

## SECTION-I

### Functions of the Comptroller and Auditor General of India

---

#### Introduction

1.1.1 The Comptroller and Auditor General of India derives his authority and functions mainly from the provisions of Articles 149 to 151 of the Constitution of India. Article 149 of the Constitution provides that the Comptroller and Auditor General of India shall exercise such powers and perform such duties in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament. Parliament passed the necessary legislation, namely the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act (hereinafter referred to only as the Act), in 1971. The Act, which came into force with effect from 15<sup>th</sup> December 1971, was amended in 1976, 1984 and 1987 and prescribes (a) the salary and other conditions of service of the Comptroller and Auditor General of India; and (b) his duties and powers in relation to the accounts of the Union, the States and the Union Territories and other authorities and bodies.

**Note:** *In the intervening period between 26<sup>th</sup> January 1950 and 14<sup>th</sup> December 1971, the Comptroller and Auditor General performed duties and exercised powers as were available to the Auditor General of India immediately before the commencement of the Constitution under the Government of India (Audit and Accounts) Order, 1936, as adapted.*

#### Duties and Powers of the Comptroller and Auditor General

1.1.2 The duties entrusted to the Comptroller and Auditor General of India under the provisions of the Act fall broadly under two categories, namely those relating to (i) compilation and keeping of accounts, and (ii) audit.

#### Compilation of Accounts

1.1.3 Sections 10 to 12 of the Act deal with the responsibility of Comptroller and Auditor General in relation to compilation of accounts of the Union and the States while Section 22 enables the Central Government to make rules after consultation with the Comptroller and Auditor General for carrying out the provisions of the Act in so far as they relate to maintenance of accounts. In terms of the proviso under Section 10 of the Act, the President, after consultation with the Comptroller and Auditor General, may relieve him from the responsibility for compiling the accounts of the Union; the accounts of any particular services or departments of the Union; or the accounts of any particular class or character. The Act similarly provides that the Governor of a State, with the previous approval of the President and after consultation with the Comptroller and Auditor General, may relieve him from the responsibility for compiling the accounts of the State or the accounts of any particular services or departments of the State. These and other provisions relating to accounts have been dealt with in Volume I of the Manual of Standing Orders (Accounts and Entitlements).

## **General Provisions relating to Audit**

1.1.4 The provisions relating to audit are embodied in Sections 13 to 21, 23 and 24 of the Act. The provisions relating to audit are dealt with briefly in the following paragraphs of this Manual and in greater detail in its succeeding Sections. Extracts of Sections 2, 13 to 21, 23 and 24 of the Act are reproduced in the Annexure to this Section.

**Note:** *Section 21 of the Act relates to both accounts and audit.*

1.1.5 Section 13 of the Act enjoins on the Comptroller and Auditor General the duty to audit all expenditure from the Consolidated Fund of India, of each State and each Union Territory having a Legislative Assembly. The audit of expenditure is comprehensive and includes:

- (i) audit against provisions of funds;
- (ii) regularity audit;
- (iii) propriety audit;
- (iv) efficiency-cum-performance or value for money audit; and
- (v) systems audit.

The completeness and accuracy of accounts is examined in audit to verify that there is proper voucher or proof of payments. Audit against provision of funds is aimed at ascertaining whether the moneys shown in the accounts as having been disbursed, were legally available for and applicable to the service or purpose to which they had been applied or charged. The objective of regularity audit is to see whether the expenditure conforms to the authority, which governs it. Propriety audit is directed towards examining the propriety of executive action beyond the formality of expenditure to its wisdom, faithfulness and economy, and bringing to notice cases of waste, losses and extravagant expenditure. Efficiency-cum-performance or value for money audit is a comprehensive appraisal of the progress and efficiency of the execution of development and other programmes and schemes wherein an assessment is made as to whether these are executed economically and whether they are producing the results expected of them. In systems audit, organisation and systems governing authorisation, recording, accounting and internal controls are analysed and standards of quality and performance evaluated.

1.1.6 Section 13 of the Act requires the Comptroller and Auditor General to audit all transactions of the Union, of the States and of the Union Territories having a Legislative Assembly, relating to the Contingency Funds and Public Accounts and to audit all trading, manufacturing, profit and loss accounts and balance sheet and other subsidiary accounts kept in any department of the Union or of a State or a Union Territory. This Section also enjoins on the Comptroller and Auditor General the duty to report on the accounts, expenditure or transactions so audited by him.

## **Audit of Grants and Loans to various Bodies and Authorities**

1.1.7 Expenditure incurred by Governments from their Consolidated Fund often takes the form of grants and loans to various bodies and authorities. Under Section 13 of the Act, it is the responsibility of the Comptroller and Auditor General to audit such expenditure. Audit in this case is, however, restricted to the records available in Government offices and is directed towards:

- (i) examining the admissibility of the grant or loan and the adequacy of sanction; and
- (ii) verifying the fulfilment of the conditions governing the grants and loans and the utilization for the purposes for which they were intended.

The Act has made provisions in Sections 14 and 15 for the audit of the accounts of authorities and bodies receiving financial assistance in the form of grants or/and loans from the Government of India or a State or Union Territory, subject to certain conditions and criteria specified in those Sections.

**Note:** *'Authority' has been interpreted to mean a person or body exercising power or command. 'Body' has been interpreted to mean an aggregate of persons, incorporated or unincorporated.*

1.1.8 Section 20 is another enabling provision of the Act in terms of which audit of the accounts of certain bodies or authorities, not covered by Section 19 or whose audit has not been entrusted by or under any law made by Parliament to the Comptroller and Auditor General can be entrusted to him. Under Sub-section (1) of Section 20, the Comptroller and Auditor General has the duty to audit the accounts of such authority or body if he is requested in this behalf, after prior consultation, by the President or the Governor of State/Administrator of a Union Territory having a Legislative Assembly, on such terms and conditions as may be agreed upon between him and the Government concerned. For the purpose of audit, the Comptroller and Auditor General has the right of access to the books and accounts of the authority or body. Sub-section (2) of Section 20 empowers the Comptroller and Auditor General to propose to the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly to authorize him to undertake the audit of the accounts of any body or authority, not entrusted to him for audit, if he is of the opinion that such audit is necessary because a substantial amount has been invested in or advanced to the body or authority by the Government concerned. Audit under Sub-sections (1) and (2) of Section 20 of the Act can be entrusted to the Comptroller and Auditor General only in public interest and only after giving a reasonable opportunity to the concerned authority or body to represent in respect of the proposal for such audit.

## **Audit of Receipts**

1.1.9 Section 16 of the Act provides for audit by the Comptroller and Auditor General of all receipts which are payable into the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly. It also requires him to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon.

### **Audit of Stores and Stock**

1.1.10 Section 17 of the Act vests in the Comptroller and Auditor General the authority to audit and report on the accounts of the stores and stock kept in any office or department of the Union or a State or a Union Territory.

### **Audit of Government Companies**

1.1.11 Section 19 of the Act deals with the duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of Government Companies and Corporations. These duties and powers are to be performed and exercised under Sub-sections (1) and (2) of Section 19:

- (i) in the case of Government Companies, in accordance with the provisions of the Companies Act, 1956 contained in Sections 617 and 619 thereof; and
- (ii) in the case other Corporations set up by or under law made by the Parliament, in accordance with provisions of the respective Legislations.

However, the position of a Corporation established by a law made by the Legislature of a State or of a Union Territory is different. Under the Constitution, only Parliament can prescribe by law the duties and powers of the Comptroller and Auditor General. Sub-section (3) of Section 19 of the Act provides that audit of a Corporation established by law by the Legislature of a State or Union Territory can be entrusted to the Comptroller and Auditor General in the public interest by the Governor of the State or the Administrator of the Union Territory concerned after consultation with the Comptroller and Auditor General and after giving a reasonable opportunity to the concerned Corporation to make representations in respect of the proposal for such audit.

1.1.12 Under Section 19A of the Act, the reports of the Comptroller and Auditor General in relation to the accounts of a Government Company or a Corporation audited under Section 19 are to be submitted to the Government or Governments concerned for being laid before the Parliament/legislature.

### **Submission of Audit Reports**

1.1.13 Article 151 of the Constitution requires the Comptroller and Auditor General to submit reports relating to the accounts of the Union and of a State to the President or the Governor of the State as the case may be for being placed before Parliament/Legislature of a State. Similar provision exists in Section 49 of the Government of Union Territories Act, 1963, for submission of the reports of the Comptroller and Auditor General in relation to the accounts of a Union Territory having a Legislative Assembly to the Administrator of the Union Territory for being laid before Legislature. These reports relate to the totality of the accounts of the Union, a State or a Union Territory, as the case may be, and cover not only its expenditure but its receipts as well.

### **Other prescribed duties**

1.1.14 Under Article 279 (1) of the Constitution, the Comptroller and Auditor General has to ascertain and certify the net proceeds of any tax or duty mentioned in Chapter I of Part XII of the Constitution or of any part of such tax or duty, in or attributable to any area.

1.1.15 Under Paragraph 7(4) of the Sixth Schedule to the Constitution of India, the Comptroller and Auditor General is to cause the accounts of the District and Regional Councils established in the tribal areas in the States of Assam, Meghalaya, Mizoram and Tripura to be audited in such manner as he may deem fit. The reports of the Comptroller and Auditor General relating to such accounts are to be submitted to the Governor to be laid before the Council concerned.

### **Other duties**

1.1.16 Besides the duties and functions which the Comptroller and Auditor General exercises in relation to the accounts of the Union, the States, the Union Territories and of certain other authorities and bodies which devolve on him or are entrusted to him under specific provisions of law, he is also responsible for the following:

- (a) Watching the due compliance of directions of a financial or quasi-financial character issued by the President to a State.
- (b) Audit of pension payments on behalf of certain foreign governments when these are paid in India.
- (c) Audit and certification of pension payments made in India on behalf of the Government of Burma (now Myanmar).

### **Notes:**

- (i) *As a reciprocal arrangement, the Auditor General of Burma (Myanmar) audits and certifies pension payments made in that country on behalf of the Government of India.*
- (ii) *This arrangement does not, however, apply to such pension payments as are made in Burma (Myanmar) but are borne by the Government of India.*
- (iii) *The procedure may be extended by mutual agreement between the Comptroller and Auditor General of India and the Auditor General of Burma (Myanmar) to other payments made in India on behalf of the latter Government or vice versa.*

### **Powers in connection with performance of duties**

1.1.17 By virtue of the provisions in Sub-section (1) of Section 18 of the Act, the Comptroller and Auditor General has, in connection with the performance of his duties under the Act, the authority

- (i) to inspect any office of accounts under the control of the Union or of a State, including treasuries and such offices responsible for the keeping of initial and subsidiary accounts, as submit accounts to him;
- (ii) to require that any accounts, books, paper and other documents which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may appoint for his inspection; and
- (iii) to pose such questions or make such observations as he may consider necessary to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which it is his duty to prepare.

Sub-section (2) of Section 18 requires the person in charge of the office or department, the accounts of which are to be inspected and audited by the Comptroller and Auditor General, to afford all facilities for such inspection and to comply with requests for information in as complete a form as possible and with all reasonable expedition.

### **Delegation of powers of the Comptroller and Auditor General**

1.1.18 Section 21 of the Act authorises the Comptroller and Auditor General to delegate any power exercisable by him under the provisions of the Act, or any other law, to any officer of his department, by general or special order. However, except during his absence on leave or otherwise, no officer shall be authorized to submit on behalf of the Comptroller and Auditor General any report which he is required under the Constitution or the Government of Union Territories Act, 1963, to submit to the President or the Governor of a State or the Administrator of a Union Territory.

### **Miscellaneous Powers**

1.1.19 Under Section 23 of the Act, the Comptroller and Auditor General is authorised to make regulations for carrying into effect the provisions of the Act, in so far as they relate to the scope and extent of audit including laying down for the guidance of the Government departments the general principles of Government accounting and the broad principles in regard to audit of receipts and expenditure. The instructions relating to audit as contained in this manual and other departmental publications issued under the authority of the Comptroller and Auditor General are covered under the provisions of this Section.

1.1.20 The Comptroller and Auditor General is also authorised under Section 24 of the Act to dispense with, when circumstances so warrant, any part of detailed audit of any account or class of transactions and to apply such limited checks in relation to such accounts or transactions as he may determine. The provisions in the Memorandum of Secret Instructions regarding the extent of audit and other circulars issued from time to time under the authority of the Comptroller and Auditor General on the quantum and extent of audit derive their authority from this Section of the Act.

### **Duties of Indian Audit and Accounts Department**

1.1.21 The Indian Audit and Accounts Department, functioning under the Comptroller and Auditor General, derives its authority and the powers for performance of its duties on his behalf under the provisions of Section 21 of the Act referred to in paragraph 1.1.18. Under the special and general directions given by the Comptroller and Auditor General from time to time, the Accountants General and other officers and establishments of the Indian Audit and Accounts Department perform such duties and functions as are imposed on or undertaken by the Comptroller and Auditor General under the provisions of the Constitution, or of any law made by Parliament.

**Note:** *The term 'Accountant General' occurring in this as well as subsequent paragraphs of this Manual includes Accountant General (Audit)/Accountant General (A&E), Principal Accountant General (Audit), Principal Accountant General (A&E) Principal Director of Audit and Director General of Audit unless the context denotes otherwise.*

1.1.22 It is essential that an Accountant General should work in close coordination with the Government concerned in order to enforce propriety and secure regularity in public expenditure. He should render all legitimate assistance to the Finance Ministry/Department in regard to interpretation of financial rules or orders concerning which there may be doubts. The Accountant General is entitled to seek the support of the Finance Ministry/Department in case of disregard to any financial rule or order or failure of any authority to maintain the prescribed accounts. He may seek their assistance where necessary to secure a satisfactory settlement of outstanding audit objections or for the production of any papers or information required for purposes of audit.

**Annexure**  
**(Referred to in Paragraph 1.1.4)**

**Extracts of Sections 2, 13 to 21, 23 and 24 of the Comptroller and Auditor  
General's (Duties, Powers and Conditions of Service) Act, 1971**

**Definitions**

2. In this Act, unless the context otherwise requires,
- (a) “*accounts*”, in relation to commercial undertakings of a Government, includes trading, manufacturing and profit and loss accounts and balance-sheets and other subsidiary accounts;
  - (b) “*appropriation accounts*” means accounts which relate to the expenditure brought to account during a financial year, to the several items specified in the law made in accordance with the provisions of the Constitution or of the Government of Union Territories Act, 1963 (20 of 1963) for the appropriation of moneys out of the Consolidated Fund of India or of a State, or of a Union Territory having a Legislative Assembly, as the case may be;
  - (c) “*Comptroller and Auditor General*” means the Comptroller and Auditor General of India appointed under article 148 of the Constitution’
  - (d) “*State*” means a State specified in the first Schedule to the Constitution;
  - (e) “*Union*” includes a Union Territory, whether having a Legislative Assembly or not.

