

*For internal use in Indian Audit and Accounts Department only*

**MANUAL FOR EXTERNAL AIDED  
PROJECTS**  
(First Edition 2013)

*Manual/44*

**ISSUED BY: THE PRINCIPAL ACCOUNTANT GENERAL (G&SSA), KERALA.**



## PREFACE

This is the 1<sup>st</sup> edition of Manual on Certification of Centrally Sponsored/Central Plan/State Plan Schemes and Externally Aided Projects after the formation of the Office of the Principal Accountant General (Audit).

The instructions in this Manual supplement those contained in various Codes & Manuals issued by Government of India and instructions and circulars issued by C&AG of India.

This Manual is intended to guide the HQrs and field parties dealing with certification of CSS/CPS/SPS/EAPs in the State.

Apart from the guidelines for certifying the Statement of Expenditure of CSS/CPS/SPS/EAPs, this Manual contains audit practices consistent with Auditing Standards of CAG of India & INTOSAI.

SGS.II (HQ) III Section will be responsible for keeping this Manual up-to-date.

Thiruvananthapuram  
Dated: 30/04/2013

  
(R.N Ghosh)  
Principal Accountant General (G&SSA)  
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## INTRODUCTORY

The AG's Office was bifurcated w.e.f.1.3.84 into 2 distinct Offices (1) O/o the AG (A&E) dealing with Accounts and Entitlement and (2) O/o the Prl.AG (Au) dealing with all audit functions. The work relating to Certification of CSS/CP/SP/EAPs was originally done by Central Audit Section for Finance Accounts and Appropriation and a Cell named 'EAP Cell' was attached to Co-Ordination for monitoring work of certification of Externally Aided Projects. In April 1999 the works of certification of CSS/CP/SP/EAPs from the then Finance and Appropriation Audit Section and EAP Cell of Co-ordination Section were shifted to a newly formed EAP Section. In January 2010 EAP Section has been merged with Spl. Cell (HQ) III. Consequent on restructuring w.e.f April 2012, Spl Cell (HQ) III Section has been renamed as SGS-II(HQ)III Section.

The Manual has 2 chapters.

1. Dealing with CSS/CP/SP and
2. Dealing with Externally Aided Projects.



## **CHAPTER I**

### **Certification of Central Plan/Schemes**

#### **1.01 General**

Government of India releases each year, assistance in the form of Grants and/or Loans to various States/Union Territory Governments for various Central and Centrally Sponsored Schemes, in accordance with the pattern specified in the sanctions relating to these Schemes. While certain schemes are fully financed by the Central Government, expenditure on some others is shared between the Central Government and the State/Union Territory Governments. For State Plan Schemes, the assistance takes the form of block grants and loans which is related to the total outlay allotted for the State Plan, as a whole, by the Planning Commission without linkage with individual schemes except to the extent of certain earmarked categories like Power, Major Irrigation, Elementary Education etc. and some other schemes of Agriculture and allied sectors.

3.23.16 of MSO (Audit) (2<sup>nd</sup> Edition)

In majority of cases of Centrally Sponsored Schemes, assistance is released in advance by Government of India based on the claims put forward by the State/Union Territory Governments subject to final adjustment on the basis of actual expenditure in due course.

According to the procedure prescribed by the Ministry of Finance for finalising the assistance relating to Plan Schemes, the final claims are to be preferred by the State/Union Territory Governments on the basis of audited figures of

expenditure in the prescribed proforma, vide Circular letter No.F6(68)-P/69 dated 13.01.1975 from the Ministry of Finance-Annexure –I.

3.23.17 of MSO (Audit) (2<sup>nd</sup> Edition)

- 1.02 After the accounts of the year are closed, the Principal Accountant General (A&E) will prepare scheme-wise statements of expenditure with reference to Finance and Detailed Appropriation Accounts, for the grants in question indicating therein the items kept under objection by him and furnish them to the Principal Accountant General (G&SSA) for Audit and Certification. The section in the office of the Principal Accountant General(G&SSA) will, in the meantime, collect scheme-wise departmental statements of expenditure in the prescribed format and details of amounts kept under objection in respect of the schemes in the concerned IAU/EPA/OA(HQrs) Section during the course of Central Audit of Vouchers/Review of Schemes/Local Audit.

3.23.18 of MSO (Audit) (2<sup>nd</sup> Edition)

- 1.03 Audit is arranged on receipt of departmental/ statement of expenditure. Then the section responsible for issuing Audit Certificates will prepare audited statements of expenditure with reference to the statements received from the A&E Office, and the Departments concerned and forward certified copies of these statements indicating the amounts objected to by both the A&E and Audit Offices to the Ministry of Finance/concerned ministries in the prescribed format referred to in 1.01 with copy to the State/Union Territory Governments to enable the latter to prefer the final claims. Wherever necessary, local verification of departmental accounts is also held by the Audit Officer prior to certification to ascertain whether the norms of



'regularity' had been observed while incurring expenditure vide consolidated circulars of CAG issued in EAP/11/7-25/G1/Vol.111 dated 27.6.2006.

1.04 In order to facilitate timely action, the following information should be called for from the Central Plan Monitoring unit in Government Secretariat/Planning Board as soon as the accounts of the year are closed.

(i) Number of schemes and their details.

(ii) Details of the Heads of account, including sub-heads and detailed heads, under which expenditure on each individual scheme is booked.

(iii) Sanctions of the Union and State Governments pertaining to each scheme.

(iv) Particulars of all implementing agencies executing the schemes throughout the State.

(v) Budget provisions and details of systems in force for control over expenditure

3.23.19 of MSO (Audit) (2<sup>nd</sup> Edition)

1.05 While certifying the expenditure, objections of a routine nature such as want of sub-vouchers, absence of budget allotment etc. which would not affect the central assistance may be ignored. However, it should be seen that

(a) The amounts drawn in abstract bills for which detailed bills are not submitted are excluded.

