966

Yearly

1.	Report on collection of statistics	FAAS (Co-rd)	25 th July	Gwalior office TM/OO No.20 dt 04-12-1951
2.	Deployment of staff sanctioned for certain items of work	OE-XI	7 th April	TM I/IV/1(4)/2755 dated 30-03-1965
3.	Synoptic review of schemes reviewed during the year for inclusion in Chapter-I of Audit Report	Report	30 th September	Para 2.15 (4) of PA manual AG's orders dated 01-07-1987
4.	Results of financial stock taking reports	Report	15 th October	Para 2.15 (5) of PA manual AG's orders dated 01-07-1987

5.	DO reference to Secretaries of Government asking whether they would like any scheme (s)/projects to be taken up for review	Secretaries of Government	25 th October	Para 2.06 of PA Manual
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Part-III

Monthly

1.	Digest of important and interesting cases. (Returns to be received from other sections by 10 th of the following month)	All sections of the office - FAAS (Coord)	20 th of each month	AG's orders dated 01-07-1987
2.	Report regarding extra circular activities, personalia etc.	Administrative section of the office - FAAS (Coord)	20 th of each month	As per AG's orders dated 01-07-1987

Appendix VII

List of important matters which may be taken up in ECPA

1.	Examination of Administrative Reports detailing with public expenditure where comparative statistics are given.
2.	Examination of Reports of the Estimates Committee.
3.	Study of the State Government's Budgets, Financial Statements and Five year Plans to ensure adequate audit and accounting arrangements for new schemes.
4.	Scrutiny of Reports having financial bearing of different committees set up by the Union and State Government.

Appendix VIII

(Reference Para 2.09)

Procedure for calling for the Secretariat files

The State Government have considered the question whether Secretariat files should be made available to the Accountant General for audit purpose.

2. According to Articles 151 (2) of the Constitution the Comptroller and Auditor General of India has to submit a report relating to the accounts of the State Government to the Governor, who causes it to be laid before the State Legislature. This function is performed by the Accountant General and for this purpose he sometimes requests access to Secretariat files dealing with the subjects under report.

3. This provisions contained in para 18 of the Audit and Accounts orders, 1936 , reproduced below Article 3 of the Audit Code, read as under:

Paragraph 18:-The Accountant General shall have authority to require that any book documents relating to transactions to which his duties in respect of audit extend shall be sent to such place as he may appoint for inspection by him. Provided that, if the Governor General or the Governor of a province certifies that any such book of document is a secrete book or document, the Auditor General shall accept as a correct statement of facts stated in that book or document certified as the case may be by the Governor.

Though the reference here is to the Auditor General, the Accountant General is entrusted with the functions of the Auditor General under article 11 of the same order. In certain case it may be necessary for the Accountant General to refer Secretariat files in order to see whether the orders passed are open to any Audit Objection. The following instructions regulating the procedure to be followed in this matter are laid down for the guidance of all concerned.

(i) Whenever a file is required by the Accountant General and it is not of a Secrete/confidential nature, it should be readily made available to him with a request that it should be returned without delay;

(ii) If the file is of a Secret/Confidential nature, it should be sent to the Principal Accountant General by name in a sealed cover with a request to treat the file as

secret/confidential and not to allow it to be handled by an officer lower in rank than that of a Deputy Accountant General; and

(iii) If the file is of a top secret nature and cannot be allowed to go out of the custody of the officer handling it in the Secretariat, the Accountant General should be requested to come over the Secretariat and examine it. In no case should such files be allowed to be sent outside the Secretariat.

(Government of M.P. Gen. Admn. Deptt. Circular No. 12467, CR-13-I dated 21st October 1967)

Note:- The question of making files available to audit.

“It has now been settled that files required by Audit Officers should be readily made available to them without any apprehension that objections may be taken in audit merely based on contradictions with views expressed in notes by subordinate officials and higher authorities. If the contents of the file or any part of it are ‘Secret’ or ‘Top Secret’ the file may be sent personally to Accountant General specifying the fact, who will then deal with it in accordance with the standing instructions for the handling and custody of such documents.

(Para 2 of Government of India, Ministry of Finance, Department of Revenue and Expenditure, letter No. 26/SF/55 dated 6th January 1955 addressed to all Secretaries of Government of India.