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Manual of the Local Audit Department West Bengal

Audit of Urban Local Bodies

Issued by the Authority of the

Principal Accountant General
(General & Social Sector Audit)
West Bengal

PREFACE

This is the First edition of the Manual of the Local Audit Department relating to Urban Local Bodies under the jurisdiction of the Examiner of Local Accounts (West Bengal) and under supervision of the Principal Accountant General of this office.

2. This manual deals with general and detailed procedure to be followed in conducting audit of accounts of Urban Local Bodies. The instructions contained in this manual are supplementary to those contained on MSO (Audit), Auditing standards for Urban Local Bodies and other guidelines issued by the Comptroller and Auditor General of India.

3. In this edition, audit of Urban Local Bodies, techniques for evidence gathering and analysis, risk analysis and other latest methodologies for audit have been added.

4. While making any reference in the Audit and Inspection Note to a particular provision of law, such reference should be made to the provisions of the Acts - and rules framed thereunder and not to the paras of this manual.

5. It is hoped that this manual would be a useful guide to the staff and officers of the Local Audit Department in the efficient functioning and discharge of their duties. Suggestions for improvement and modification of the manual are welcome.

Dated : 09.07.2014

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CHAPTER-I

Urban Local Bodies and Governance

1.1 Urban self-governance in India

The present system of municipal government was by and large introduced in this country by the British. Madras is the unique distinction of being the earliest modern city in India to be established as a municipal corporation. In 1688 a royal charter was procured by the East India Company for the organisation of a Corporation at Madras. Similarly, Municipal Corporations were created for Calcutta and Bombay by a Royal Charter granted in 1727. More Municipalities and Corporations were set up in different areas progressively. Socio-political obligations chiefly led to the creation of those urban local governments. With the passage of time legislations were made defining the scope and activities of the Municipalities and the Corporations. The first attempt to provide machinery more capable of directing civic affairs came in the 1840's, when the principle of election was introduced to a very limited scale. The Bengal Act X of 1842 was the first municipal legislation outside the Presidency town of Calcutta. It was replaced by the Act XXVI of 1850 as an all-India measure. Following the outbreak of a severe epidemic which could not be controlled by the then governmental machinery, Lord Lawrence extended local self-government to the local areas under the provision of the Bengal Municipal Improvement Act, 1864 to deal with the sanitary problems of larger towns. Lord Rippon's famous Act of 1884 is universally acknowledged as the herald of local democracy in urban India. It brought about fundamental changes in the municipal structure, functions and responsibilities. Under this Act, all members of the Board were to be elected. Later, this Act was substituted by the Bengal Municipal Act 1932 which continued to be the basic guiding municipal legislation in the pre-independence era.

1.2 Post Independence India

The problems of local self-government, however, got a good deal of attention in view of the first two conferences of the State Local Self-Government Ministers held in 1948 and 1954. As a result of the recommendations of the Conference in 1954, a Central Council of Local Self-Government was established under Article 263 of the Constitution by a Presidential order in September, 1954. This provided a forum for discussion of policy and programmes on local self-government.

1.3 Constitutional status of ULBs

The 74th Constitutional Amendment in 1992 authorised decentralisation of power to urban local governments. The salient features of the Amendment are -

- granting Urban Local Bodies (ULBs) constitutional status;
- ensuring free, fair and regular elections controlled by the State Election Commission;
- fixed tenure of elected body;
- identifying a list of seventeen subjects to come under the jurisdiction of the ULBs as against eighteen as enumerated in the Twelfth Schedule; **(Appendix I)**
- setting up of a State Finance Commission once in five years to review ULBs financial position and make suitable recommendations for devolution of funds to ULBs;
- Levy of taxes and duties by municipalities, assigning of such taxes and duties to municipalities by State Governments and making grants in aid by the state to the municipalities as may be provided in the state law;
- proportionate reservation of seats and offices of Chairpersons at all levels for SC and ST, with one third reserved for SC/ST women;
- the centrality of Ward Committees to decentralize governance.

Article 243W enjoins that the Legislature of a State may, by law, endow the Municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities with respect to:

- the preparation of plans for economic development and social justice;
- Performance of functions listed in the Twelfth Schedule and the implementation of schemes as may be entrusted to them.

Thus, the 74th Constitutional Amendment consolidated social gains conceived in establishing the ULBs throughout the country and imposed a political uniformity on the structure and working of the third tier of governance. The Amendment perceived popular participation as the key factor in decision- making and service delivery.

1.4 Approach to Urban India

The trend of Urbanisation indicates that the urban population would continue to grow at the rate of about 3 per cent per year in the next few decades. The rapid growth of urban population will outweigh the positive impacts, unless specific

policies and programmes for improving the governance and management of the urban areas are evolved.

The Eleventh Finance Commission (EFC) recommended an ad-hoc grant of Rs. 2000 crore for 2000-05 for the municipalities in India and the Twelfth Finance Commission (TFC) recommended a grant-in-aid of Rs. 393 crore for the period 2005-10.

It is in this perspective again that the need for modernisation of the concept of accounting and accountability of the urban local governance is of paramount importance today. The TFC made it imperative for the ULBs to give high priority to creation of database and maintenance of accounts.

1.5 Urban Local Bodies in West Bengal

Modernisation in the system of Urban Local Bodies in West Bengal started in the late seventies. The State Government constituted an Urban Development Strategy Committee which recommended, *inter alia:*

- uniformity in the development programmes of the municipalities and corporations;
- decentralisation of development schemes entrusting the local bodies to draw the schemes for civic services and execution thereof;
- development in the urban infrastructure, efficiency, modernization and transparency.