(b) Any item of expenditure ineligible for central assistance with reference to the terms of such assistance or the instructions of Government of India is not included, and if the exact amount of these items cannot be determined, a qualification to that effect is made.

- (c) Any point of doubt regarding eligibility for Central assistance has been got clarified by reference to the ministry concerned; and
- (d) The certificate is qualified that it is without prejudice to the right of the Comptroller & Auditor General of India to include in the Audit Report any audit comments in regard to utilisation of central assistance by State Government emerged as a result of Audit.

3.23.21 of MSO (Audit) (2<sup>nd</sup> Edition)

1.06 Whenever expenditure is not identifiable for purpose of certification, as much information as may be available in the accounts records of the Accountant General (A&E) should be furnished, leaving it to the Ministry of Finance to call for such further information as may be necessary from the State/Union Territory Governments for finalisation of the central assistance. The following procedure may be adopted in such cases.

- (1) If the Finance Accounts and Detailed Appropriation Accounts give the break-up of expenditure under the three categories of schemes (State Plan Schemes, Central Plan Schemes and Centrally Sponsored Schemes), the Accountants General would give the figures of expenditure duly supported by scheme wise details to the extent available; otherwise Accountants General would give the total plan expenditure under each minor head duly supported by scheme-wise expenditure to the extent available in the Detailed Appropriation Accounts or the Consolidated Abstracts.



(2) Loans and Grants given to Local Bodies and Autonomous Bodies will be treated as final expenditure for the purpose of adjustment of plan assistance.

(3) In cases where the Principal Accountant General (G&SSA) has been unable to certify the amounts held under objection for want of Detailed Contingent Bills or Utilisation Certificates for a particular plan scheme or a category of schemes, these should be excluded from figures of expenditure, while furnishing the certificates. In cases, where the Principal Accountant General(G&SSA) is unable to identify the particulars of individual schemes or categories of schemes to which the objection relates, he would qualify the certificates to indicate that scheme-wise details of amounts held under objection are not available and are being obtained from the departmental officers.

(4) In cases where comprehensive audit has been made by the Principal Accountant General (G&SSA) of the State Plan Schemes/Central Plan Schemes/Centrally Sponsored Schemes, he would invite attention to the relevant paragraph of the Audit Report containing the review of such schemes, so that Government of India can take into account the irregularities mentioned therein at the time of final adjustment of the assistance.

3.23.22 of MSO (Audit) (2<sup>nd</sup> Edition)

1.07 The audited statement of expenditure of State Plan Schemes is forwarded to the Ministry of Finance, with copy to Finance Department, Government of Kerala. Expenditure Statements on Centrally Sponsored Schemes are

forwarded to the concerned ministries under Government of India. Copies of the certificates are sent to finance and administrative departments in the State Secretariat.

- 1.08 Due to heavy pendency in reconciliation of departmental figures in respect of the schemes with those furnished by the Principal Accountant General(A&E) for the last so many years, it has been decided locally to obtain departmental figures before adopting figures booked by the Principal Accountant General(A&E). Based on the request of Audit, Government of Kerala issues circular instructions from time to time to the departments implementing the schemes to furnish the details of departmental figures of actual expenditure on Central Sector/Centrally Sponsored Schemes implemented by them directly and also in respect of schemes implemented through special agencies in the prescribed proforma before 15<sup>th</sup> August of the succeeding year. The letter to Government of Kerala (Finance Dept.) is issued during the month of May every year.
- 1.09 Monthly progress report on issue of Audit Certificates pertaining to Centrally Sponsored/Central Plan/State Plan Schemes is due to be submitted to the Principal Accountant General (G&SSA) not later than 10<sup>th</sup> of the succeeding month.
- 1.10 Due date fixed for completion of certification of the schemes is 31<sup>st</sup> October, every year.
- 1.11 Circular enclosed as Annexure -2.



(Referred to in para 1.01)

(Referred to in para 1.01)

## Central Plan Schemes

[illegible]

## ANNEXURE -2

No.EAP/II/7-25/G1/Vol.III

Dated: 27.07.2006

### CIRCULAR

Sub: - Certification of Expenditure relating to Central Plan/Centrally

Sponsored Schemes.

1. Taking into account the large scale irregularities noticed in the implementation of the Plan Schemes, the HQrs office has directed that audit certificates should be issued after conducting local audit wherever necessary.
2. The following instructions are issued for the guidance of the field parties entrusted with the certification of plan schemes based on HQrs instructions and provisions in MSO (Audit) 2002.
  - (a) An elaborate process of efficiency cum performance audit is not expected. The audit should be mainly confined to regularity in expenditure. In respect of the schemes where the expenditure is incurred mainly on salary to staff sanctioned for the purpose, and where the expenditure incurred is prima-facie, genuine, and more or less similar to those of the figures (reconciled) booked by the Principal Accountant General (A&E), audit certificates could be issued straight away without detailed audit scrutiny, limiting the expenditure to the figures booked by Principal Accountant General (A&E).
  - (b) In respect of schemes where audit certificates could be issued only after audit scrutiny, the following points may be specially looked into-