**General Provisions relating to Audit**

13. It shall be the duty of the Comptroller and Auditor General-
- (a) to audit all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it;
  - (b) to audit all transactions of the Union and of the State relating to Contingency Funds and Public Accounts;
  - (c) to audit all trading, manufacturing, profit and loss accounts and balance-sheets and other subsidiary accounts kept in any department of the Union or of a State;

and in each case to report on the expenditure transactions or accounts so audited by him.

**Audit of receipts and expenditure of bodies or authorities substantially financed from Union or State Revenues.**

14 (1) Where any body or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly, the Comptroller and Auditor General shall, subject to the provision of any law for the time being in force applicable to the body or authority, as the case may be, audit all receipts and expenditure of that body or authority and to report of the receipts and expenditure audited by him.



*Explanation* – Where the grant or loan to a body or authority from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly in a financial year is not less than rupees twenty-five lakhs and the amount of such grant or loan is not less than seventy five *per cent* of the total expenditure of that body or authority, such body or authority shall be deemed, for the purposes of this sub-section, to be substantially financed by such grants or loans, as the case may be.

(2) Notwithstanding anything contained in sub-section (1) the Comptroller and Auditor General may with the previous approval of the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, audit all receipts and expenditure of any body or of any State or of any Union Territory having Legislative Assembly, as the case may be, in a financial year is not less than rupees one crore.

(3) Where the receipts and expenditure of any body or authority are, by virtue of the fulfillment of the conditions specified in sub-section (1) or sub-section (2), audited by the Comptroller and Auditor General in a financial year, he shall continue to audit the receipts and expenditure of that body or authority for further period of two years notwithstanding that the conditions specified in sub-section (1) or sub-section (2) are not fulfilled during any of the two subsequent years.

#### **Functions of Comptroller and Auditor General in the case of grants or loans given to the other authorities or bodies.**

15 (1) Where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State for of any Union Territory having a Legislative Assembly to any authority or body, not being a foreign State or international organization, the Comptroller and Auditor General shall scrutinize the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which such grants or loans were given and shall for this purpose have right of access, after giving reasonable previous notice, to the books and accounts of that authority or body:

Provided that the President, the Governor of a State or the Administration of a Union Territory having a Legislative Assembly, as the case may be, may, where he is of opinion that it is necessary so to do in the public interest, by order, relieve the Comptroller and Auditor General, after consultation with him, from making any such scrutiny in respect of any body or authority receiving such grant or loan.

(2) Except where he is authorized so to do by the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, the Comptroller and Auditor General shall not have, while exercising the powers conferred on him by sub-section (1), right of access to the books and accounts of any Corporation to which any such grant or loan as is referred to in sub-section (1) is given if the law by or under which such Corporation has been established provides for the audit of the accounts of such Corporation by an agency other than the Comptroller and Auditor General:

Provided that no such authorization shall be made except after consultation with the Comptroller and Auditor General and except after giving the concerned Corporation a reasonable opportunity of making representations with regard to the proposal to give to the Comptroller and Auditor General right of access to its books and accounts.

### **Audit of receipts of Union or of States**

16. It shall be the duty of the Comptroller and Auditor General to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon.

### **Audit of accounts of stores and stock**

17. The Comptroller and Auditor General shall have authority to audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State.

### **Powers of Comptroller and Auditor General in connection with audit of accounts**

18 (1) The Comptroller and Auditor General shall in connection with the performance of his duties under this Act, have authority-

- (a) to inspect any office of accounts under the control of the Union or of a State, including treasuries and such offices responsible for keeping of the initial or subsidiary accounts, as submit accounts to him;
- (b) to require that any accounts, books, papers and other documents which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may appoint for his inspection;
- (c) to put such questions or make such observations as he may consider necessary, to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which it is his duty to prepare.

(2) The person in charge of any office or department, the accounts of which have to be inspected and audited by the Comptroller and Auditor General, shall afford all facilities for such inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition.

### **Audit of Government Companies and Corporations**

19 (1) The duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of Government Companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 1956 (1 of 1956).

(2) The duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of Corporations (not being Companies) established by or under law made by Parliament shall be performed and exercised by him in accordance with the provisions of the respective Legislations.

(3) The Governor of State or the Administrator of a Union Territory, having a Legislative Assembly may, where he is of opinion that it is necessary in the public interest so to do, request the Comptroller and Auditor General to audit the accounts of a Corporation established by law made by the Legislature of the State or of the Union Territory as the case may be, and where such request has been made, the Comptroller and Auditor General shall audit the accounts of such Corporation and shall have, for the purposes of such audit, right of access to the books and accounts of such Corporation.

Provided that no such request shall be made except after consultation with the Comptroller and Auditor General and except after giving reasonable opportunity to the Corporation to make representation with regard to the proposal for such audit.

### **Laying of reports in relation to accounts of Government Companies and Corporations**

19A(1) The reports of the Comptroller and Auditor General in relation to the accounts of a Government Company or a Corporation referred to in Section 19, shall be submitted to the Government or Governments concerned.

(2) The Central Government shall cause every report received by it under sub-section (1) to be laid, as soon as may be after it is received, before each House of Parliament.

(3) The State Government shall cause every report received by it under sub-section (1) to be laid, as soon as may be after it is received, before the Legislature of the State.

*Explanation-* For the purposes of this section “Government” or “State Government” in relation to Union territory having a Legislative Assembly, means the Administrator of the Union Territory.

### **Audit of accounts of certain authorities or bodies**

20 (1) Save as otherwise provided in Section 19, where the audit of the accounts of any body or authority has not been entrusted to the Comptroller and Auditor General by or under any law made by Parliament, he shall, if requested so to do by the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority:

Provided that no such request shall be made except after consultation with the Comptroller and Auditor General.

(2) The Comptroller and Auditor General may propose to the President or the Governor of a State or the Administrator of Union Territory having a Legislative Assembly, as the case may be, that he may be authorized to undertake the audit of the accounts of any body or authority, the audit of the accounts of which has not been entrusted to him by law, if he is of opinion that such audit is necessary because a substantial amount has been invested in, or advanced to, such body or authority by the Central or State Government or by the Government of a Union Territory having a Legislative Assembly, and on such request being made, the President or the Governor or the Administrator, as the case may be, may empower the Comptroller and Auditor General to undertake the audit of the accounts of such body or authority.

(3) The audit referred to in sub-section (1) or sub-section (2) shall not be entrusted to the Comptroller and Auditor General except where the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, is satisfied that it is expedient so to do in the public interest and except after giving a reasonable opportunity to the concerned body or authority to make representations with regard to the proposal for such audit.

### **Delegation of power of Comptroller and Auditor General**

21 Any power exercisable by the Comptroller and Auditor General under the provisions of this Act, or any other law may be exercised by such officer of his department as may be authorized by him in this behalf by general or special order.

Provided that except during the absence of the Comptroller and Auditor General on leave or otherwise, no officer shall be authorized to submit on behalf of the Comptroller and Auditor General any report which the Comptroller and Auditor General is required by the Constitution or the Government of Union Territories Act, 1963 (20 of 1963) to submit to the President or the Governor of State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be.

### **Power to make regulations**

23 The Comptroller and Auditor General is hereby authorized to make regulations for carrying into effect the provisions of this Act in so far as they relate to the scope and extent of audit, including laying down for the guidance of the Government Departments the general principles of Government accounting and the broad principles in regard to audit of receipts and expenditure.

### **Power to dispense with detailed audit**

24 The Comptroller and Auditor General is hereby authorized to dispense with, when circumstances so warrant, any part of detailed audit of any accounts or class of transactions and to apply such limited check in relation to such accounts or transactions as he may determine.

**SECTION-II**  
**General Principles and Practices of Audit**  
**Chapter-1**  
**General Principles and Practices**

**Introduction**

2.1.1 This Section deals with the general principles and practices to be observed in regard to audit of expenditure, receipts, stores and stock, commercial accounts, non-commercial autonomous bodies and non-Government institutions. The directions provided in this Section or in the subsequent Sections are by no means exhaustive, nor is it the intention that they should be taken as limiting the scope of audit rigidly to the lines indicated therein. It is of considerable importance that the audit checks prescribed should be observed in spirit and not merely in the letter. While these directions are primarily intended to be applied in relation to the accounts of the Union, of the States or of the Union territories they apply *mutatis mutandis* to the accounts of other authorities, the audit of which is undertaken by or on behalf of the Comptroller and Auditor General.

**Auditing Standards**

2.1.2 Auditing Standards prescribe the norms of principles and practices the auditors are expected to follow in the conduct of audit. These are separately published and periodically updated. The Auditor must exercise due care and concern in complying with the Auditing Standards.

**Audit Objectives and Scope**

2.1.3 The broad objectives of audit are:

- (i) to provide an unbiased, impartial and objective assessment of the reliability and fair presentation of the financial activities and financial position of the Government in their accounts;
- (ii) to provide an assessment of the due observance of the laws, rules, procedures and systems in keeping with the financial interests of and propriety in the functioning of the Government; and
- (iii) to provide an assessment of the achievement of economy, efficiency and effectiveness (value for money) in the implementation of the mandated activities of the Government.

In the process, audit aims to:

- (a) safeguard the financial interests of the taxpayer;
- (b) assist the Parliament or State/Union Territory Legislature in exercising financial control over the Executive; and
- (c) watch that various authorities of the State set up by, or under, the Constitution act in regard to all financial matters in accordance with the Constitution and the laws of Parliament and appropriate Legislatures and the rules and orders issued thereunder.

The right of independent criticism is inherent in the auditorial function.

2.1.4 In pursuance of the statutory responsibilities entrusted to the Comptroller and Auditor General, he is the sole authority to decide the nature and extent of audit to be conducted by him or on his behalf. Accordingly, in regard to certain financial transactions of a secret nature, the Comptroller and Auditor General has agreed to modify the scope of audit to the extent prescribed in each case.

2.1.5 It is the function of the Executive Government to make financial rules and orders and put in place an adequate internal control mechanism that will guard against misuse of public funds. It is the duty of audit not only to verify that the administrative departments properly apply these internal controls but also to point out weaknesses, if any, as may be noticed in the functioning of the control mechanisms.

2.1.6 The Executive Government and not the Indian Audit and Accounts department is responsible for enforcing economy in the expenditure of public moneys. It is, however, the duty of Audit to bring to notice wastefulness in public administration and infructuous expenditure and any such criticism may be included in the Audit Reports.

### **Audit Approach**

#### **Right of Access to Information**

2.1.7 In the course of scrutiny of accounts and transactions of Government, Audit is entitled to make such queries and observations and to call for all records, statements, returns and explanations as it may consider relevant and necessary in the interest of proper discharge of its duties. All such queries and observations shall be couched in courteous and impersonal language.

2.1.8 Under Sub-section (2) of Section 18 of the Act, it is the statutory obligation of the person in-charge of the office or the department, the accounts of which are to be inspected/audited by the functionaries of the Comptroller and Auditor General, to afford all facilities for the inspection/audit and comply with requests for information in as complete a form as possible and with all reasonable expedition. In the eventuality of non-production of vital records, the audit should be called off and the matter should be reported by the Accountant General to the Chief Secretary in the State or to the Secretary to the Government of India in the Centre, as the case may be.

2.1.9 In case the problem is not resolved even after this is brought to the notice of the Chief executive concerned, an omnibus draft paragraph on all such problems that arise during the year should be considered for inclusion in the Audit Report for bringing to the notice of the Legislature through the Public Accounts Committee or the Committee on Public Undertakings the failure of the executives to discharge their statutory obligation.

### **Audit Evidence**

2.1.10 The principal source of evidence for audit conclusions will be the records of the auditee organisation. It is the primary duty of audit to ensure that the audit conclusions drawn about the organisation and various projects and programmes, activities, transactions, etc. subjected to audit are based on sufficient, competent and relevant evidence. Evidence must be planned, gathered and analysed before any conclusion can be reached. This may be gathered by:

- (i) physical observation, including joint inspection by the auditors and the executive, the resultant observations being signed by both as confirmation of performance or achievements;
- (ii) review of documents;
- (iii) evaluation of the quality of internal control mechanisms; and
- (iv) interviews with executives.

In auditing government accounts, evidence may not be obtained by making independent enquiries from private individuals or members of the general public. However, evidence may be gathered by enquiry from third parties through a reputed agency only when Audit is of the view that the evidence gathered directly from the auditee organisation is insufficient to arrive at proper conclusions. Audit should ensure that evidence obtained from deliberations or interviews with executives is documented and signed by both the participating audit personnel and executives.

### **Commonly used Audit Procedures**

2.1.11 Three audit procedures are commonly used to obtain audit assurance. These, which are applicable to all types of audit are:

- (i) compliance testing;
- (ii) analytical review; and
- (iii) direct substantive testing of transactions.

#### **A. Compliance Testing**

2.1.12 Compliance testing is an audit procedure for evaluating internal controls. Its objective is not to search for monetary errors, but to locate deviations from control procedures, for the purpose of evaluating the effectiveness of the internal control mechanisms.

2.1.13 During the planning stage, the auditor should make a preliminary assessment of the internal controls in the auditee organisation and determine whether adequate reliance can be placed on the controls. If the auditor concludes that the control mechanisms are reliable, actual compliance testing of the controls can be undertaken in the execution stage of audit. If, however, the auditor concludes at the planning stage itself that reliance cannot be placed on the controls, further compliance testing of the controls is not necessary.

2.1.14 Various steps involved in compliance testing are as follows;

- (i) The first step in actually conducting a compliance test will be to identify the sub-system in which the controls are to be tested. For example, if the Customs Department is to be audited, one of the sub-systems could be 'Assessment of Duty'.
- (ii) The next step will be to identify the control objectives for each sub-system. For example, the control objective for the sub-system 'Assessment of Duty' could be that the tariff applied for the purpose is an approved one in accordance with the Customs Act.

- (iii) The third step will be to identify the key controls that have been established to achieve the control objective for the sub-system. There may be several controls for achieving each control objective. However, because of constraints of time and resources, it may not be possible for Audit to test every one of these controls. Audit should, therefore, identify initially the key or important control for each control objective. Continuing the earlier example, one of the controls for achieving the objective mentioned at (ii) above could be that the staff engaged in assessment work should be imparted refresher training at least once in three years. Audit may decide that this is not a key control and instead identify the stipulation that the Assessment Supervisor should test check at least 20 *per cent* of the assessments made by the assessment staff as a key control.
- (iv) In addition, evidence gathering techniques like review of documents, review of performance, physical observation or interviews will be used to test check whether the key control function as envisaged has been achieved.

Based on the results of the test check, the auditor will arrive at a conclusion whether the controls are reliable and the extent of their reliability. If necessary, the auditor may also indicate loopholes in the internal control systems and suggest what additional controls could be introduced to remove such loopholes.

## **B. Analytical Review**

2.1.15 Analytical review is a procedure that involves analysis of significant ratios and trends including the fluctuations that are inconsistent with other relevant data or which deviate from expectations. “Expectations” in this context refer to the auditor’s expectations of what a figure in the accounts being audited should approximately be as worked out from other relevant financial and non-financial information. “The commonly used analytical review techniques are (a) comparisons involving a single component; (b) comparison across components; (c) system analysis (d) predictive analysis; (e) regression analysis and (f) business analysis”.