- (i) The relevant scheme files maintained in the EAP Section should be verified to have an idea of the terms & conditions of the grant and also to see relevant points mentioned in the audit certificates issued previously.
- (ii) The correctness of figures shown in the Statement of Expenditure should be checked with the reconciled figures booked by Principal Accountant General (A&E) and reason for discrepancies if any should be probed.
- (iii) It is possible that some schemes classified as Centrally Sponsored Schemes may be State Plan or Non Plan Schemes or vice versa. Details of such schemes may be mentioned in the reports to be given to EAP Section.
- (iv) The amount withdrawn from the Consolidated Fund of India and paid to autonomous institutions or local bodies, but not utilised for the purpose for which it is meant may be commented and excluded for the purpose of certification.
- (v) The amount withdrawn from the Consolidated Fund of India and paid to Public sector undertakings with specific direction that it should be kept in Personal Ledger Account to be opened in the treasury should be commented and excluded, as such withdrawals are done to ensure that the ways and means position is not affected.
- (vi) The amount withdrawn from the Consolidated Fund but kept in the Bank Account should be excluded.
- (vii) The amount withdrawn from the Consolidated Fund but kept in the form of cash, cheques, etc. should be excluded.
- (viii) The amount drawn in abstract contingent bills for which detailed bills have not been submitted should be excluded.



- (ix) Any item of expenditure found clearly ineligible for Central assistance with reference to the terms for such assistance or the instructions of the Government of India, is not included. If the exact amount of these items cannot be determined, a qualification to that effect may be made.
- (x) The instance of diversion of funds for purposes not envisaged under the scheme may be commented and excluded.
- (xi) In cases where comprehensive audit/review of any particular scheme has been made by Accountant General, attention of particular para(s) of the Audit Report/Inspection Report may be referred and suitable comments framed.
- (xii) While preparing report for each scheme, the net expenditure admitted and the amount disallowed should be specified with reasons thereof.
- (xiii) Necessary documents in support of disallowance of amount should be substantiated either by obtaining specific replies to Audit Enquiries or key documents.
- (xiv) While issuing Audit Certificates in earlier years, some items of expenditure included in the departmental Statement of Expenditure had been disallowed for various reasons like want of final (adjustment) bills against advance contingent bills drawn, amount kept in PD/SB, etc. amount unutilized, payments for supplies/services included in Statement of Expenditure but such debits appear in the books of the Principal Accountant General (A&E) later, etc. In such cases, the expenditure can be admitted and included in the current Audit Certificate (as distinct items), provided details/documents are produced for admitting such claims.

- (xv) Ensure that the departmental officer maintains separate files, registers, accounts etc. for each Centrally Sponsored Schemes. If the scheme is implemented through subordinate office/other agencies, ensure that the Controlling Officer maintains proper records to consolidate the accounts promptly.

3. Officers and members of field parties entrusted with the certification work of plan schemes will bestow their personal attention in completing the work as expeditiously as possible. The report/observation in respect of each scheme may be sent to Sr. Audit Officer EAP Section for issue of Audit Certificates. Details of the scheme/drawing officer and classification in respect of the amount held under objection during the course of audit should clearly be indicated in the Inspection Report. Relevant information in regard to Utilization Certificates not furnished may also be collected.

Tour programme will be given by the Section. Deviation, if any required from the given programme on account of local verification at the implementing agency outside Thiruvananthapuram etc. will be got approved in advance and the weekly diaries furnished to EAP Section.

## CHAPTER -II

### Audit and Certification of World Bank/External Agencies Aided Project

#### **2.01 General**

(1) The agreements for loan/development credit entered into by the International Bank for Reconstruction and Development & International Development Agency with the Government of India for financing development projects to be implemented by departments of the Central Government, Governments of States, Public Sector Undertakings and Autonomous bodies etc. include specific covenants for accounts and audit. These covenants inter-alia provide that the Government or the Project entity shall

(a) Maintain records and accounts adequate to reflect in accordance with sound accounting practice, the operations, resources and expenditures in respect of the project.

(b) Have the records and accounts of the project for each fiscal year audited in accordance with appropriate auditing principle consistently applied by independent Auditors acceptable to the Bank

(c) Furnish to the Bank within six months of the close of the year, a certified copy of the report of audit referred to in para 2 by the said Auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(d) For all expenditure in respect of withdrawals made on the basis of statements of expenditures (without documentation) furnish the report of audit referred to para (b) above as containing a separate opinion by the independent auditors, as to whether the statements of expenditure together with the procedures and



international controls involved in their preparation, can be relied upon in support of such withdrawals.

**2.02** New standardized Terms of Reference (TOR) for auditing WB assisted project been issued (Annexure III) Audit certification has to be done keeping in view the provisions contained in New Terms of Reference.

### **2.03 Scope of Audit**

The audit scope should be determined by the individual circumstances of activity supported by the Bank Loan. The Bank normally seeks assurance that the Annual Financial Statements fairly present the financial transactions and balances associated with the implementation of the project and the expenses financed by the loan were appropriate. For this purpose, expenditures are deemed appropriate if they were incurred for the purpose of the project and are eligible for Bank financing.

### **2.04 Periodicity of audit**

Generally Bank requires annual audit when projects are implemented by continuing entities, the fiscal reporting period of the entity will normally be used. For units created specifically to implement Bank - financed operation, reporting period of up to 18 months may be agreed at the beginning or end of a project, or when there is change in the date of final year end.

### **2.05 Audit opinion**

The financial statement to which the audit opinion is to be attached should indicate the terms on which Bank funding has been provided, normally no specific reference to eligibility is required in the audit opinion. Auditing Standards acceptable to the Bank require that the entity's internal control be reviewed to

determine whether they provide an acceptable basis for the preparation of the financial Statements. Therefore no specific reference to internal controls will normally be required in audit opinion. However, if Bank assesses that there is particularly high internal control risk which might significantly impact implementation of the project, or the use of Bank funds, a reference in the audit opinion or other appropriate form of assertion may be required.