2.1.16 **Comparisons involving a single component:** There are two types of comparisons. The first type involves comparison of the recorded value of a component with its budgeted value. The second, called trend analysis, involves a comparison of a component’s current value with its value in previous years. This procedure may be used at both the planning and execution stages of audit. It is commonly used to analyse income statement accounts. In attempting a comparison with budget figures, it will be necessary to consider the reasonability and reliability of the budget. The following questions will arise in this context:

- (i) Are the budgets of the entity prepared on a reasonable basis, using reliable and adequate information?
- (ii) Have the budgets been reliable indicators of actual results in the past?

In trend analysis, it is preferable to compare figures of a few previous years than just the immediately preceding year in order to factor out any anomalies or aberrations specific to a given year.



2.1.17 **Comparison across components:** This involves analysis of the relationship between more than one financial statement component. This procedure is also referred to as ratio analysis. Some examples are accounts receivable to turnover ratio, inventory-turnover ratio, gross-margin ratio, etc. This procedure may be used at both the planning and execution stages of audit. It is crucial that the definition of the ratios used is consistent with that used for prior years or with that of similar entities, as the case may be. This procedure is generally more effective than single component comparisons because it considers the inter-relationships among different components. Moreover, this procedure can provide assurance simultaneously for more than one component.

2.1.18 **System analysis:** This involves the identification of anomalous items within an account balance rather than a macro level analysis of the balance itself. The approach would be to scan or analyse individual entries in transaction listings so as to locate unusual entries or abnormalities. This procedure may be fruitfully used during the execution stage. However, since it may involve scrutiny of numerous transactions, it may be time consuming if performed manually. If the data is computerized, use of appropriate auditing software could significantly aid the adoption of this procedure.

2.1.19 **Predictive analysis:** This involves the creation of an expectation using not just financial data but also operating or external data, independent of the accounting system. The key word is “independent”; predictive testing can be used only where sufficient information independent of the accounting system is available. Therefore, it is also referred to as an “independent test of reasonableness”. For example, volume of imports and import duty rate may be used to predict import duty revenue. This is generally used in the execution stage. It often requires more time than simpler analytical procedures, especially since it involves collection of reliable data from outside the accounting system.

2.1.20 **Regression analysis:** This is a statistical technique that creates an equation to reveal how one variable is related to one or more other variables. It is similar in principle to predictive analysis but has added mathematical rigor and objectivity. It is generally used in the execution stage. It requires understanding of the statistics of complex variables and is therefore not “user-friendly” to the general auditor. It also requires much time for application and testing and is therefore mostly used infrequently.

2.1.21 **Business analysis:** This is a high (macro) level analysis of financial statements involving critical ratios related to profitability, liquidity, financial stability, debt, etc. It is a useful technique for identification of risk areas during planning and audit completion stages and also for a better understanding of the entity and its operations. However, it provides no audit assurance and is not used in the execution stage. It requires detailed knowledge of general business relationships and trends; consequently, it is likely to prove a useful tool for the more experienced members of the audit team who can apply their cumulative knowledge of the particular entity being audited.

2.1.22 The steps involved in analytical review are as follows:

- (i) **Develop an expectation:** The basic premise of analytical review is the expectation that there are relationships between different types of data and that these relationships will continue to exist unless conditions to the contrary arise, which may then have to be investigated. For example,

based on the quantity of cotton imported and its import price, Audit may develop an expectation that the annual value of cotton imports could be of the order of magnitude of Rs 1,000 crores.

- (ii) **Define significant differences:** Only very rarely will the actual recorded amount equal our expectation. It will perhaps not be worthwhile to investigate all cases of differences between recorded amounts and expectations. Instead, only those that are significant will need to be investigated. For example, Audit may, based on professional judgment, decide in the example given in (i) above that variations of up to Rs 50 crores from expectations are acceptable.
- (iii) **Compare the actuals with the expectation:** Continuing with the above example, let us assume that Audit discovers that actual value of the annual cotton imports is Rs 910 crores. In this situation, the difference between the expectation of Rs 1,000 crores developed at (i) above and the actuals is Rs 90 crores, which is significant because the auditor has decided [(ii) above] that variations above Rs 50 crores between expectations and actuals are significant.
- (iv) **Investigate any significant differences between actuals and expectation:** As the difference of Rs 90 crores is more than Rs 50 crores considered as being significant, Audit will have to investigate the reasons for this significant difference.
- (v) **Document the first four steps and make an audit conclusion as to whether assurance can be drawn:** Assuming that the investigation referred to at (iv) above has revealed that, of the difference of Rs 90 crores, a sum of Rs 25 crores is attributable to the misclassification of cotton imports as textile imports, an amount of Rs 65 crores will still remain unexplained. This amount being greater than the significant difference of Rs 50 crores defined at (ii) above, Audit can derive very little or no assurance from the analytical review procedure adopted in this case.

### **C. Direct substantive testing of transactions**

2.1.23 Direct substantive tests are those tests of transactions and balances which seek to provide evidence as to the completeness, accuracy and validity of information in the accounting or financial statement. The testing involves examination of samples of transactions or account balances and is a form of inductive reasoning where the reasonableness of the aggregate results is inferred from the evidence of reliability of the individual details that have been tested. For example, if the auditor wants to test whether purchases have been made by following the established procedures and have been accounted for correctly in the records, he may test check some purchase transactions. If the transactions tested conform to procedures and have been correctly accounted for, the auditor can infer that purchase procedures have been adhered to.

2.1.24 Various steps involved in performing direct substantive testing are as follows:

- (i) Identification of the sub-system to be tested. For example, while auditing the Transport Department, one of the sub-systems could be purchases.

- (ii) Identification of the sub-audit objective to be tested for the selected sub-system. For example, the sub-audit objectives could be to check whether ‘the transactions are accurately reflected in the accounts’ or ‘all purchases are completely accounted for in the records’.
- (iii) Identification of the technique for gathering evidence. Continuing with the earlier example, to test the sub-audit objective of whether the transactions are accurately reflected, the auditor may re-perform the calculations in the purchase vouchers. However, in order to test whether all the purchase transactions have been accounted for, the auditor may reconcile the purchase book with the invoices received from the suppliers or with the suppliers’ ledger.
- (iv) Determination of the sample size and performance of a test check using the identified technique for evidence gathering.
- (v) Formulation of conclusions on the fulfilment or otherwise of the sub-audit objective for the selected sub-system.

### **Audit Planning**

2.1.25 All Audit Offices are required to prepare a biennial audit plan. A single plan will integrate and include Central audit of vouchers and other records, routine inspections (phase audit), financial audits (certification audits) and value for money audit and will comprise a detailed plan for the first year and the broad framework for the second year. This will be an annual exercise when the audit plan for the current year will be updated and modified keeping in view the availability of manpower resources and the priorities of audit during the year, while adding thereto a broad framework for the next year. Thus the audit plan will be an active rolling plan. The main objectives of the biennial audit plan will be to:

- (i) provide assurance that all deserving and significant auditable entities have been considered while determining priorities;
- (ii) provide a framework for identifying the departments, programmes, functions, etc, which are significant and are vulnerable to risks and serious financial irregularities;
- (iii) optimise the use of available resources for achieving the short term and long term audit objectives; and
- (iv) minimise redundant audits.

2.1.26 For effective implementation of the audit planning methodology, the overall audit objectives should be set out as clearly as possible at the outset. In order to achieve the objectives, as many auditee units as feasible should be covered having regard to the availability of resources—human as well as financial. While identifying departments, institutions, programmes, issues, etc. for inclusion in the biennial audit plan, the quantum of expenditure/revenues, socio-economic significance, vulnerability to serious financial irregularities, political and managerial sensitivity of their activities and auditability of units will be taken into account. Other units that are not considered to be vulnerable or sensitive and have not been audited for prolonged periods should be considered for coverage in the biennial plan in such a way that these are also subjected to audit, preferably in a cycle of six to seven years. The periodicity and duration of audit should also be reviewed from time to time so as to ensure optimum coverage with the available resources.

2.1.27 All offices must have an Audit Planning Group (APG) headed by the Director General/Principal Director/Principal Accountant General (Audit)/Accountant General (Audit), as the case may be. The APG will be responsible for preparation of the biennial audit plan for the office and will include all the Group Officers of the Audit Office and such other officers as the Head of the Office may decide. It will also include the Principal Accountant General (A&E)/Accountant General (A&E) as an invitee to address various issues where close coordination and exchange of information between the Audit and the Accounts and Entitlement offices are necessary, particularly those relating to appropriation audit, treasury verification, Voucher Level Computerisation inputs, AC/DC bills and Personal Ledger Accounts and other matters relating to Central Audit. The Head of the Audit Office will function as the convener of the APG, which will be the apex monitoring body for implementation of the audit plan. For this purpose, meetings of the Group will be convened at least once every quarter. There will be also an Audit Planning Cell in each Audit Office to assist the APG.

## **Chapter-2**

### **Audit of Expenditure**

#### **Audit Mandate**

2.2.1 Under the provisions of Section 13 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, it is the duty of the Comptroller and Auditor General to audit all expenditure incurred from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly.

#### **Audit Objectives**

2.2.2 The primary objectives of audit of expenditure are to check whether:

- (i) funds have been authorised by the competent authority prescribing the limits within which expenditure can be incurred;
- (ii) the expenditure conforms to the relevant provisions of the Act and the Constitution and of the laws made thereunder and is also in accordance with the financial rules and regulations framed by the competent authority;
- (iii) either a special or general sanction of the competent authority authorising the expenditure is available; and
- (iv) all financial transactions have been correctly recorded in the accounts under examination and have been allocated to the appropriate heads of account.

2.2.3 This provision of the Act implies the condition that the expenditure should be incurred with due regard to the broad and general principles of financial propriety. Any cases involving a breach of these principles and thus resulting in improper expenditure or waste of public money should be treated by Audit in the same manner as cases of irregular or unauthorised expenditure.

2.2.4 In its wider connotation, irregularity in expenditure should be deemed to include expenditure incurred on an object without achieving the result expected from it, or in other words, expenditure not incurred effectively. "Economy, Efficiency and Effectiveness Audit" of expenditure, with a view to ascertaining whether various programmes and schemes are being implemented economically and efficiently and are actually yielding the results expected of them, has assumed great importance. Besides, every Ministry/Department of Government is mandated to render certain services to the people. Hence, Integrated Audit or Comprehensive Audit of functioning of Ministries/Departments has also assumed utmost importance for the purpose of evaluating the extent to which a particular Government Department is rendering services to the people in terms of its mandate.

#### **Responsibility for scrutiny of Rules and Orders**

2.2.5 All general rules and orders of a financial character (including those relating to conditions of service) issued by the President are scrutinised by the Comptroller and Auditor General himself. Other rules and orders of a financial character issued by the President, which are not of a general nature but are applicable exclusively to specified departments, and all rules and orders of a financial character issued by the Accountant General concerned, but relating to more than one Accountant General, should be scrutinised by the following:

- (i) The Principal Director of Audit, Economic and Service Ministries in respect of all rules and orders which affect him and one or more of the State Accountants General but not the Director General of Audit, Central Revenues.
- (ii) The Director General of Audit, Central Revenues in the case of all other rules and orders.

The Director General of Audit, Central Revenues, and the Principal Director of Audit, Economic and Service Ministries, may consult other Accountants General concerned where necessary.

**Notes:**

- (i) *No scrutiny by the Indian Audit and Accounts Department is necessary in the case of delegation of powers to the Comptroller and Auditor General as such delegations are made by the Union Government only after consultation with him.*
- (ii) *Rules and orders issued by the Comptroller and Auditor General himself are not subject to the scrutiny of any officer subordinate to him.*
- (iii) *The Accountant General will act on the assumption that such rules and orders have been scrutinised by the Director General of Audit, Central Revenues/Principal Director of Audit, Economic and Service Ministries, and have been accepted in audit. However, the Accountants General may, if they so wish, bring to the latter's notice any specific constitutional or legal infirmity in the rules and orders.*

2.2.6 All rules and regulations of a financial character issued by the President or any subordinate authorities which are applicable to the Defence Services and Railways should be scrutinised finally by the Director General of Audit, Defence Services, and the Principal Director of Railway Audit, respectively. These officers will be at liberty in the normal course to refer points of special difficulty to the Comptroller and Auditor General.

2.2.7 All rules and standing orders of a financial character issued by State Governments or by authorities subordinate to them should be scrutinised finally by the Accountant General of the State concerned.

**Responsibility for audit of Sanctions**

2.2.8 Audit of sanctions and orders of the Union and State Governments and those accorded by subordinate authorities of the Government is an important area of audit of expenditure. Sanctions and orders which have been issued with the concurrence of the Comptroller and Auditor General require no further audit scrutiny.

**Notes:**

- (i) *Any audit ruling given by the Comptroller and Auditor General on any case referred to him by a Government, it will be communicated to the Accountant General concerned.*
- (ii) *If the Accountant General/Principal Director has any serious doubts as to the correctness of any sanction or order which has been issued with the concurrence of the Comptroller and Auditor General, he may place his views confidentially before the Comptroller and Auditor General.*

## **Arrangements for Propriety and Efficiency Audit**

2.2.9 Audit offices have a separate Efficiency-cum-Performance Audit (ECPA) Section or other earmarked section to deal with items of work relating to propriety and efficiency audit. The Section is usually under the direct charge of Accountant General with an experienced Senior Audit Officer responsible for the routine work. An illustrative list of tasks to be carried out in relation to propriety audit is listed in the annexure to this chapter. While the Officers of Central Audit Parties and Central Audit Support Sections will be responsible for fulfilling the requirements of propriety audit, cases requiring special investigation could be better handled by the earmarked section after obtaining the Accountant General's orders.

2.2.10 Audit of rates paid for work and supplies made should receive special attention. However, as objections in this behalf can be raised only on grounds of financial propriety, this usually presents considerable difficulty and demands the exercise of great intelligence and care. Individual abnormalities in rates should, of course, be watched but a comparative examination of the vouchers and accounts received for audit from time to time might reveal wide variations or abnormalities in the rates paid by different officers in the same or neighbouring localities necessitating further investigation. The assistance of the Finance Ministry or Department may be sought in obtaining reliable schedules of rates and other relevant information.

2.2.11 All important cases detected either in Central Audit or Local Audit and Inspections should be examined by the Accountant General with reference to Government files, if necessary, before raising an audit query.

2.2.12 Other audit staff should be encouraged to submit references and suggestions. Those who put forward really valuable suggestions or do useful work in the furtherance of propriety audit should be specifically identified and trained.

## **Key Areas of Audit**

### **Audit against provision of funds**

2.2.13 Article 266(3) of the Constitution enjoins that no moneys out of the Consolidated Fund of India or of the Consolidated Fund of a State shall be appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution. Articles 112 to 116 and 202 to 206 contain the important financial provisions describing the control exercised by the Parliament and State Legislatures over expenditure from the Consolidated Fund of India and the Consolidated Fund of the State respectively. Sections 27 to 31 and 47 (2) of the Government of Union Territories Act, 1963 contain similar provisions in relation to the Consolidated Fund of a Union Territory having a Legislature.

2.2.14 Under the provisions of Articles 114 to 116 of the Constitution in the case of the Union, Articles 204 to 206 in the case of a State, and Sections 29 to 31 of the Government of Union Territories Act, 1963, in the case of a Union Territory having a Legislature, no expenditure can be met from the respective Consolidated Fund on or after 1st April of a financial year unless an Annual Budget (Annual Financial Statement of Estimated Receipts and Expenditure) is prepared and an Appropriation Act authorising withdrawal of funds from the Consolidated Fund to the extent of provisions in the Annual Budget is passed in accordance with the provisions of Article 114 or 204 of the Constitution or Section 29 of the said Act, as the case may be. All disbursements from the Consolidated Fund during a financial year, which are

not within the sums authorised by an Appropriation Act passed by the appropriate Legislature before the close of the year, will therefore be challenged by Audit as unauthorised expenditure under the provisions of Section 13(a) of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971, until regularised by an Appropriation Act. Under Article 267 of the Constitution/Section 48 of the Government of Union Territories Act 1963, advances from Contingency Fund of India or of a State or of a Union Territory can be drawn for meeting unforeseen expenditure pending authorisation of such expenditure by the Parliament/Legislature concerned. On such authorisation the advances drawn will be recouped to the Contingency Fund.

**Note:** *If the Annual Budget for the ensuing year is not likely to be passed by the concerned Legislature before 31st March, it becomes necessary for the Central or the State or Union Territory Government, as the case may be, to obtain a 'Vote on Account' from the Parliament/Legislature authorising the incurring of expenditure for the initial part of the financial year pending passing of the budget for that year. The 'Vote on Account' is intended to enable the Government to carry on its functions and activities till such time as the budget for the whole year is passed. The expenditure incurred on the authority of the 'Vote on Account' is subsequently adjusted against the regular budget and the 'Vote on Account' becomes non-operational when the budget is passed. This authority cannot, however, be invoked for expenditure on a new service.*

2.2.15 Audit against provision of funds should be directed primarily towards ascertaining that the moneys expended have been applied to the services and purposes for which the Grants and Appropriation Act passed under Article 114 or 204 of the Constitution or Section 29 of the Government of Union Territories Act, 1963, were intended and that the expenditure against each Grant or Appropriation does not exceed the amount included in that Schedule.

**Notes:**

- (i) *The term "Grant" as used in this paragraph and elsewhere in this Manual represents sums voted by the Parliament/Legislature.*
- (ii) *The term 'Appropriation' as used in this paragraph and elsewhere in this Manual represents sums required to meet 'Charged' expenditure as specified in the Schedule to an Appropriation Act passed under Article 114 or 204 of the Constitution or Section 29 of the Government of Union Territories Act, 1963.*

2.2.16 Each Grant or Appropriation specified in the Schedule to an Appropriation Act is a single total sum appropriated to the services and purposes set out in it. The particulars of a Grant or Appropriation in that Schedule are, however, based on the detailed estimates drawn up for the information of the Legislature. Accordingly, the departmental heads and the controlling officers reallocate the duly approved grants or appropriations of their respective departments among different drawing and disbursing units of the departments in proportion to the detailed sub-head wise estimates initially proposed by them. The various sub-heads and items in these estimates denote broadly the services and purposes for which the Grant or Appropriation is made and the expenditure should be recorded against such heads and items as may be relevant.

**Note:** *While the initial responsibility for the preparation of the Budget Estimates of 'Voted' and 'Charged' expenditure rests with the Executive, the Audit Officer has to see that the classification indicated in the estimates conforms to the provisions of the Constitution and is also in accordance with the forms of accounts of receipts and expenditure prescribed by the President on the advice of the Comptroller and Auditor General. The Audit Officer may also keep in view any regulation laying down the general principles of Government accounting made by the Comptroller and Auditor General under Section 23 of the Act governing his duties, powers and conditions of service. He may also make suggestions that may serve to promote clarity in accounts for better appreciation by the Legislature.*



2.2.17 Systems in force for budget formulation and expenditure control are required to be audited so as to ensure that the estimates presented to the Parliament/Legislature are prepared in accordance with established procedure and that the executive has a mechanism in place to monitor expenditure *vis-à-vis* the budget to ensure that Grants and Appropriations are not exceeded. Audit scrutiny would be specially focused on the following aspects:

- (i) Existence of proper and adequate systems in the ministries and departments for budgetary control with duly defined accountability centres for securing the preparation of realistic estimates of both receipts and expenditure.
- (ii) Availability with the Union, State and Union Territory Governments of a Budget Manual describing the rules and regulations governing budget formulation and the processes relating to preparation of receipts and expenditure estimates, their examination by the heads of departments and the controlling officers and provision of all relevant and of essential information and explanations.
- (iii) Adherence to all procedures prescribed in the Budget Manuals of the respective governments.
- (iv) Extent of association and involvement of functionaries at all levels from the drawing and disbursing officers to the heads of the ministries and departments with the formulation of budget estimates.
- (v) Adequacy of monitoring mechanism to safeguard against excesses over allotments to drawing and disbursing officers and over the overall grants and appropriations.

**Note:** *Expenditure against grants or appropriations specified in the Schedule to an Appropriation Act is incurred from various receipts (taxes, duties, grants-in-aid, borrowings, etc.) of the Government concerned. Whenever actual receipts fall short of those estimated, there is a resource crunch. To maintain control over resources, the Finance Departments of the States and Union Territories release funds periodically (generally every quarter) to different departments keeping in view the availability of funds. On periodical release of funds by the Finance Department, the departmental heads and the controlling officers reallocate these funds to different drawing and disbursing units. Audit should therefore see that the expenditure incurred by different drawing and disbursing units is within the allotments made to them from time to time.*

2.2.18 The Accountant General has to satisfy himself that the expenditure which is being audited falls within the scope of a Grant or an Appropriation Act and that it is within that Grant or Appropriation. Expenditure in excess of a Grant or Appropriation as well as expenditure not falling within its scope or intention as specified in the Schedule to an Appropriation Act, unless regularised by an appropriation Act as laid down in Article 115 or 205 of the Constitution or Section 30 of the Government of Union Territories Act, 1963, should be treated as unauthorised expenditure within the meaning of Article 114 (3) or 204 (3) of the Constitution or Section 29(3) of the Government of Union Territories Act, 1963, as the case may be.

**Note:** *The terms 'Accountant General' used in this paragraph and elsewhere in this volume and 'Accountant General (Audit)' denote and include, unless the context otherwise requires, the Director General of Audit/Principal Director of Audit, Central Revenues, the Principal Director of Audit, Economic and Service Ministries, or the Principal Director of Commercial Audit concerned, as the case may be, in respect of audit of the accounts of the Union and the establishments thereunder including Government Companies and Corporations, and the Accountant General entrusted with audit functions in respect of a State or Union Territory having a Legislative Assembly and the establishments thereunder.*

2.2.19 Under Articles 115 and 205 of the Constitution and under Section 30 of the Government of Union Territories Act, 1963, when a need arises during a financial year for supplementary or additional expenditure upon some new service not contemplated in the annual financial statement for that year, funds will have to be got authorised by the appropriate Legislature before incurring that expenditure from the Consolidated Fund. The term 'New Service' has not been defined in any precise form in the legislations. A new service may be either a 'new form of service' involving the adoption of a new policy or the provision of a new facility, or a 'new instrument of service' which includes an important extension of a previous specific commitment or facility. A new form of service is an altogether new service and irrespective of its financial implications, if it was not contemplated in the annual financial statement, provision of funds by the legislature is necessary before incurring expenditure from the Consolidated Fund. A new instrument of service has also to be treated in the same way as a new form of service, if the expenditure involved is relatively large. The Central Government and the various State and Union Territory Governments have from time to time issued, mainly on the basis of the recommendations of the Public Accounts Committees, instructions laying down the criteria for treating certain categories of expenditure as on a new service. These instructions should be referred to while examining expenditure not contemplated in the annual financial statement. Even in cases where expenditure on a new service can be met by savings within the Grant or Appropriation, the expenditure cannot be incurred without obtaining a token Supplementary Grant or Appropriation from the Legislature.

**Note:** *The financial limits fixed by the Central Government for different categories of expenditure beyond which they constitute expenditure on a "New Service/New Instrument of Service" are contained in the Government of India Decision (1) below Rule 10 of the Delegation of Financial Power Rules.*

2.2.20 A Grant or Appropriation is intended to cover all the charges, including the liabilities of past years to be paid during the financial year or to be adjusted in the accounts of that year. It is operative until the close of that year. Any unspent balance lapses and is not available for utilisation in the following year.

**Note:** *The expenditure recorded against a Grant or Appropriation should ordinarily represent sums actually paid within the financial year. However, various special arrangements are in operation in terms of which expenditure actually incurred in the previous years is recorded against a Grant or Appropriation of the current year. In general, these arrangements are at variance from the strict constitutional theory of parliamentary financial control.*

2.2.21 The responsibility for watching the progress of expenditure against a Grant or Appropriation devolves on the Executive who is ultimately responsible for keeping the expenditure within the Grant or Appropriation. Audit should, however, render all legitimate and constructive advice to the Executive in this matter and see that suitable and adequate arrangements exist in all departments of Government for the control of expenditure.

#### **Audit against Rules and Orders (Audit against regularity)**

2.2.22 Audit against regularity consists in verifying that the expenditure conforms to the relevant provisions of the Constitution and of the laws and rules made thereunder and is also in accordance with the financial rules, regulations and orders issued by a competent authority either in pursuance of any provisions of the Constitution or by virtue of powers formally delegated to it by a higher authority. The rules, regulations and orders against which audit is conducted mainly fall under the following categories:

- (i) rules and orders regulating the powers to incur and sanction expenditure as well as delegation of powers to incur and sanction expenditure from the Consolidated Fund and Contingency Fund of India or of a State or of a Union Territory having a Legislative Assembly;
- (ii) rules and orders dealing with the mode of presentation of claims against Government, withdrawing moneys from the Consolidated Funds, Contingency Funds and Public Accounts and in general the financial rules prescribing the detailed procedure to be followed by Government servants in dealing with Government transactions; and
- (iii) rules and orders regulating the conditions of service and pay and allowances and pensions of Government servants.

2.2.23 Audit in relation to regularity of expenditure is of a quasi-judicial character. It involves interpretation of the Constitution, Statutes, rules and orders with reference to the case law of previous decisions and precedents. The Comptroller and Auditor General has not, however, save in the case of rules made by himself, the final power of interpretation; this resides in the authority specified in the Constitution or the Authority which is the author of the rule or order so long as the interpretation is not against the orders of a superior authority or contrary to any established financial principle or rule. Interpretation by Audit should be based on the plain meaning of the Article of the Constitution, Section of the Statute, rule or order, except where this is inconsistent with another Article, Section, rule or order; in such a case the inconsistency should be referred to the competent authority for resolution or removal.

2.2.24 It is, however, the duty of Audit to bring to the notice of the competent authority any expenditure that does not appear to be covered by the terms of the Article, Section, rule or order quoted as justifying it, and which has been incurred by placing upon the Article, Section, rule or order an interpretation which may seem to it not to be a natural, plain or reasonable one. In the case of regulations framed by a department of Government, Audit will accept what the department considers to be the correct interpretation of its own regulations, provided that such interpretation is not opposed to the ruling of any superior authority or contrary to any established financial principle or rule. Such discretionary power of interpretation does not, however, give a department a free hand to interpret its rules to suit particular cases in other than a natural or reasonable manner. So long as a rule or regulation is not amended, the department is bound by it. Rules should be scrupulously adhered to and where it is found, in practice, that some discretion is necessary in the application of a particular rule, such discretion should be provided only in terms of that rule.

2.2.25 It is an important function of Audit to ensure that rules and regulations are observed not merely in their letter but also in their spirit. For example, sanctions and orders for the grant of special pay or other allowances or concessions should be questioned in Audit if they are in conflict with the broad spirit or main principles of the relevant service rules.

### **Scrutiny of Rules and Orders**

2.2.26 In relation to audit of expenditure against regularity, it is the duty of Audit to examine all financial rules and orders issued by the Executive authorities affecting expenditure and other transactions subjected to audit to see that the rules and orders are themselves *intra vires* and to ensure that the transactions to which they relate may be effectively audited.

2.2.27 In scrutinising rules and orders it should be seen that:

- (i) they are not inconsistent with any provisions of the Constitution or of any laws made thereunder;
- (ii) they are consistent with the essential requirements of audit and accounts as determined by the Comptroller and Auditor General;
- (iii) they do not conflict with the orders of , or rules made by, any higher authority; and
- (iv) the authority issuing rules that have not been separately approved by the competent authority is vested with the necessary powers to frame them.

2.2.28 In applying the second check prescribed in the preceding paragraph, the Audit Officer should be guided by any subsidiary instructions issued by the Comptroller and Auditor General from time to time. The principle to be observed is that the discretion vested in authorities empowered to make rules is not to be fettered unnecessarily merely because difficulties may arise in the application of necessary audit checks or the maintenance of proper accounts. If the procedure for accounting and audit can be amended without sacrificing efficiency or additional expense, the rule should be accepted and the relevant procedure amended appropriately. All doubtful points, unless they are trivial, should be referred to the Comptroller and Auditor General.

2.2.29 In applying the third check dealt with in paragraph 2.2.27, the guiding principles enunciated later at Sl. Nos. (i) to (iii) of paragraph 2.2.37 should be observed. Further, if the Accountant General has reason to believe that undue advantage has been taken of the provisions of any orders under which the rule is issued, he may bring the case to the notice of the proper superior authority.

2.2.30 All orders of delegation of financial authority should be scrutinised carefully because audit of sanctions as well as of expenditure or other transactions may be conducted against these orders for an indefinite length of time once these have been accepted. They should therefore receive the Accountant General's personal attention and should be formally accepted by him before they are admitted in audit.

**Notes:**

- (i) *The Accountant General may, however, delegate the powers under this paragraph to the Deputy Accountant General provided that all orders of delegation are scrutinised in the Propriety Audit Section. The Deputy Accountant General should obtain the orders of the Accountant General in cases presenting special features. In cases where some power has been delegated to a head of department or a subordinate authority with reference to some broad policy, such as the Delegation of Financial Power Rules, 1978, and if there is no doubt or ambiguity or objectionable features in the delegation order, the Audit Section concerned need not refer the case to the Propriety Audit Section for further scrutiny but can accept the order with the approval of the Deputy Accountant General/Accountant General. Doubtful and difficult cases which involve more than one Audit Section should, however, be referred to the Propriety Audit Section for further scrutiny.*
- (ii) *Once an order of delegation of financial powers has been accepted at the level of the Deputy Accountant General/Accountant General, the orders extending the period of validity of such powers may be accepted at the Branch Officer's level. However, cases presenting any special features or cases where the Branch Officer feels any doubt may continue to be submitted to the Deputy Accountant General/Accountant General for orders.*

2.2.31 Though no audit objection can be taken in certain cases to the terms of an order of delegation or other financial rule, the Accountant General may nevertheless be of the view that the order could seriously impair the efficacy of financial control. For instance, the principle of authorising disbursing officers themselves to sanction special charges may be carried too far or extended to cases in which some sort of control by a higher authority appears advisable. If such cases are important, the Accountant General should make a suitable reference to the Finance Ministry or Department so as to provide an opportunity to the latter to review the relevant orders.