[Guidelines published during June 2003]

**2.06** The World Bank has accepted the Comptroller & Auditor General of India(C&AG) to be an independent Auditor for the purpose of certification of accounts and issue of Audit Certificates in respect of projects being executed in India with the World Bank financial assistance. The standard audit covenant in the Loan Agreements in respect of projects executed by the Government departments and corporations, the audit of which vests with the C&AG is met by the Principal Accountant General (G&SSA) by furnishing to the project authorities for onward transmission to the Bank an integrated Audit Certificate within six months of the close of the financial year, in the prescribed form (Annexure I) based on irregularities noticed in central audit as well as local audit in relation to accounts of these projects.

3.17.11 of MSO (Audit) (2<sup>nd</sup> Edition)

**2.07** The annual accounts to be certified are the annual expenditure statements in respect of projects executed by the Government departments and the accounts that are certified by C&AG as sole Auditor in respect of projects executed by other bodies and authorities. If any further details are required by the World Bank, these are to be furnished by the project authorities. The integrated Audit Certificates are considered adequate for the purpose of World Bank and it would not be necessary for

the Bank to await the all inclusive Audit Report of the Comptroller & Auditor General submitted to the respective legislatures. As the Audit Certificate is not to be published as it is in the nature of a document exchanged between the clients and the Bank, the certificates should indicate, in brief, the amounts held under objection for want of vouchers, Detailed Contingent Bills, sanctions etc., and misclassification, defalcation, over payments etc., that come to notice.

3.17.12 of MSO (Audit) (2<sup>nd</sup> Edition)

**2.08** The audit of World Bank and other Externally Aided Projects under execution by the Project authorities /Government departments etc. under the audit jurisdiction of the Principal Accountant General (G&SSA) would be authorized by the Head Quarters from time to time. The Principal Accountant General (G&SSA) has to obtain the details of agreements, terms of loans, conditions etc., either directly from the Department of Economic Affairs, GOI, New Delhi or from State level authorities who implement the project.

3.17.3 of MSO (Audit) (2<sup>nd</sup> Edition)

**2.09** The State Government/Project authorities may be requested to furnish copies of annual accounts/ statement of expenditure simultaneously to both the Principal Accountant General (A&E) and Principal Accountant General (G&SSA). On receipt of these, while Principal Accountant General (A&E) may continue with process of reconciliation of figures and certification of figures based on the accounts maintained by him, the Principal Accountant General (G&SSA) should plan for test check of units under the project/departments so that as soon as the certified accounts figures are available, he is in a position to issue Audit Certificates. In case the Project authorities do not sent separate copies to the Principal Accountant General



(G&SSA), the Principal Accountant General (A&E) may provide a copy of the accounts (SOEs) as soon as he receives it, till the system is adopted by all the Project authorities/Government departments.

**2.10** List of EAPs for which SOEs have not been received by 30<sup>th</sup> April is to be informed to concerned Heads of Departments / Implementing Agencies by 1<sup>st</sup> of May every year.

Co-ordnII/Au/I/709 dated 22.05.2001.

**2.11** If the Externally Aided Projects are not separately identifiable in the Budget or these are spread over a few grants or is mixed up with other Centrally Sponsored Schemes, Principal Accountant General (A&E) may not be able to separately identify, project-wise expenditure and certify them. The problems is more acute in case of expenditure incurred on "Direction" and "Headquarters" , which are booked in lump sum in the Budget but are distributed to various schemes by the Project authorities when they submit the Statements of Expenditure. Keeping these facts in view, the Principal Accountant General (A&E) while certifying the annual accounts/ Statements of Expenditure should clearly indicate the correct position of the figures shown by him vis-à-vis the figures shown by the departmental authorities.

**2.12** The local audit of externally aided projects should be given priority. While the projects are to be covered during the normal audit of Drawing and Disbursing Officer/ Project authorities during the course of the year, wherever necessary, the audit may also be programmed specifically to cover Externally Aided Projects, whenever they do not fall in the normal course of audit cycle. Not only the project implementing authority but also the field units should be covered so that the Audit Certificate issued is based on test-check of transactions in the field.

**2.13** To facilitate the timely issue of Audit Certificates, the irregularities noticed in the central audit as well as local audit in relation to these projects should be distinctly recorded and separate files for certification and issue of Audit Certificates in respect of each project be maintained in cases where for some valid reasons, it is not possible to certify together the accounts and the statements of expenditure within six months of the close of the year. The statement of expenditure should be certified separately adopting suitably the relevant portion of the prescribed forms of the certificate in time.

5.08 of Financial Audit Manual Vol.VIII (19)

**2.14** When significant weakness came to the attention of the auditor during the course of audit that is not reflected in the audit opinion they should be reported in a management letter addressed to the borrower.

1. Weaker in Internal Control System
2. Inappropriate accounting policies and practices
3. Issues regarding general compliance with broad cover such as implementing the project with economy and efficiency.
4. Any other matter that the auditor considers to be brought to the attention of the borrower.

**2.15** The Audit Certificate in respect of projects executed by Government Companies are issued by Chartered Accountants who are statutory auditors of the Companies and not by the Comptroller and Auditor General who conducts only a supplementary audit, in such cases, under the Companies Act.

3.17.13 of MSO (Audit) 2<sup>nd</sup> Edn.

**2.16** It has to be ensured that there is no delay in verification and reconciliation of the expenditure, where necessary, by the Office of the Principal Accountant General (A&E) and reconciled accounts/ statements are passed on to the Audit Offices maintaining each category of objection and the amount thereof as performers records for the purpose of issuing Audit Certificates after adding the irregularities of the categories mentioned in Para 2.05 above which are noticed in audit.

5.10 of Central Audit Manual Vol. VIII (19)

**2.17** Main points to be borne in mind during certification.

(1) The Audit Report on the Project Financial Statements should be in accordance with the relevant Auditing Standards promulgated by the Comptroller and Auditor General which are reproduced in Annexure II.

(2) The format of Audit Certificate should be strictly followed and there should be no deviation. Two copies of the audited accounts and Audit Report are to be issued to the Project authorities and only intimation is sent to the Department of Economic Affairs, Ministry of Finance.

(3) The Report should be dated as of the date to which the Auditor has become aware of and considered the effects of events and transactions. This may be generally the final date of field work.

(4) On no account Inspection Reports or photocopies of Inspection Reports are to be enclosed, as audit comments. These are to be drafted properly and incorporated along with the certificates wherever necessary.

(5) The Government of India disallows any amount objected to by Accountant General and to that extent the reimbursement to the Project authorities by the State Government is reduced. In view of this, Accountant General has heavy



responsibility in properly auditing and certifying the figures. At the time of test check of audit of accounts in the field offices adequate attention should be paid.

(6) Cases of non-receipt of accounts/statement of expenditure by 31 July/ 31 August/ 30 September/ 30 November/ 31 December should be reported semi-officially to Heads of the Department concerned/Administrative Secretary concerned/ Finance Secretary/Chief Secretary/ Additional Secretary (FD). Ministry of Finance, Department of Economic Affairs, New Delhi by August/September and 1<sup>st</sup> week of December /15<sup>th</sup> January respectively under intimation to Headquarters office.

(7) Expenditure booked under the project head only is to be reconciled for the purpose of certification and not the whole expenditure booked under grants or major head.

(8) Audit certificates are to be issued for the entire expenditure under the project and not merely for the state share but also central share released in the shape of grants-in-aid. The certificate should cover the World Bank Project and should not include any other expenditure.

(9) It is not necessary that field units should provide application number/percentage of disbursement/commitment charges etc as these are monitored and mentioned centrally by the Ministry of Finance.

(10) The expenditure incurred under Inter-Continental Bid (ICB) mode or procurement may not be included in the Audit Certificate as these are held centrally which will be audited by the Principal Director of Audit, Central Revenue, New Delhi.

[Para 5.11 of Central Audit Manual Vol.VII]

(Para 3.16.22 and 3.16.23 of MSO (Tech), General Circular No.11-Audit-11 issued in letter No.711/Audit-11/93-86 dated 12.5.87, General Circular No.2 Audit 11/91 issued in letter No.201-Audit 11/9-90 dated 18.2.1991, General Circular No.11-Audit-11/91 dated 25.7.1991. General Circular No.07/92 issued in letter No.926 Audit 11/1-92/11 dated 11.8.1992 from the office of the C&AG) New Terms of Reference (TOR) for audit of World Bank Assisted projects issued vide circular No.02-Audit (EAP) and letter No.167 Audit (EAP/1-2007 dated 28.4.2009 of the C&AG).

**2.18** Returns to be received / furnished for timely monitoring of Certification.

1. SOEs in respect of World Bank/ Externally Aided Project from various implementing agencies are to be received in the Audit Office by 1<sup>st</sup> of May every year.

(HQrs Circular 3AII/2001 dated 22.05.2001 of Director General (Audit))

2. A monthly report on the issue of ACs in r/o EAPs is to be forwarded by 1<sup>st</sup> week of every month starting from the month of August of every succeeding financial year to HQrs Office.

3. Annual returns on the issue of ACs in r/o WB aided /EAP is to be sent to Co-ordination section by 10<sup>th</sup> January every year.

(Co- ordn II/175 dated 03-01-92)

**ANNEXURE-I**  
**(Reference Para 2.06)**  
**Sample Audit Report-Unqualified Opinion<sup>1</sup>**  
**Report of the Comptroller and Auditor General of India**

**Addressee<sup>2</sup>**  
**Report on the Project Financial Statements.**

We have audited the accompanying financial statements of the ----- Project financed under World Bank Loan No. -----/IDA, which comprise the Statement of sources and Applications of funds and the Reconciliation of claims to Total Applications of funds<sup>3</sup> for the year ended----- . These statements are the responsibility of the Project's management. Our responsibility is to express an opinion on the accompanying financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit examines, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the sources and applications of funds of-----Project for the year ended-----in accordance with Government of India accounting standards<sup>4</sup>.

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1. See relevant portion of Auditing Standards of the Comptroller and Auditor General of India as applicable from time to time for conditions where unqualified, qualified, adverse or disclaimers of opinion may appropriately be rendered.

2. The auditor's report should be addressed to the person stipulated in the underlying loan agreement as responsible for providing audited project financial statements.

3. Insert titles of other required statements and schedules included in or annexed to the project financial statements, if any.

4. Until the Ministry of Finance prescribes adoption of the accounting standards pronounced by GASAB or other body such as IPSAS, the accounting standards followed by the Government of India shall be the cash basis of accounting applied with due regard to the General financial rules, PWD codes, Treasury codes and similar financial rules and codes as rare in effect and applicable to the operations of the project.



In addition, in our opinion (a) with respect to SOEs, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred, and (b) except for ineligible expenditures as detailed in the audit observations, if any, appended to this audit report, expenditures are eligible for finalising under the Loan/Credit Agreement.

During the course of the audit, SOEs/FMRs (each application No. and amount to be indicated) and the connected documents were examined and these can be relied upon to support reimbursement under the Loan/Credit Agreement.

This report is issued without prejudice to CAG's right to incorporate the audit observations in the Report of CAG of India for being laid before Parliament/State or UT Legislature.

[Auditor's signature]

[Auditor's Address]

[Date]<sup>5</sup>

- 
5. The report should be dated as of the date to which the auditor has become aware of and considered the effects of events and transactions. This is generally the final date of field work, as opposed to the date of signing the Audit Report.