2.2.32 The authorities of the Indian Audit and Accounts Department are not required, under paragraph 2.2.26, to undertake the formal scrutiny of the provisions relating to financial, accounting and auditing matters contained in the departmental manuals and thereby make themselves responsible for their accuracy when these merely reproduce extracts from the substantive codes, regulations, rules etc. However, when any new financial, accounting or audit procedures are sought to be introduced in the manuals, the Accountant General concerned may advise whether these are *intra vires* and are in accordance with correct principles; such advice should be confined only to specific individual rules and not extend to the manual in its entirety. In cases involving forms of accounts, any new accounting procedures or amendments thereto, it may be suggested to the departmental authorities that they refer the proposal to the Controller General of Accounts for necessary action in terms of Article 150 of the Constitution.

**Note:** *From a practical point of view, it would be desirable for government departments engaged in the revision of codes or rules to acquaint Audit through the Finance Ministry or Department of the rationale for the revisions and to refer, at the same time, drafts of all amendments to rules and regulations having financial implications for scrutiny before issue. This scrutiny will essentially be based only on a test check and it is not intended, under any circumstances, that this should hold up the publication of the regulations. Audit should not also be too meticulous in its examination because the Finance Ministry or Department and other ministries and departments of Government also have their own responsibilities in this behalf.*

2.2.33 Accountants General and Principal Directors of Audit may, on their own initiative, accept rules, orders, etc., that are to be scrutinised by them, object to them or request that they be amended. The Comptroller and Auditor General should, however, be consulted in all cases of doubt, difficulty and difference of opinion, unless they are trivial, and also on all points requiring his specific concurrence.

### **Audit against Sanctions to Expenditure**

2.2.34 It follows from Article 77(3) of the Constitution and Section 46 of the Government of Union Territories Act, 1963, that the power to sanction expenditure from the Consolidated Funds and the Contingency Funds of India and of the Union Territories, including power to dispose of property and stores pertaining to the Union Government and Union Territory Governments is vested in the President and Administrator respectively, whose sanction, given directly or by persons to whom the necessary powers have been delegated, is necessary to all expenditure from those Funds. The power to sanction expenditure from the Consolidated Fund and the Contingency Fund of a State is likewise vested by Article 166(3) of the Constitution in the Governor of the State whose sanction, given by himself or by persons to whom the necessary powers have been delegated, is required for expenditure from the Consolidated fund or the Contingency Fund of the State.

2.2.35 The extent and conditions of delegation of financial powers to different authorities of the Union, the State and Union Territory Governments are prescribed in the financial rules of these Governments.

2.2.36 As explained in paragraph 2.2.2, one of the important functions of Audit in relation to the audit of expenditure is to see that each item of expenditure is covered by the sanction of the competent authority. While doing so, Audit has not only to see that the expenditure is covered by a sanction, either general or special, but it has also to satisfy itself that:

- (i) the authority sanctioning it is competent to do so by virtue of the powers vested in it by the provisions of the Constitution and of the laws, rules or orders made thereunder or by the rules governing delegation of financial powers framed by a competent authority; and
- (ii) the sanction is definite and therefore needs no reference either to the sanctioning authority itself or to any higher authority.

**Note:** *When a sanction to expenditure received by the Audit Officer has been examined and admitted as regular and correct, the audit of expenditure against the audited sanction becomes a simple matter as Audit has then merely to see that the expenditure conforms to the provisions of the sanction.*

2.2.37 In the audit of sanctions to expenditure from the point of view of competency of the sanctioning authority, the guiding principles enunciated below should be observed:

- (i) If the sanctioning authority is vested with full powers in respect of a certain class of expenditure, a sanction accorded under those powers can be challenged by Audit only on grounds of propriety (see also paragraph 2.2.47).
- (ii) If the authority is vested with powers that may be exercised only after paying due regard to certain criteria expressed in a general form, sanctions accorded under those powers can be challenged by Audit:
  - (a) if the disregard of the criteria is considered to be so serious as to make the sanction perverse; or
  - (b) if the facts of the case are such as to make the Accountant General confident that one or more of the criteria have been disregarded.
- (iii) If the sanctioning authority is vested with powers that are expressed in precise terms, the Accountant General is bound to ascertain that the order defining its powers is obeyed exactly in every instance.
- (iv) For the purpose of financial sanction, a group of works which forms a single project shall be considered as one work, and the necessity for obtaining the sanction of a higher authority to a project is not avoided by reason of the fact that the cost of each particular work in the project does not require such sanction.

**Notes:**

- (i) *In respect of irrigation, navigation, embankment or drainage works, the construction estimates of which have been closed, this rule is subject to the special rules prescribed for sanctions to incur capital expenditure.*
- (ii) *A preliminary enquiry, survey or experiment, which must necessarily precede the formulation of any project or scheme, need not to be considered for the purpose of this rule as forming part of that project or scheme.*

- (v) If any one part or component of a scheme requires the sanction of a higher authority, Audit should hold under objection any expenditure thereon until the necessary sanction is obtained; in determining whether objection should be raised to expenditure on any other part or component of the scheme prior to the receipt of such sanction, it should be seen that the expenditure is not likely to exceed, at a later date, the limit up to which sanction can be accorded by the original sanctioning authority.

2.2.38 Besides the question of competency of the authority sanctioning the expenditure, the scrutiny of sanctions should extend to seeing whether:

- (i) the expenditure is a legitimate charge on the provision from which it is proposed to be met (see paragraph 2.2.18);
- (ii) the expenditure conforms to the statutory provisions as well as the relevant financial rules, regulations and orders (see paragraph 2.2.22);
- (iii) the expenditure is in conformity with the standards of financial propriety (see paragraph 2.2.47); and
- (iv) a satisfactory procedure of accounting has been evolved by the sanctioning authority in the case of sanctions to new schemes, and the detailed cost and time schedules, physical targets and other objects of the expenditure have been duly stipulated..

2.2.39 It is imperative that the utmost care and attention should be devoted to work connected with the audit of sanctions to expenditure because once a sanction has been accepted in audit, expenditure thereagainst may have to be admitted for an indefinite period.

2.2.40 All sanctions to expenditure should be noted and properly attested in the audit register, or any other record where prescribed, to facilitate audit of the expenditure covered by the sanctions. If it is known that the charge will entail a recovery from a third party, or that such recovery has been ordered by the sanctioning authority, a note thereof should also be made and properly attested in a suitable register so that the recovery may be watched.

2.2.41 Recurring charges which are payable on the fulfilment of certain conditions or till the occurrence of a certain event should be admitted in audit on receipt of a certificate from the drawing officer to the effect that the necessary conditions have been duly fulfilled or the event has not yet occurred, as the case may be.

2.2.42 Sanctions having a long period of currency, as well as sanctions of a permanent nature, require to be reviewed periodically so that, if there is any reason to think that the administrative authority concerned should be requested to review the sanction, such action may be taken.

2.2.43 The Audit wing of the Audit and Accounts Department is entitled to receive, from the authority competent to accord the sanction, a separate copy of an order sanctioning expenditure, or of a sanction that is otherwise to be enforced in audit. The procedure for communicating such sanctions to Audit is determined by the Rules of Business of the Government concerned and the Accountant General should not be satisfied until such a procedure is definitely settled, and unequivocally stated. It is essential that an authorised Gazetted Government Servant signs and authenticates all sanctions and orders communicated to Audit Officers.

**Note:** *Accountants General should persuade the Union, the State or the Union Territory Governments, as the case may be, to serially number the sanctions issued by them. All sanctions issued by various Governments should be captured in the database to be maintained by the audit offices. Separate data banks of sanctions to both purchases and contracts should also be maintained.*

2.2.44 In the case of Union Government all financial sanctions and orders issued by a ministry or department of that Government within its own financial powers and communicated to Audit should contain an indication that the concurrence of the Internal/Integrated Financial Adviser has been obtained. All other sanctions issued by the ministries and departments with the concurrence of the Ministry of Finance should be similarly communicated direct to Audit and should contain an indication that the concurrence of the Ministry of Finance has been obtained.

2.2.45 There may be cases where financial rules or orders issued by a competent authority require that another ministry or department of Government shall consult the Finance Ministry or Department when or prior to issuing an order or sanction and the latter may desire that Audit should watch compliance with such a requirement. In such cases, the Accountant General shall merely report instances of breach of the rule to the Finance Ministry or Department and not raise any formal audit objection or enter into any correspondence with the sanctioning authority concerned.

#### **Audit against Propriety**

2.2.46 It is an essential and inherent function of Audit to bring to light not only clear and obvious irregularities but also every matter which, in its judgement, appears to involve improper expenditure or waste of public monies or stores even though the accounts themselves may be in order and no obvious irregularity has been committed. Such audit, often called Propriety Audit, "extends beyond the formality of the expenditure to its wisdom, faithfulness and economy" (Hallam). It is thus not sufficient to see that sundry rules or orders of a competent authority have been observed. It is of equal importance to see that the broad principles of orthodox finance are borne in mind not only by disbursing officers but also by sanctioning authorities.

2.2.47 No precise rules can, however, be laid down for regulating the course of audit against propriety. Its objective is to support a reasonably high standard of public financial morality and sound financial administration and devotion to Government's financial interests. In any case, Audit Officers in the performance of their duties should apply the following general principles that have long been recognised as standards of financial propriety:

- (i) The expenditure should not *prima facie* be more than what the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
- (ii) No authority should exercise its powers of sanctioning expenditure to pass an order that will be, directly or indirectly, to its own advantage.
- (iii) Public moneys should not be utilised for the benefit of a particular individual or section of the community unless:
  - (a) the expenditure involved is insignificant; or
  - (b) a claim for the amount could be enforced in a court of law; or
  - (c) the expenditure is in pursuance of a recognised policy or custom.



- (iv) the amount of allowances, such as travelling allowances granted to meet expenditure of a particular type, should be so regulated that the allowances are not, on the whole, sources of profit to the recipients.

The proper discharge of duties by an Audit Officer in this field is a very delicate matter and requires much discretion and tact. Audit observations against expenditure should not be expressed as based on "canons of financial propriety" but as transgressing a universally accepted standard of official conduct or financial administration.

### **Other Guidelines**

2.2.48 The instructions contained in this chapter are to be read with the instructions contained in Chapters 8 and 9 of Section III dealing with Efficiency-cum-Performance Audit and Integrated Audit of Departments.

**ANNEXURE**  
**(Referred to in Paragraph 2.2.9)**

**Illustrative list of tasks that may be entrusted the Propriety Audit Section**

**General**

- (i) Audit of expenditure with reference to financial propriety.
- (ii) Suggestions designed to prevent extravagance in expenditure.
- (iii) Periodical review of sanctions having a long period of currency and of sanctions of a permanent nature.
- (iv) Review of investments made and guarantees given by Government.
- (v) Periodical review of expenditure from discretionary grants of Governors, Ministers, etc.

**Travelling Allowance Bills**

- (vi) Scrutiny of travelling allowance bills of Ministers, Heads of Departments and others who are their own controlling officers to determine whether they reveal any special features not noticed in regular audit.

**Supplies, Services and Contingencies**

- (vii) Comparison of rates prevalent in neighboring localities for similar works and supplies.
- (viii) Scrutiny of lump sum contracts in different departments for similar works with a view to ensuring uniformity of approach and reducing expenditure.
- (ix) Scrutiny of contracts, other than those relating to the Public Works Department, above the value prescribed for the purpose and deviating from the standard approved forms with a view to seeing whether their terms are unduly liberal or do not include necessary safeguards to protect Government interests.
- (x) General scrutiny of ex-gratia payments.

**Works Expenditure**

- (xi) Examination of variations in the proportion of the cost of works to establishment with reference to position prevailing in adjacent districts having the same facilities for execution of works as well as in the entire State in relation to that prescribed in respect of public works.
- (xii) Examination of feasibility of reducing manpower.
- (xiii) Review of arrangements for invitation of tenders and conclusion of contracts and their adequacy.
- (xiv) Financial stock taking of big projects and undertakings.

**Revenue and Receipts**

- (xv) Scrutiny of contributions recovered for services rendered with the objective of suggesting their enhancement in cases where there has been an increase in the cost of the services since the rates of contributions were fixed or last revised.
- (xvi) Suggestions designed to increase revenues.

**Other important matters**

- (xvii) Examination of administrative reports dealing with public expenditure and containing comparative statistics.
- (xviii) Scrutiny of orders delegating financial authority.
- (xix) Investigation of serious financial irregularities including frauds and embezzlements with a view to suggesting improved methods for their prevention or quicker detection in future.
- (xx) Study of the State Government's Budgets, Financial Statements and Five-Year Plans to devise adequate auditing and accounting arrangements for new schemes.
- (xxi) Scrutiny of reports of official committees having a financial bearing.
- (xxii) Scrutiny of monies kept outside Government accounts in personal ledger accounts, deposits, etc., the justification therefor and utilisation of such funds.
- (xxiii) Examination of proposals for inclusion in the Half Yearly Digest of Important and Interesting Cases.

## **Chapter-3**

### **Audit of Receipts**

#### **Audit Mandate**

2.3.1 Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, enjoins upon the Comptroller and Auditor General the duty of auditing all receipts which are payable into the Consolidated Fund of the Union and of each State and Union Territory having a Legislative Assembly.

#### **Audit Objectives and Scope**

2.3.2 Audit of receipts embraces the audit of all tax and non-tax receipts of the Central and the State Governments and Union Territories. It also requires the Comptroller and Auditor General to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenues and are being duly observed and to make, for this purpose, such examination of the accounts as he thinks fit and report thereon.

2.3.3 The Audit Department should not in any way substitute itself for the revenue authorities in the performance of statutory duties. However, Audit should satisfy itself that the requirements of legality and regularity are observed in individual assessments and in general that the departmental machinery is sufficiently safeguarded against error and fraud and that so far as can be judged, the procedures are calculated to give effect to the requirements of law.

2.3.4 It is not the duty of Audit to review a judicial decision nor does Audit normally review the judgment exercised by officers in individual cases in areas purely falling in their discretion. But it must be recognized that an examination of such cases is important for judging the effectiveness of assessment procedures, recovery procedures, etc. Where the information available on an individual case is insufficient to enable Audit to ascertain how the requirements of the law have been complied with, Audit may consider it is its duty to ask for any further information to enable it to form the judgment required of it as to the effectiveness of the system.

2.3.5 Any obvious errors in assessment, computation, etc. can be pointed out in audit leaving it to the administrative authorities to set right the errors by adopting such action as they may consider appropriate.

#### **Audit Approach**

2.3.6 Whereas the audit of tax receipts is, in most cases, taken up separately, other departmental receipts are generally audited along with the audit of the expenditure of the department or scheme concerned. Even in respect of departments where a detailed audit of receipts has not been possible, it should be verified in audit in so far as it is possible from the accounts that (a) sums due are regularly recovered and checked against demand, and (b) sums received are duly brought to credit in the accounts.