## ANNEXURE-II

### (Reference Para 2.17)

#### Excerpt from CAG's Auditing Standards (2<sup>nd</sup> Edition, 2002)

#### Chapter IV - Reporting Standards.

#### **11      The form and content of audit opinion and report.**

11.1      The form and content of all audit opinions and reports are founded on the following general principles.

(a) **Title**: The opinion or report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.

(b) **Signature and date**: The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which, in the case of regularity (financial) audits, may be beyond the period of the financial statements).

(c) **Objectives and scope**: The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.

(d) **Completeness**: Opinions should be appended to and published with the financial statements to which they relate, but performance reports may be free standing. The auditor's opinions and reports should be presented as prepared by the auditor. In exercising its independence CAG may acquire information from time to time, which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation the auditor should

consider the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.

(e) **Addressee**: The opinion or report should identify those to whom it is addressed, as required by the circumstance of the audit engagement and local regulations or practice. This is unnecessary where formal procedures exist for its delivery.

(f) **Identification of subject matter**: The opinion or report should identify the financial statements (in the case of regularity (financial) audits) or area (in the case of performance audits) to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited.

(g) **Legal basis**: Audit opinions and reports should identify the legislation or other authority providing for the audit.

(h) **Compliance with standards**: Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.

(i) **Timeliness**: The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

11.2 An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework



for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion.

11.3 An unqualified opinion is given when the auditor is satisfied in all material respects that.

- (a) The financial statements have been prepared using acceptable accounting basis and policies which have been consistently applied;
- (b) The statements comply with statutory requirements and relevant regulations,
- (c) The view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- (d) There is adequate disclosure of all material matters relevant to the financial statements.

11.4: **Emphasis of Matter**: In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references that are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

11.5 **Adverse opinion**: Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so

fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The working of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.

11.6 **Disclaimer of opinion:** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction that is so fundamental that an opinion, which is qualified in certain respects, would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

11.7 It is customary to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

1. See relevant portion of Auditing standards of the Comptroller and Auditor General of India as applicable from time to time for conditions where unqualified, qualified, adverse of disclaimers of opinion may appropriately be rendered.

2 ① The auditor's report should be addressed to the person stipulated in the underlying loan agreement as responsible for providing audited project financial statements.

3 ② Insert titles of other required statements and schedules included in or annexed to the project financial statements, if any.

*Circular No.02-Audit (EAP) and letter NO.167-Audit (EAP) 1-2007 dated 28.04.2009 of the C&AG.*

**Annexure III**  
**(Reference Para 2.02)**

**TERMS OF REFERENCE FOR THE AUDIT OF PROJECT FINANCIAL**  
**STATEMENTS OF [PROJECT NAME] (For audits conducted by CAG)**

**Background**

[Project Aims, Timelines and Objectives]<sup>1</sup>

**Objective**

The essence of the World Bank<sup>2</sup> audit policy is to ensure that the Bank receives adequate independent, professional audit assurance that the proceeds of World Bank loans were used for the purposes intended,<sup>3</sup> that the annual project financial statements are free from material misstatement and that the terms of the loan agreement were complied with in all material respects.

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*1. The back ground should normally include a detailed description of the project including information on project sources of funding. The purposes for which the funds are intended and a general description of implementing arrangements, including the organizational structure of all implementing entities.*

*2. "World Bank" includes the International Development Agency and the International Bank for Reconstruction and Development. "Loans" includes credits and grants to which the TORs would apply and "borrower" includes recipients of such loans.*

*3. The Bank's Charter [Article III Section V(b) IBRD's Articles of agreement and Article V Section I(g) of IDA's Articles of Agreement] specify that "The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non economic influences or considerations".*



The objective of the audit of the Project Financial Statement (PFS) is to enable this auditor to express a professional opinion as to whether (1) the PFS present fairly, in all material respects, the sources and applications of project funds for the period under audit examination, (2) the funds were utilised for the purposes for which they were provided, and (3) expenditure shown in the PFS are eligible for financing under the relevant loan or credit agreement. In addition, where applicable, the auditor will express a professional opinion as to whether the Financial Management Reports submitted by project management may be relied upon to support any applications for withdrawal, and whether adequate supporting documentation has been maintained to support claims made by project management for reimbursement of expenditures incurred under the Statement of Expenditure method of reimbursement.

The books of account that provide the basis for preparation of the PFS are established to reflect the financial transactions of the project and are maintained by the project implementation agency - Project Implementation Unit and the participating divisions.

### **Standards**

The audit will be carried out in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General of India. The auditor should accordingly consider materiality when planning and performing the audit to reduce audit risk to an acceptable level that is consistent with the objective of the audit. Although the responsibility for preventing irregularity, fraud, or the use of loan proceeds for purpose other than as defined in the legal agreement remains with the borrower, the audit should be planned so as to have a reasonable expectation of detecting material misstatements in the project financial statements.

## Scope <sup>4</sup>

In conducting the audit, special attention should be paid to the following:

- (a) All external funds have been used in accordance with the conditions of the relevant level agreements and only for the purposes for which the financing was provided. Relevant legal agreements include the Financing Agreement, the Project Agreement, and the Minutes of Negotiations:
- (b) Counterpart funds have been provided and used in accordance with the relevant legal agreements and only for the purposes for which they were provided;
- (c) All necessary supporting documents, records, and accounts have been kept in respect of all project transactions including expenditures reported via SOEs/SAs/ or FMRs where applicable. Clear linkages should exist between the books of account and reports presented to the Bank ; and
- (d) The project accounts have been prepared in accordance with consistently applied Government Accounting Standards <sup>5</sup> and present fairly, in all material respects, the financial situation of the project at the year end and of resources and expenditures for the year ended on that date.