#### **Key areas of audit scrutiny**

##### **Audit of regulations and procedures for assessment, collection and refunds**

2.3.7 It is the primary responsibility of the departmental authorities to see that all receipts due to Government are correctly and properly assessed, realized and credited to Government account. The most important functions of audit are (i) to see that adequate regulations and procedures have been framed by the Revenue Department to secure an effective check on assessment, collection and proper allocation of taxes; and

(ii) to satisfy itself by adequate test check that such regulations and procedures are actually being adhered to. Audit should also make such examination as it thinks fit with respect to the correctness of the sums brought to account.

### **Audit of arrangements for detection/prevention of frauds and other irregularities**

2.3.8 In the audit of Receipts, it would be necessary in the case of a department which is a receiver of public monies to ascertain what arrangements are in place to ensure the prompt detection, investigation and prevention of irregularities, double refunds, fraudulent or forged refund vouchers or other loss of revenue through fraud, error or wilful omission or negligence to levy or collect taxes or to make refunds. For instance, the department could be requested to undertake a comparison of a sample set of counterfoils of receipts with those available with the tax payers or other debtors, the results of the comparative study being made available to Audit. Audit may also suggest any appropriate improvements in procedure.

### **Audit of effectiveness of rules and orders governing collection of receipts**

2.3.9 Audit of receipts will be regulated mainly with reference to the statutory provisions as judicially interpreted or financial rules or orders applicable to the particular receipts involved. If the test check reveals any defects, lacunae or loopholes in the provisions, rules or orders, the department's attention should be drawn to the advisability of these being suitably amended.

### **Audit of periodicity of recoveries**

2.3.10 Where any financial rule or order applicable to the case prescribes the scale or periodicity of recoveries, it will be the duty of the Audit to see as far as possible that there is no deviation therefrom without proper authority. When this check cannot be exercised centrally, a test check may be conducted by local inspections, the aim being to secure the due realisation of particular debts and as well as to ensure that the disregard of rules or defects in procedure are not such as to result in leakage of revenue.

### **Examination of outstanding dues**

2.3.11 Audit should carefully review any outstanding dues and suggest to the departmental authorities any feasible means for their recovery. Whenever any dues appear to be irrecoverable, orders for their waiver and adjustment should be sought.

### **Audit of internal controls**

2.3.12 Ordinarily, Audit will see that the internal procedures adequately secure correct and regular accounting of demands, collections and refunds, that no amounts due to Government remain outstanding in its books without sufficient reason and that the claims are pursued with due diligence and are not abandoned or reduced except with adequate justification and with proper authority.

2.3.13 To sum up, the most important function of Audit and the area of audit concern in relation to assessments and refunds is to satisfy itself, by such test checks as it may consider necessary, that the internal procedures adequately provide for and actually ensure:

- (i) the collection and utilisation of data necessary for the computation of the demand or refund under law;

- (ii) that the computation and realisation of various taxes, fees, rents, royalty, etc. are in accordance with the applicable tax laws;
- (iii) the prompt raising of demands on tax payers in the manner required by law;
- (iv) the regular accounting of demands, collections and refunds;
- (v) the correct accounting and allocation of collections and their credit to the Consolidated Fund;
- (vi) that the relevant and requisite records are being maintained properly;
- (vii) that proper arrangements are in place to safeguard against negligence or omission to levy or collect taxes or to authorise refunds;
- (viii) that adequate control and monitoring mechanisms have been devised to prevent loss or leakage of revenue;
- (ix) that there has not been any loss or leakage of revenue on account of lacunae or loopholes in the rules framed for the purpose or on account of avoidable delays in the issue of the necessary notifications and orders;
- (x) that the machinery for detection of cases of evasion is adequate;
- (xi) that double refunds, fraudulent or forged refund orders or other losses of revenue through fraud, default or errors are promptly brought to light and investigated;
- (xii) that claims of tax payers are pursued with due diligence and are not abandoned or reduced except with adequate justification and proper authority;
- (xiii) that cases pending in courts of law or before appellate authorities have been pursued adequately and appeals, wherever justified or considered necessary, have been filed within the period of limitation; and
- (xiv) that the estimates of revenue have been realized at the end of the financial year.

**Note:** *In cases of shortfall in the realization of the estimates, Audit should ascertain if this was attributable to negligence in collection or whether the original estimates themselves were erroneous or unreliable.*

### **Cross Verification**

2.3.14 In the audit of assessments, the assessment files and returns themselves may not always reveal under declaration of sales or income. In such cases, a unit-based approach may not suffice and an inter-disciplinary approach may be called for. For example, in the case of check of Sales Tax assessment of dealers who are also manufacturers, the data furnished in their returns could be verified with the corresponding data furnished by them in their Central Excise returns to see whether there are any variations or discrepancies. Similar cross verification may also be possible with the income tax returns.

### **Other guidelines**

2.3.15 Detailed procedures for the audit of certain tax receipts, viz. Income tax, Wealth tax and Gift tax, Central Excise and Customs Duties, are contained in the Revenue Audit Manual issued separately. Detailed instructions regarding audit checks to be exercised on the levy, assessment, collection and allocation of other tax receipts

and the audit of non-tax receipts are laid down in the local manuals of the Accountants General.

2.3.16 The procedures prescribed in this Manual for the raising and pursuance of audit objections in relation to expenditure (including the powers of Audit Officers to waive recovery of Government dues under certain circumstances) shall apply *mutatis mutandis* in respect of audit objections relating to any of the receipts.

## **Chapter-4**

### **Audit of Accounts of Stores and Stock**

#### **Audit Mandate**

2.4.1 Audit of payments for the purchase of stores is conducted according to the rules prescribed by the Comptroller and Auditor General in regard to the audit of expenditure from the Consolidated Fund of India or of a State or a Union Territory having a Legislative Assembly.

2.4.2 The Reports of the Comptroller and Auditor General which are to be submitted to the President or the Governor of a State under Article 151 of the Constitution, or to the Administrator of a Union Territory under Section 49 of the Government of the Union Territories Act, 1963, must relate to the totality of the accounts of the Union, State or the Union Territory and should cover not merely all receipts and expenditure but also all accounts of stores and stock because the latter form an important, though subsidiary, part of the accounts. Section 17 of the Act therefore vests in the Comptroller and Auditor General the authority to audit and report on the accounts of stores and stock kept in any office or department of the Union or of the States or of the Union Territories.

#### **Audit Objectives and Scope**

2.4.3 The stores and stock accounts form part of the initial and subsidiary accounts of the departments and audit thereof is consequently conducted locally. The audit of the accounts of the stores and stock shall be directed towards ascertaining that the departmental regulations governing purchase, receipt and issue, custody, condemnation, sale and stock verification of stores are well devised and implemented. Audit should bring to the notice of the Government any important deficiencies in quantities of stores held or any grave defects in the system of control.

#### **Key areas of audit scrutiny**

##### **Audit of purchase of stores**

2.4.4 The following aspects relating to purchases of stores should be examined in audit:

- (i) Purchases should have been properly sanctioned and made in the most economical manner in accordance with the rules, regulations and orders issued by the Government. Audit must see that the purchases have been made taking into account the workload of the division and that the requirements have been assessed on a realistic basis and funds are available for the procurement. It is also to be seen that the stores procured are of approved quality and specifications. Stores of the required specifications covered under rate contracts entered into by the Directorate General of Supplies and Disposals or any other approved rate contract should have been purchased only under such rate contracts. The system of open competitive tender should be adopted for purchases from contractors or suppliers, the purchase being made only from the lowest tenderer unless there are recorded reasons for not doing so.
- (ii) The rates paid should correspond to those agreed to in the relevant contracts or agreements.
- (iii) The government servants responsible for approving and receiving purchases should furnish certificates of quality and quantity before payments are made, except where the contrary is permitted by the rules of Government regulating purchase of stores.



- (iv) Purchase orders should not have been split up so as to avoid the necessity for obtaining the requisite sanction of higher authorities.
- (v) The stipulated terms and conditions should conform to various codal provisions and orders issued from time to time by the Government.
- (vi) Necessary precautions should have been taken to safeguard government interests in cases involving advance payments for supply of stores in terms of the contract provisions or Government orders. The stores should also have been received within the stipulated period and the advance payments adjusted.

#### **Audit of custody and issue of stores**

2.4.5 As regards custody and issue of stores, it has to be seen in audit whether:

- (i) a particular official has been responsible for the custody of stores for prolonged periods and, if so, whether the stores have been physically verified regularly to guard against any loss, pilferage, etc.;
- (ii) discrepancies, if any, between the book balances and the ground balances have been reconciled promptly;
- (iii) appropriate and effective follow-up action has been taken on reports of physical verification of stores for making good any losses, shortages, etc. and to fix responsibility therefor;
- (iv) adequate precautionary measures have been taken to prevent misuse of materials issued to contractors for use in works;
- (v) adequate storage facilities are available and precautionary measures have been taken to protect stores from damage and undue deterioration;
- (vi) efforts have been made to transfer surplus stores to other works, divisions or departments where these could be utilised;
- (vii) a report on surplus stores that could not be so transferred as well as on obsolete and unserviceable stores, specifying the reasons for so declaring them, has been promptly sent to the competent authority for facilitating their disposal;
- (viii) all issues of stores are supported by proper indents and have been approved by the competent authority and acknowledged by the intended recipients; and
- (ix) officers entrusted with custody of stores or holding charge of stores have furnished the security prescribed in terms of the instructions issued from time to time by the competent authority.

**Note:** *Only such materials as are provided in the agreement should have been issued to contractors in a phased manner based on its use within a reasonable period. Where Government or any other authority has prescribed a scale for issue of stores of any particular kind, the scale should not have been exceeded.*

#### **Audit of write-off/disposal of stores**

2.4.6 Irregularities in the disposal of public stores are equivalent to illegal appropriation of public funds, and an audit of moneys expended on purchase of stores cannot, by itself, be complete unless the disposal of the stores is also audited in order to ascertain the final application of the moneys. In auditing the disposal or write-off of stores, the following should be kept in view:

- (i) The competent authority should have accorded sanctions for write-off of stores. Any deficiencies in the systems requiring attention should be brought to Government's notice.
- (ii) Maintenance and accountal of unserviceable stores that cannot be utilised by the department responsible for their custody involve waste of labour and space. Retention of stores in excess of probable requirements in the immediate future may also result in loss through deterioration. It should, therefore, be seen that measures are taken to survey and segregate surplus, unserviceable and obsolete stores and to consider their disposal in accordance with the procedures prescribed by Government in this regard.
- (iii) Stores are generally procured by departments/divisions for their own use and not for sale. However, when it becomes necessary to sell some surplus stores, this is generally done on receipt of payments in advance against proforma invoices, though sales on credit may be unavoidable occasionally. In such cases, the sale proceeds should have been promptly realised. Instances of proceeds against credit sales remaining unrealised for considerable periods should, therefore, be analysed and commented upon.

#### **Audit of stores management**

**2.4.7.** Stores in many cases result in capital remaining locked up for long periods; this may not be justified unless essential. In order to ensure this and effect economies, appropriate stock limits for different categories of stores should have been fixed by Government. Audit may, therefore, see that this has been done and that balances in stock do not exceed the prescribed limits. Audit should also scrutinise cases of purchase of stores without actual need or in excess of requirement, resulting in accumulation of idle stock and consequential loss to the Government. Similarly Audit may look out for cases of purchases less than the actual requirement that might have affected adversely the progress of works and resulted in subsequent procurement at additional cost. It may also be examined whether there has been rush of expenditure on procurement at the close of the financial year or fictitious booking merely with a view to utilising the budget grants.

#### **Audit of stores records**

2.4.8 Audit should ascertain whether:

- (i) all stores were examined, on receipt and while accepting delivery, to determine their condition and to ensure that they were of the approved quality, make and specifications and the quantities conformed to those agreed upon;
- (ii) the stores have been taken on stock and entered in the Goods Received Sheets/Bin Cards;
- (iii) the previous stock balances have been correctly worked out, carried forward and authenticated by a responsible officer;
- (iv) bin cards have been maintained chronologically based on receipts and issues; and
- (v) Price Stores Ledgers containing the value account of stores have been maintained.

2.4.9 Where priced accounts are maintained, Audit will see that:

- (i) stores are priced with reasonable accuracy and the rates initially fixed are reviewed periodically, correlated with market prices and revised where necessary;

- (ii) the value accounts tally with the accounts of works and departments connected with stores transactions, their total also tallies with the amount outstanding in the general accounts;
- (iii) the numerical balances of stock materials are reconcilable with the total of the value balances in the accounts at the rates applicable to different classes of stores; and
- (iv) steps have been taken for the adjustment of profit or loss due to revaluation, stock verification or other causes not indicative of any serious disregard of rules.

#### **Physical verification of stocks**

2.4.10 It is an important function of Audit to ascertain that stores materials are counted periodically and otherwise examined to verify the accuracy of the quantity balances reflected in the books. Audit shall not, except when specifically authorised to do so, assume responsibility for physical verification of stores; it, however, has the right to investigate stores balances and highlight discrepancies. Audit has to see that (a) a certificate of verification of stores is recorded periodically by a responsible authority; (b) the system adopted by the executive for verification is adequate and proper; (c) discrepancies found on stock verification are properly investigated and reconciled; and (d) the staff responsible for stock verification are, wherever possible, independent of those responsible for the physical custody of stores or for maintaining the accounts. It should also be seen that stock verifiers work, wherever practicable, directly under the control of the Government and not under the heads of the individual departments concerned.

#### **Audit of accounts of furniture in residences of High Officials**

2.4.11 In respect of the accounts of furniture in the residences of High Officials, Audit may require, where necessary, the furnishing, by the executive authority nominated for the purpose, of an annual certificate of verification to the effect that (a) the furniture has been inspected and checked with the stock lists maintained; (b) all new supplies have been correctly brought on the stock lists so that are current and up to date; (c) the stock lists are correct and complete in all respects; (d) the articles actually in stock agree with the stock lists; (e) sale proceeds, if any, have been properly accounted for; and (f) sanction of the competent authority exists for all articles written off or struck off the stock lists.

#### **Other guidelines**

2.4.12 The detailed procedure for undertaking the audit of any stores and stock accounts will be such as may be agreed upon, where necessary, between the Accountant General concerned and the Government.

2.4.13 The procedure prescribed by the Comptroller and Auditor General for the raising and pursuance of audit objections in relation to expenditure shall generally apply in respect of objections on any accounts of stores and stock. Where necessary, separate rules of procedure shall be laid down by the Accountant General with the concurrence of the Government.

## **Chapter-5**

### **Audit of Commercial Accounts**

#### **Audit Mandate**

2.5.1 The nationalised industries and State Undertakings, whether of the Central, State or Union Territory Governments, which function on commercial lines and whose commercial accounts come under the audit of the Comptroller and Auditor General can be broadly grouped into the following four categories:

- (i) Government companies (as defined in Section 617 of the Companies Act, 1956), i.e. companies in which the Central, State and/or Union Territory Governments own not less than 51 *per cent* of the paid-up share capital;
- (ii) companies that are deemed Government companies under Section 619-B of the Companies Act, 1956;
- (iii) statutory bodies wholly or mainly financed by Government and set up under Acts of Parliament and/or State or Union Territory Legislature; and
- (iv) concerns, i.e. Government commercial and quasi-commercial departmental undertakings, that are managed departmentally.

2.5.2 Government companies are governed by the Companies Act, 1956, and by all legislation applicable to limited liability companies in general. The term “Government Company” includes a subsidiary of a Government company.

#### **Government Companies**

2.5.3 Under Section 619A of the Companies Act, an annual report on the working and affairs of a Government Company is required to be prepared within three months of the holding of the Annual General Meeting and laid, as soon as possible thereafter, before the appropriate legislature together with a copy of the statutory auditors’ report and any comment upon or supplement to that report made by the Comptroller and Auditor General.

2.5.4 Under Section 19(1) of the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971, audit of the accounts of Government companies is to be conducted by the Comptroller and Auditor General in accordance with the provisions of the Companies Act, 1956.

#### **Deemed Government Companies**

2.5.5 In terms of the provisions of Section 619B of the Companies Act, some non-Government Companies are deemed to be Government companies only for the limited purpose of extending to them the provisions relating to audit of Government companies contained in Section 619 thereof.

#### **Statutory Bodies**

2.5.6 The Statutory Corporations, Boards, etc. are governed by the respective Acts of Parliament/State or Union Territory Legislature, which contain detailed provisions in regard to their scope and functions, etc. Specific provisions are usually made in the governing Acts for Parliamentary control over certain aspects like budgeting and audit and presentation of an annual report to the Parliament/State or Union Territory Legislature on the overall functioning of the concern.

2.5.7 By virtue of the provisions of Section 19(2) of the Act, audit of the accounts of Corporations established by or under law made by Parliament is to be conducted by the Comptroller and Auditor General in accordance with the provisions of the respective legislation.

2.5.8 Under Section 19(3) of the Act, audit of accounts of Corporations established by law made by a State/Union Territory Legislature can be entrusted to the Comptroller and Auditor General by the Governor of the State or the Administrator of the Union Territory after consultation with the Comptroller and Auditor General and after giving a reasonable opportunity to the Corporation to make representation with regard to the proposal for such audit.

### **Departmental Undertakings**

2.5.9 Departmentally managed concerns are directly under a ministry or department of Government and are subject to government rules and procedures, sometimes with minor modifications.

### **Audit Objectives and Scope**

2.5.10 The fundamental objectives of audit of accounts of companies/corporations are to ascertain whether the Financial Statements:

- (i) present a true and fair view of the entity's financial position;
- (ii) are prepared in accordance with the Accounting Standards and laws, if any, governing the entities;
- (iii) are presented with due consideration to the circumstances of the audited entity;
- (iv) contain sufficient disclosures about their various elements, including any unusual items; and
- (v) various elements thereof are properly evaluated, measured and presented.

2.5.11 The detailed audit of Government Companies and deemed Government Companies is conducted by statutory auditors appointed under the Companies Act by the Comptroller and Auditor General. He can also issue directions to the statutory auditors for conduct of audit, scrutinise their reports and perform supplementary or test audit.

### **Audit Arrangements**

2.5.12 The local audit of Central Government companies, statutory corporations and other autonomous bodies functioning on commercial lines is conducted by the concerned Principal Directors of Commercial Audit and Ex-officio Members, Audit Board. The State Accountants General concerned are, on the other hand, responsible for the audit State Government companies, corporations and departmentally managed commercial undertakings.

### **Key areas of audit scrutiny**

#### **Audit of Government Companies**

2.5.13 Duties and responsibilities of the Comptroller and Auditor General in relation to the audit of Government Companies are described in the succeeding paragraphs.

#### **A. Issue of directions to statutory auditors**

2.5.14 Statutory auditors have to function within the parameters of the Companies Act, 1956. Their primary responsibility is to examine and certify the Profit and Loss Account and the Balance Sheet ensuring that they disclose a true and fair view of the company's financial position. They are required to see that the managements have

complied with various provisions of the Companies Act and the generally accepted Accounting Standards as well as the guidelines issued by the Institute of Chartered Accountants of India.

2.5.15 The Comptroller and Auditor General issues directions to the statutory auditors for conduct of audit under Section 619(3) of the Companies Act, 1956. These directions are contained in the Commercial Audit Manual. In addition, sub-directions are issued to the statutory auditors by the respective Principal Directors of Commercial Audit and Accountants General. They should ensure that the areas of weaknesses and those requiring special attention are identified and brought to the notice of the statutory auditors before they take up the audit.

#### **B. Supplementary or Test Audit by the Comptroller and Auditor General**

2.5.16 A supplementary or test audit, which is in the nature of an efficiency-cum propriety audit, is conducted by the Comptroller and Auditor General. This has the following primary objectives:

- (i) Verification of the technical accuracy of the accounting records, books of account and financial results with reference to the Accounting Standards.
- (ii) Detection or prevention of misstatements in and window dressing of the financial statements.
- (iii) Examination of the achievement, by the company, of the objectives for which it was established.
- (iv) Detection or prevention of frauds, misappropriation, and other acts of omission and commission.

2.5.17 It should be specifically examined in the course of audit of government companies whether:

- (i) the provisions of the Companies' Act, 1956 or the relevant statutes governing the company concerned have been complied with;
- (ii) there has been any material deviation from the objectives listed in the company's Memorandum of Association and Articles of Association;
- (iii) instructions of the Government of India, State Governments, Reserve Bank of India, etc. have been followed in conducting financial transactions;
- (iv) pronouncements of the Institute of Chartered Accountants of India (ICAI) relating to Accounting Standards AS 1 to AS 15 (which are mandatory) and standard auditing practices have been complied with, and its guidance notes and opinions in regard to accrual accounting, reserves created during revaluation of fixed assets, expenditure incurred during construction, treatment of excise duty, debtors, loans and advances, investments, etc. have been adhered to;
- (v) accounting procedures for proper control over expenditure and realization of revenues are adequate;
- (vi) there is any large accumulation of surplus stores/finished stock;
- (vii) the method of charging depreciation on the assets is reasonable;
- (viii) bad and doubtful debts have been outstanding for long periods and, if so, the reasons therefor;
- (ix) major contract agreements have been concluded in the company's best interests and their terms and conditions have been enforced; and

- (x) internal control mechanisms that assist the management in safeguarding assets and resources and in complying with laws and regulations, and provide assurance about the accuracy and completeness of accounting records are available and operate as desirable.

**C. Scrutiny of statutory auditor's report**

2.5.18 While examining the audit report of statutory auditor, it should, as far as possible, be seen that mention of any important defects or irregularities has not been omitted and that the report does not reveal any important point that would need to be further investigated.

**D. Submission of Reports to Parliament/Legislature**

2.5.19 Under Section 619A of the Companies Act, 1956, the statutory auditors' report on each government company and any comments upon or supplement to that report made by the Comptroller and Auditor General have to be laid before Parliament or the State/Union Territory Legislature, as the case may be, along with the annual report on the working and affairs of the company prepared by the Government under the provisions of that Section.

2.5.20 Major irregularities relating to government companies noticed in the course of audit are commented upon in the Report of the Comptroller and Auditor General, which also includes reviews on the performance of selected companies.

**Audit of deemed government companies**

2.5.21 The statutory provisions relating to audit of government companies and the related instructions of the Comptroller and Auditor General in regard to audit by his representatives and scrutiny of the statutory auditors' reports are also applicable to the deemed government companies.

2.5.22 However, the provisions relating to presentation of annual reports before the appropriate Legislature contained in Section 619A of the Companies Act are not applicable to them.

**Audit of statutory corporations**

2.5.23 The Accountants General concerned are required to issue separate Audit Reports (SARs) in respect of statutory corporations of which the Comptroller and Auditor General is the sole auditor. The Reports should contain comments on the accounts as well as on their review, which should indicate the operational performance as well as the working results.

## **Chapter-6**

### **Audit of Non-Commercial Autonomous Bodies and Non-Government Institutions**

#### **Statutory provisions**

2.6.1 Provisions relating to audit of Government Corporations are contained in Sub-sections (2) and (3) of Section 19 of the Act. Sub-section (2) provides that the duties and powers of the Comptroller and Auditor General in relation to audit of the accounts of corporations (not being companies) established by or under law made by Parliament shall be performed and exercised by him in accordance with the provisions of the respective legislation. The word 'Legislation' used in this Sub-section refers not only to parent acts relating to the corporations but also to rules and regulations framed by competent authorities by virtue of the powers vested in them under the relevant Acts of Parliament. The responsibility of the Comptroller and Auditor General for audit under this Sub-section is only in respect of those corporations that are specifically required to be audited by him in terms of the applicable legislation.

2.6.2 Under Sub-section (3) of Section 19 of the Act, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly can entrust, in public interest, the audit of the accounts of a corporation established by law made by the State/Union Territory Legislature to the Comptroller and Auditor General after prior consultation with him and after giving reasonable opportunity to the corporation to make representation with regard to the proposal for such audit. This Sub-section does not provide for settlement of terms and conditions but it is in the mutual interest of the Government and the autonomous bodies that the terms and conditions are settled in respect of audit as in the case of audit under Section 20(1) of the Act (see paragraph 2.6.8 below). It is to be noted that audit of a corporation established by a State or Union Territory law and not of a corporation established under a State or Union Territory law can be entrusted to the Comptroller and Auditor General under Section 19(3) of the Act. Section 19-A of the Act, inserted by the Amendment Act of 1984, makes it obligatory for the Comptroller and Auditor General to submit his reports relating to the accounts of a Government company or a corporation subject to audit under Section 19 to the Government(s) concerned and for the latter to lay such reports before the Parliament or the State or Union Territory Legislature, as the case may be.

#### **Audit of certain authorities or bodies**

2.6.3 The audit of bodies and authorities not falling under Section 19 of the Act is governed by Sections 14, 15 and 20. The terms 'Body' and 'Authority' used in these Sections or Constitution have not been defined therein. However, 'Authority' has been interpreted to mean a person or body exercising power or command, while 'Body' has been interpreted to mean an aggregate of persons, incorporated or unincorporated. The terms 'body' or 'authority' used in Sections 14, 15 and 20 of the Act will thus include companies, corporations, etc. and it is open to take up audit of the accounts of a company or corporation, not covered by Section 19 of the Act, under Section 14 or Section 20, if the conditions specified in them are fulfilled.



## **A. Audit under Section 14**

2.6.4 Under Sub-section (1) of Section 14 of the Act, it is obligatory for the Comptroller and Auditor General to audit all receipts and expenditure of any body or authority and to report thereon, if the body or authority has been substantially financed by grants or loans from the Consolidated Fund of India, or of any State or Union Territory having a Legislative Assembly. A body or authority is deemed to be so financed if the amount of grant or/and loan to it in a financial year is not less than Rs 25 lakhs and is also not less than 75 *per cent* of its total expenditure in that year. Audit under this Section is subject to the provisions of any law applicable to the body or authority, and will co-exist with and complement the audit arrangements, if any, that may be specified in such law.

2.6.5 Where the amount of grants and /or loans from the Consolidated Fund of India or of a State or Union Territory having a Legislative Assembly, as the case may be, to a body of authority in a financial year is less than 75 *per cent* of its total expenditure during that year, Sub-section (2) of Section 14 empowers the Comptroller and Auditor General to audit all its receipts and expenditure with the previous approval of the President or the Governor of the State or the Administrator of the Union Territory, as the case may be, if the amount of such grants and/or loans was not less than Rs one crore. However, if the amount of grants and/or loans is not less than Rs one crore and also forms not less than 75 *per cent* of the total expenditure of the institution, it will attract audit by the Comptroller and Auditor General under Sub-section (1). Only when the later part of this condition is not satisfied, audit under Sub-section (2) will arise. Once an institution comes under the audit of Comptroller and Auditor General by virtue of the provisions of Sub-section (1) or (2) of Section 14, such audit will continue for two more years following under Sub-section (3), even if the conditions prescribed in Sub-sections (1) and (2) are not fulfilled in those years.

**Note:** *The provisions of Sub-sections (2) and (3) of Section 14 referred to above are applicable only with effect from the financial year 1983-84.*

## **B. Audit under Section 15**

2.6.6 Section 15 of the Act describes the functions of the Comptroller and Auditor General in the case of a grant or loan given for any specific purpose from the Consolidated Fund of India or of a State or Union Territory having a Legislative Assembly to any authority or body. Under Sub-section (1) of this Section, the Comptroller and Auditor General is responsible for scrutinizing the procedures by which the authority sanctioning such grants or loans satisfies itself as to the fulfilment of the conditions subject to which such grants or loans were given. Such scrutiny by the Comptroller and Auditor General is, however, not attracted where the beneficiary body or authority is a foreign State or international organization. In other cases too, the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, may, if he considers it necessary in the public interest, relieve the Comptroller and Auditor General from making such scrutiny. However, prior consultation with the Comptroller and Auditor General is necessary in these cases.

2.6.7 Sub-section (1) also confers on the Comptroller and Auditor General the right of access, for the purpose of scrutiny under that Sub-section, to the books and accounts of the beneficiary body or authority. However, in terms of Sub-section (2), if the beneficiary is a corporation and its parent legislation provides for audit of its accounts by some other agency, the Comptroller and Auditor General can have the

right of access to its books and accounts only if he is authorized so to do by the President or the Governor of the State or the Administrator of the Union Territory having a Legislative Assembly, as the case may be. Such authorisation can be given only after consultation with the Comptroller and Auditor General and after giving a reasonable opportunity to the corporation to make representations with regard to the proposal to give the Comptroller and Auditor General the right of access to its books and accounts.

### **C. Audit under Section 20**

2.6.8 The provisions contained in Section 20 of the Act are in the nature of enabling ones covering bodies and authorities which do not come under the audit of the Comptroller and Auditor General. Under Sub-section (1) *ibid.*, the Comptroller and Auditor General is required to audit the accounts of any such body or authority, if requested so to do by the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be. Such a request can, however, be made only after consultation with the Comptroller and Auditor General. For conducting the audit, the Comptroller and Auditor General will have right of access to the books and accounts of the body or authority concerned. The Sub-section envisages that the terms and conditions on which he will undertake the audit may be mutually agreed upon between the Comptroller and Auditor General and the Government concerned. The standard terms and conditions laid down in this behalf by the Comptroller and Auditor General, which are also applicable to audit undertaken by him under Sub-section (3) of Section 19 of the Act, vide paragraph 2.6.2, are contained in the Annexure to this chapter.

2.6.9 Under Sub-section (2) of Section 20, where the audit of accounts of a body or authority has not been entrusted to the Comptroller and Auditor General by law and he is of the opinion that such audit is necessary because a substantial amount has been invested in or advanced to the body or authority by the Central or State Government or by the Government of a Union Territory having a Legislative Assembly, he may propose to the President or the Governor of the State or the Administrator of the Union Territory, as the case may be, that he may be authorized to undertake the audit. On such proposal, he may be empowered to undertake the audit by the authority concerned.

2.6.10 The entrustment of audit to the Comptroller and Auditor General under either of these two Sub-sections of Section 20 is subject to two pre-conditions: the President or the Governor of the State or the Administrator of the Union Territory, as the case may be, should be satisfied that it is expedient so to do in the public interest; and a reasonable opportunity should have been given to the body or authority concerned to represent with reference to the proposal.