*4. In response to identified project risks, the scope may be expanded to include a report or the expression of an opinion on specific aspects of the operation such as internal controls, compliance with Bank procurement policies, or efficiency and effectiveness in the use of loan proceeds.*

*5. Until such time as the pronouncements of the Government Accounting Standards Advisory Board are accepted and prescribed by the Ministry of Finance the accounting standards followed by the Government of India will be defined by the General Financial Rules, PWD codes, Treasury codes and similar financial rules and codes as are in effect and applicable to the operations of the project.*

## **Project Financial Statements**

### **The Project Financial Statements should include.**

- A. Statement of sources and Applications of Funds: The contents of Project Financial Statements (PFS) are specific to the Sector, the project design and the type of implementing entity. These formats therefore vary from one project to another. The formats of PFS are prepared in consultation with the implementing entity during the preparation of the project. See Annexure I for an example of a statement of sources and Applications of Funds that could be prepared for a project implemented by core government departments.
- B. Reconciliation of Claims to Total Applications of Funds. The PFS include reconciliation between expenditure reported as per the statement of sources and Applications of Funds and expenditure claimed from the World Bank through Statements of Expenditure (SOE), documented claims or report based methods of reimbursement. An example is shown at Annexure.2.
- C. Other Statements or Schedules as may be applicable in particular circumstances and as specified in the relevant legal agreements, such as :
  - A statement showing appropriate major heads of expenditure (say by Project Component/sub-components)
  - A summary of cumulative expenditures by category of expenditure such as buildings, equipment, furniture, vehicles, major rehabilitation of canals etc.



D. Management Assertion: Management should sign the project financial statements and provide a written acknowledgement of its responsibility for the preparation and fair presentation of the financial statements and an assertion that project funds have been expended in accordance with the intended purposes as reflected in the financial statements. An example of a Management Assertion Letter is shown at Annexure 3.

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#### **Statements of Expenditures and Financial Management Reports**

In addition to the audit of the PFS, the auditor is required to audit all Statements of Expenditures (SOEs) and/or Financial Management Reports (FMRs) for withdrawal applications made during the period under audit examination. The auditor should apply such tests as the auditor considers necessary under the circumstances to satisfy the audit objective. In particular, these expenditures should be carefully examined for project eligibility by reference to the relevant financing agreements. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor.

### Audit Report

An Audit report on the project financial statements should be prepared in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General of India. Those Standards require an audit opinion to be rendered related to the financial statements taken as a whole, indicating “unambiguously whether it is unqualified or qualified and if the latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion”<sup>6</sup>. In addition, the audit opinion paragraph will specify whether, in the auditor’s opinion, (a) with respect to SOEs, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred; and (b) except for ineligible expenditures as detailed in the audit observations, if any, appended to the audit report, expenditures are eligible for financing under the Loan/credit Agreement. Relevant CAG auditing standards are reported in Annexure II referred in Para 2.17. A sample audit report wordings for unqualified opinion is shown at Annexure 4.

The project financial statements and the audit report should be received by the bank not later than six months after the end of the fiscal year. The auditor should also submit two copies of the audited accounts and audit report to the Implementing Agency.

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6. *See relevant portions of Auditing Standards of the Comptroller and Auditor General of India as applicable from time to time.*

The Audit Report is issued without prejudice to CAG's right to incorporate the audit observations in the report of CAG of India for being laid before Parliament/State or UT Legislature.

### **Management Letter**

In addition to the audit report on the project financial statements, the auditor may prepare a management letter containing recommendations for improvements in internal control and other matters coming to the attention of the auditor during the audit examination. Where such a management letter is prepared by the auditor, a copy of the same will be supplied to the Bank. Else, a written advice may be made that no management letter was prepared together with the audit report on the project financial statements.

### **General**

The auditor should be given access to any information relevant for the purposes of conducting the audit. This would normally include all legal documents, correspondence, and any other information associated with the project and deemed necessary by the auditor. The information made available to the auditor should include, but not be limited to, copies of the Bank's Project Appraisal Document, the relevant Legal Agreements, a copy of these guidelines, and a copy of the Bank's Financial Management Assessment of the project entity. It is highly desirable that the auditor become familiar with other Bank policy documents, such as OP/BP 10.02, the Bank's internal guidelines of Financial Management that include financial reporting and auditing requirements for projects financed by the World Bank. The auditor should also be familiar with the Banks Disbursement Manual. Both documents will be provided by the Project staff to the auditor.



## Annexure 1

### Example of a statement of Sources and Application of Fund (projects implemented by core government departments)

Name of the Project

Loan/ Credit/Grant No.

### Statement of Sources and Applications of Fund

Report for the year ended-----

|                                                                                                                             | Rupees in thousands |               |                 |
|-----------------------------------------------------------------------------------------------------------------------------|---------------------|---------------|-----------------|
| Particulars                                                                                                                 | Current Year        | Previous year | Project to date |
| Opening Balance,(if cash balances are controlled by the entity) (A)                                                         |                     |               |                 |
| Receipts                                                                                                                    |                     |               |                 |
| Fund received from Government through Budget(These will include external assistance received by Government for the project) |                     |               |                 |
| Funds received directly by Project Implementing Authority through external assistance                                       |                     |               |                 |
| Beneficiary Contribution( if any)                                                                                           |                     |               |                 |
| Total Receipts(B)                                                                                                           |                     |               |                 |
|                                                                                                                             |                     |               |                 |
| Total Sources( C= A+B)                                                                                                      |                     |               |                 |
|                                                                                                                             |                     |               |                 |
| Expenditure of component                                                                                                    |                     |               |                 |
| A                                                                                                                           |                     |               |                 |
| B                                                                                                                           |                     |               |                 |
| C                                                                                                                           |                     |               |                 |
| Total expenditure(D)                                                                                                        |                     |               |                 |
|                                                                                                                             |                     |               |                 |
|                                                                                                                             |                     |               |                 |

#### Notes:

1. Information about the basis of preparation of the financial statements with regard to the Financial Rules and Codes applicable.
2. The above figures will be based on monthly/ quarterly abstract accounts prepared by the accounts compiling offices, duly reconciled by the respective DDOs, with details of unreconciled amounts to be furnished.
3. Names of accounting units whose financial statements are aggregated to prepare the consolidated accounts.
4. Any other project - specific Note.