### **Audit Objectives and Scope**

2.6.11 The objectives of audit of accounts of autonomous institutions under Sections 14, 19 and 20 of the Act are two-fold: the first is aimed at watching utilization of the financial assistance provided by Government and the second is concerned with the certification of annual accounts. Though the scope of audit under all these Sections can cover both these objectives depending on the facts of each case, in practice however, the certification of annual accounts is undertaken only under the provisions of Sections 19 and 20, while the audit of utilization of Government assistance can be undertaken under all the Sections. In the case of autonomous bodies which depend on Government to a considerable extent for financial assistance for execution of their

schemes or to tide over ways and means difficulties, mere certification that the accounts present a true and fair picture of the body on a particular day cannot be considered adequate for the purpose of audit. It is essential in all such cases to go beyond the requirement of certification of annual accounts and to probe into aspects relating to efficiency, performance, propriety, etc. in relation to the utilization of the resources made available to them by Government. For all practical purposes, no distinction need be drawn between “audit of receipts and expenditure” referred to in Section 14 of the Act and “audit of accounts” referred to in Sections 19 and 20.

2.6.12 In cases where any body or authority is having separate audit arrangements under the legislation constituting it, audit by the Comptroller and Auditor General will co-exist therewith.

2.6.13 In cases where the rules, regulations, articles of association, etc. of any body or authority incorporate the duties and powers of Comptroller and Auditor General in regard to the audit of its accounts, it should be seen that they are stated in discretionary, as opposed to mandatory, terms. There will not be any objection to the conditions of any grant, loan or investment including the stipulation that an auditor may be appointed on the advice of the Comptroller and Auditor General. The appointment of a chartered accountant as an auditor can be recommended even if the audit is not entrusted to the Comptroller and Auditor General.

2.6.14 When the audit of an institution is taken up by the Comptroller and Auditor General, its scope should be determined after taking into account the existing audit arrangements and after making a professional review of the prevalent audit systems. For example, the scope of audit, periodicity of audit, percentage of test check, etc. in relation to local bodies audited by the Examiner of Local Fund Accounts, should be determined in the light of periodical reviews of the adequacy of the audit conducted by him. The audit systems being applied to any class of institutions should be reviewed before taking up their audit. Such a review has to be supplemented by an occasional audit of individual transactions.

2.6.15 The adequacy of the existing audit arrangements in respect of an institution is to be judged by (i) the regularity with which it is audited; (ii) the coverage of such audit, (iii) the qualifications and expertise of the audit personnel; (iv) their independence; (v) the promptness in reporting the audit findings; (vi) the quality of reporting; and (vii) the action taken by the authorities to whom the audit findings are reported. Attention of the appropriate authorities should be drawn where the audit arrangements are not adequate and, if need be and permissible, the audit should be taken up by the Comptroller and Auditor General. It is not essential for him to take up detailed audit in cases where the audit arrangements are found to be adequate.

2.6.16 Whenever public moneys are involved, the Constitution and the Act delineate the unique role of Comptroller and Auditor General in the audit of accounts. It is, however, not feasible or desirable that the audit of each individual transaction should be undertaken by him. Section 24 of the Act authorises the Comptroller and Auditor General to dispense with, when circumstances so warrant, any part of detailed audit of any accounts or a class of transactions and to apply such limited checks in relation to such accounts or transactions as he may determine. The use of the words “audit all receipts and expenditure” in Sub-sections (1) and (2) of Section 14 of the Act and of the word “shall” in Sub-sections (1) and (3) of Section 14, Sub-sections (2) and (3) of Section 19 and Sub-section (1) of Section 20 are not, therefore, to be construed as meaning that whenever audit is taken up it is imperative that it should be a comprehensive audit of all transactions. Similarly use of the word “may” in Sub-

section (2) of Sections 14 and 20 does not in any way restrict the scope of audit, once it is entrusted to the Comptroller and Auditor General. The extent of audit to be undertaken by the Comptroller and Auditor General is to be determined with reference to the circumstances of each case.

2.6.17 While the bulk of the work connected with the audit or check of individual transactions may be left to primary auditors, where appointed, the overall responsibility of Audit for regularity audit cannot be abrogated. Similarly, aspects of economy, efficiency and effectiveness have to be looked into by Audit and the performance or achievements of the institution evaluated have to be looked into by Audit even where primary auditors have been appointed.

#### **Procedure for taking up audit**

2.6.18 Section 14(2) of the Act empowers the Comptroller and Auditor General to audit, with the prior approval of the President or Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, the receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund(s) is not less than rupees one crore in a financial year. Similar provision to obtain prior authorisation exists in Section 20(2) of the Act in regard to the audit to be undertaken by the Comptroller and Auditor General at his initiative of the accounts of any body or authority. Again, Sub-section (2) of Section 15 of the Act envisages such prior authorization for the Comptroller and Auditor General to have access to the books and accounts of a corporation for the purpose of his scrutiny under Sub-section (1) of Section 15, if its accounts are audited by another agency under the provisions of the law establishing the corporation. Suggestions for taking up audit under Section 14(2) or Section 20(2) of the Act or asking for right of access to the books of the concerned institution under Section 15(2) of the Act may be made subject to the specific or general approval of the Comptroller and Auditor General, especially in cases where:

- (i) control by the sanctioning agency is inadequate;
- (ii) the state of accounts is known to be unsatisfactory;
- (iii) there are chronic delays in finalisation, submission or audit of accounts;
- (iv) there are no arrangements for audit by an agency outside the control of the institutions;
- (v) institutions undertaking manufacturing or trading activities suffer persistent losses; and
- (vi) Government stands guarantee for large amounts though the amount of its own grant, loan or investment, as the case may be, is small.

2.6.19 Any formal proposal for the Comptroller and Auditor General to take up the audit of a body or authority under Section 14(2) or Section 20(2) or to secure the right of access to the books and accounts of a corporation under Section 15(2) should be preceded by a personal discussion by the Accountant General with the Finance Secretary and the Secretary of the concerned Department.

2.6.20 In order that there may not be any difficulty in taking up the audit, the Government should be persuaded to include in the conditions sanctioning grants, loans or investments, an enabling clause to the effect that the books and accounts of the recipient institutions should be made available to the Comptroller and Auditor General for his scrutiny or audit, wherever and whenever necessary.

2.6.21 Whenever audit of any institution is taken up for the first time, it is desirable that it is preceded by a personal discussion with the head of the institution and other senior officials in order that they do not entertain any apprehension regarding the purpose and scope of the audit.

### **Audit approach and procedures**

#### **Systems Approach**

2.6.22 The same systems approach should be adopted in regard to audit of accounts and of transactions of any institution regardless of whether the audit is undertaken as a sole auditor or otherwise. As the first step, the adequacy of various accounting systems and procedures, whether set out in the form of a manual or otherwise, should be examined and the extent of check of individual transactions should be determined based on the results of such examination. This is all the more necessary since generally only a small percentage of the transactions is checked in audit and Audit cannot escape responsibility if significant deficiencies in the accounting systems and procedures lead to misuse or abuse of public monies. Though Audit cannot insure against defalcation and frauds, the possibility of their occurrence should be duly kept in mind while preparing for and conducting audit.

2.6.23 Sanctions constituting local bodies ordinarily prescribe what classes of receipts are to be credited to them, what classes of expenditure are to be admitted against them and who will be the controlling authority. The Accountant General should see that the prescribed rules are followed in regard to receipts and expenditure and he should, for this purpose, obtain sufficient information in respect of all items of the account in each case, either in the form of vouchers or in some other form as may be considered necessary.

#### **Examination of systems and procedures**

2.6.24 It is necessary to examine whether appropriate and adequate systems and procedures are in place for:

- (i) proper accounting of receipts, expenditure and assets;
- (ii) monitoring of unrealized revenues and undischarged liabilities;
- (iii) general control over expenditure;
- (iv) sanctions to expenditure, remission of revenues and transfer/disposal of assets;
- (v) safe custody of cash, stores and other assets; and
- (vi) purchases and conclusion of contracts.

2.6.25 It should then be examined whether:

- (i) the institutions have proper organizational arrangements for the discharge of accounting functions;
- (ii) responsibilities for the performance of all duties in relation to the accounting functions are clearly defined and specifically assigned to appropriately qualified staff; and
- (iii) the accounting system provides information necessary for:
  - (a) efficient and economical management of the operations of the body and the resources entrusted to it;
  - (b) proper monitoring of the activities by Government which has a substantial stake in it; and

- (c) a meaningful evaluation of its achievements and shortcomings by external agencies, including Audit.

2.6.26 Unless otherwise provided, the audit of the accounts of non-commercial autonomous bodies entrusted to the Comptroller and Auditor General under the relevant Acts setting up these bodies should be conducted in accordance with the general principles and rules prescribed by him to regulate the audit of Government accounts. These principles and rules are to be followed for audit of the accounts of any local fund, public or quasi-public fund or non-Government institution or any other body or authority also, unless otherwise provided. The broad aim of Audit should be to ascertain how well these bodies are discharging their financial responsibilities and how far the funds placed at their disposal are utilized in fulfilment of the objects envisaged by Government. In this context, it should be examined whether:

- (i) the objectives of the organization have been clearly defined and are in conformity with the Government's policies and decisions;
- (ii) policies and programmes have been formulated in accordance with these objectives and are being implemented based on specific and well defined procedures;
- (iii) systems exist for the collection and collation of reliable progress reports on the implementation of policies and programmes;
- (iv) progress is reported periodically to the Governing body of the organization and Government and such reports are adequate, timely and accurate; and
- (v) internal control mechanisms are adequate and effective.

2.6.27 Whenever scrutiny of the books and accounts of bodies and authorities receiving specific purpose grants or loans is taken up under Section 15 of the Act (vide paragraph 2.6.6), it should be seen that the body/authority has complied with the procedure prescribed for reporting their utilization; that the grants or loans have actually been utilized; and the conditions governing them have been duly observed.

2.6.28 In the audit of these accounts, Audit should not make independent enquiries of tax payers or of the general public unless such a procedure is expressly authorized by statutory regulations or executive orders.

### **Audit Reporting**

2.6.29 Ordinarily, the report of the Comptroller and Auditor General in relation to the accounts of a body or authority audited under Section 19 or Section 20 of the Act is required to be sent to the body or authority and the Government concerned unless a separate procedure has been prescribed in the relevant legislation creating the body or authority. Under Section 19-A of the Act, the reports of the Comptroller and Auditor General in relation to corporations audited under Section 19 of the Act are required to be submitted to the Government or Governments concerned for being placed before the Parliament or State Legislature. In the case of bodies and authorities audited under Section 20 of the Act, the audit reports are placed before Parliament or the State/Union Territory Legislature if the relevant Act/rules and/or regulations governing the body or authority provide for such submission or if the Government concerned has decided to place them before the Legislature.

2.6.30 In all cases where the Audit Reports are placed before the Parliament or the State/Union Territory Legislature, the reports should be shown to the Comptroller and Auditor General at the draft stage. Simultaneously, a copy may be sent to the body or

authority and the Government concerned for their comments, if any, After the draft reports have been approved, these will be signed by the Principal Audit Officer, unless the Act or rules made thereunder specifically provide for their being signed by the Comptroller and Auditor General, and forwarded to Government for being placed before the Parliament or the Legislature.

2.6.31 No separate audit reports are issued in case of bodies or authorities audited under Section 14 of the Act. Instead, important audit observations are incorporated in the conventional Audit Report submitted under Article 151 of the Constitution. Important comments in respect of audits under Sections 19 and 20 of the Act can also be incorporated in the conventional Audit Reports in addition to the separate audit reports.

#### **Other Guidelines**

2.6.32 Detailed instructions for the conduct of audit of bodies and authorities under the provisions of Sections 14, 15, 19 and 20 of the Act are contained in the Manual of Instructions for Audit of Autonomous Bodies and are supplemental to the provisions in this Manual. The Accountant General may issue further instructions wherever necessary with reference to the nature of different bodies and authorities and their activities and transactions.

2.6.33 The procedure for settlement of objections incorporated in a Separate Audit Report is also contained in the Manual of Instructions for Audit of Autonomous Bodies.

**ANNEXURE**  
**(Referred to in Paragraph 2.6.8)**

**Standard Terms and Conditions for Acceptance of Audit**

1. The Comptroller and Auditor General may suggest the appointment of a primary auditor to conduct audit on his behalf and on the basis of directions/guidelines issued by him. Where such an Auditor is appointed, the fees will be payable by the institution to that auditor. Where such an auditor is not appointed, expenditure incurred by the Comptroller and Auditor General in connection with the audit will be payable to him by the institution.
2. In addition to the audit to be conducted by the primary auditor where so appointed, Comptroller and Auditor General will have the right to conduct a test check of the accounts and to comment on and supplement the report of the primary auditor.
3. The Comptroller and Auditor General or any person appointed by him in connection with the audit shall have the same rights, privileges and authority as the Comptroller and Auditor General has in connection with the audit of Government accounts.
4. The result of audit will be communicated by the Comptroller and Auditor General or any person appointed by him to the Governing body which shall submit a copy of the report along with its observations to the Government. The Comptroller and Auditor General will also forward a copy of the report directly to the Government.
5. The audit is entrusted to the Comptroller and Auditor General in public interest for a period of five years' accounts from the year ..... to ..... in the first instance, subject to a review of the arrangements thereafter.
6. The scope, extent and manner of conducting audit shall be as decided by the Comptroller and Auditor General.
7. The Comptroller and Auditor General will have the right to report, at his discretion, the results of audit to the Parliament/ Legislature.





**ANNEXURE**  
**(Referred to in Paragraph 2.6.8)**

**Standard Terms and Conditions for Acceptance of Audit**

1. The Comptroller and Auditor General may suggest the appointment of a primary auditor to conduct audit on his behalf and on the basis of directions/guidelines issued by him. Where such an Auditor is appointed, the fees will be payable by the institution to that auditor. Where such an auditor is not appointed, expenditure incurred by the Comptroller and Auditor General in connection with the audit will be payable to him by the institution.
2. In addition to the audit to be conducted by the primary auditor where so appointed, Comptroller and Auditor General will have the right to conduct a test check of the accounts and to comment on and supplement the report of the primary auditor.
3. The Comptroller and Auditor General or any person appointed by him in connection with the audit shall have the same rights, privileges and authority as the Comptroller and Auditor General has in connection with the audit of Government accounts.
4. The result of audit will be communicated by the Comptroller and Auditor General or any person appointed by him to the Governing body which shall submit a copy of the report along with its observations to the Government. The Comptroller and Auditor General will also forward a copy of the report directly to the Government.
5. The audit is entrusted to the Comptroller and Auditor General in public interest for a period of five years' accounts from the year ..... to ..... in the first instance, subject to a review of the arrangements thereafter.
6. The scope, extent and manner of conducting audit shall be as decided by the Comptroller and Auditor General.
7. The Comptroller and Auditor General will have the right to report, at his discretion, the results of audit to the Parliament/ Legislature.