## Annexure 2

### Sample Reconciliation of Claims to Total Applications of Funds

Name of the Project

### Reconciliation of Claims to Total Applications of Funds

Report for the year ended.

|                                                          | Schedules | Amount (Rupees in thousands) |               |                 |
|----------------------------------------------------------|-----------|------------------------------|---------------|-----------------|
|                                                          |           | Current Year                 | Previous Year | Project to date |
| Bank funds Claimed during the year (A)                   | I         |                              |               |                 |
|                                                          |           |                              |               |                 |
| Total expenditure made during the year (B)               | II        |                              |               |                 |
| Less Outstanding AC Bills (C)                            | III       |                              |               |                 |
| Ineligible expenditures (D)                              | IV        |                              |               |                 |
| Expenditures not claimed (E)                             |           |                              |               |                 |
| Total Eligible Expenditure claimed (F) = (B)-(C)-(D)-(E) |           |                              |               |                 |
|                                                          |           |                              |               |                 |

World Bank share @ x% of (F) above (G)

\_\_\_\_\_  
CFAO

\_\_\_\_\_  
Project Director

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

Notes:

1. Total expenditure made during the year (B above) must be the same as the Total Expenditures shown on the Statement of Sources and Applications of Funds (D on the Statement of Sources and Applications of Fund)
2. Outstanding AC Bills (C above) reflect funds drawn against AC bills that have been booked as expenditure but not settled by the end of the year (i.e. unsettled advances). The project should show in Schedule II the opening balance of unsettled AC bills, AC bills drawn during the year, AC bills settled during the year, and AC bills unsettled at the end of the year.
3. Expenditures not claimed (E above) may reflect timing differences for eligible expenditures incurred during the year but claimed after the year end.
4. Amount A and G must be equal.



**Example of a Management Assertion Letter <sup>7</sup>**

(Project letterhead)

(To Auditor)

(Date)

This assertion letter is provided in connection with your audit of the financial statements of the-----Project for the year ended ----- . We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the cash basis of accounting followed by the Government of India, and we confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

- The project financial statements are free of material misstatements, including omissions.
- Project funds have been used for the purpose for which they were provided.
- Project expenditures are eligible for financing under the Loan/Credit agreement.
- There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the project financial statements.
- We have made available to you all books of account and supporting documentation relating to the project
- The project has complied with the conditions of all relevant legal agreements including the Financing agreement, the project agreement, the Project Appraisal Document, the minutes of Negotiations, and the Borrower's Project Implementation Plan.

\_\_\_\_\_  
(Senior Executive Officer)\_\_\_\_\_  
(Senior Financial Officer)

<sup>7</sup> This sample management assertion letter is based on ISA 580, "Management Representations" "Hand book of International Auditing, Assurance and Ethics Pronouncement, International Federation of accountants, 2007



## Sample Audit Report - Unqualified Opinion <sup>8</sup>

Report of the Comptroller and Auditor General of India  
Addressee <sup>9</sup>

### Report on the Project Financial Statements

We have audited the accompanying financial statements of the ----- Project financial under World Bank Loan No. -----/IDA, which comprise the Statement of Sources and Applications of Funds and the Reconciliation of Claims to Total Applications of Funds <sup>10</sup> for the year ended ----- . These statements are the responsibility of the Project's management. Our responsibility is to express an opinion on the accompanying financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit examines, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit proves a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the sources and applications of funds of -----Project for the year ended-----in accordance with Government of India accounting standards <sup>11</sup>.

8. See relevant portion of Auditing Standards of the Comptroller and Auditor General of India as applicable from time to time for conditions where unqualified, qualified, adverse or disclaimers of opinion may appropriately be rendered.

9. The auditor's report should be addressed to the person stipulated in the underlying loan agreement as responsible for providing audited project financial statements.

10. Insert titles of other required statements and schedules included in or annexed to the project financial statements, if any.

11. Until the Ministry of Finance prescribes adoption of the accounting standards pronounced by GASAB or other body such as IPSAs, the accounting standards followed by the Government of India shall be the cash basis of accounting applied with due regard to the General Financial Rules, PWD codes, Treasury codes and similar financial rules and codes as are in effect and applicable to the operations of the project.

In addition, in our opinion(a) with respect to SOEs, adequate supporting documentation has been maintained to support claims' to the World Bank for reimbursements of expenditures incurred; and (b) except for ineligible expenditures as detailed in the audit observations, if any, appended to this audit report, expenditures are eligible for financing under the Loan/Credit Agreement. During the course of the audit, SOEs/ FMRs (each application no. and amount to be indicated) and the connected documents were examined and these can be relied upon to support reimbursement under the Loan/Credit Agreement.

This report is issued without prejudice to CAG's right to incorporate the audit observations in the Report of CAG of India for being laid before Parliament/ State or UT Legislature.

[Auditor's Signature]

[Auditor's Address]

[Date <sup>12</sup>]

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12. The report should be dated as of the date to which the auditor has become aware of and considered the effects of events and transactions. This is generally the final date of field work, as opposed to the date of signing the audit report.