At present there are 122 municipalities (119 municipalities, two notified area authorities, one Industrial Township) and 6 municipal corporations 3 notified area authorities in West Bengal as shown in **Appendix II.**

The Acts, Rules, Manuals etc. governing municipal administrations of West Bengal are:

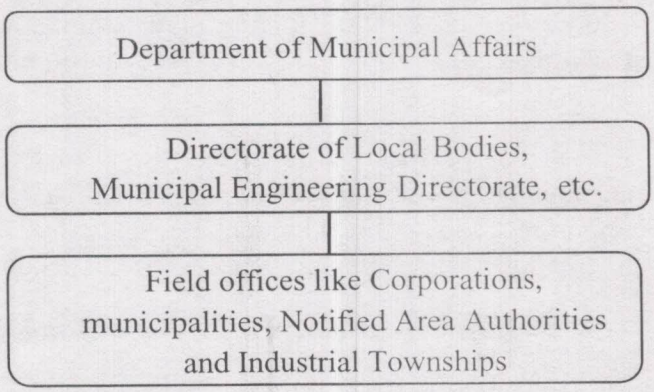
The Acts governing municipal administration in the state include:

- The Kolkata Municipal Corporation Act, 1980;
- The Howrah Municipal Corporation Act, 1980;
- The West Bengal Municipal Act, 1993;
- The West Bengal Municipal Elections Act, 1994;
- The West Bengal Municipal Corporation Act, 2006;
- The West Bengal Municipal (Finance and Accounting) Rules, 1999;
- Accounting Manual for Urban Local Bodies, West Bengal, 1996;
- The Nabadiganta Industrial Township Authority Rules, 2006; and
- The West Bengal Valuation Board Act, 1978.

1.6 Organizational Structure

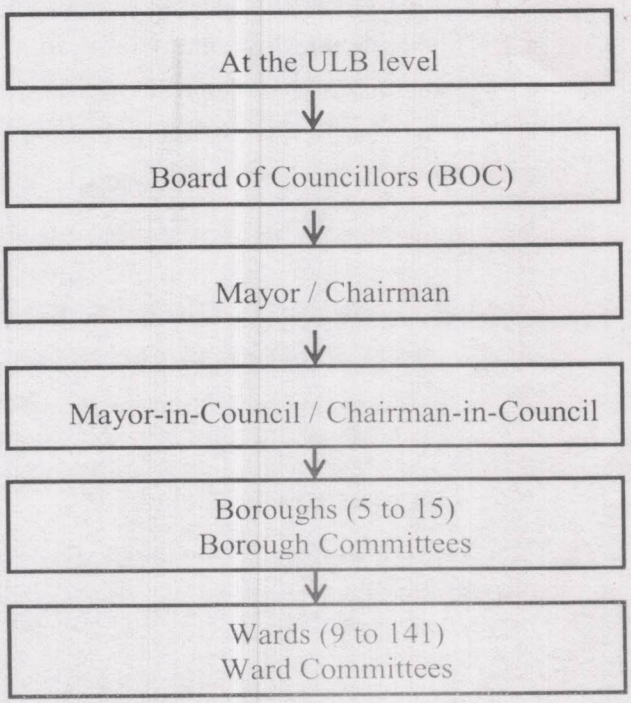
The Department of Municipal Affairs is entrusted with the responsibility of providing legal and administrative support to the ULBs of the State and to implement some of the development programmes through the municipal bodies.

The department is headed by one Secretary/Pr. Secretary. The Secretariat is looking after the various functions of the Directorate and other organizations, which are related with the Department. The structure is depicted below:

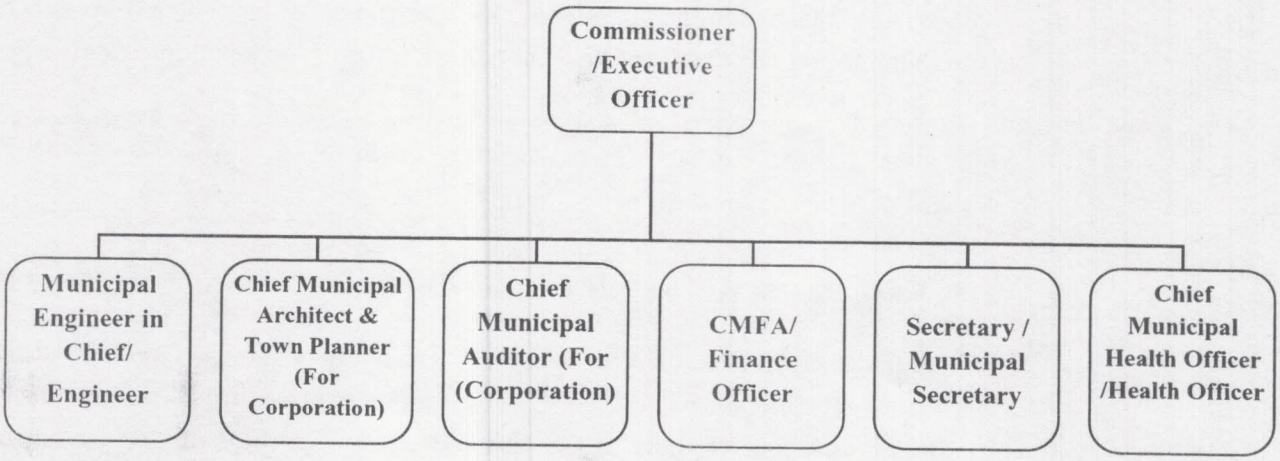


The Mayor/Chairman, elected by the majority of the Board of Councillors (BOC), is the executive head of the ULBs and presides over the meetings of the Mayor-in-Council /Chairman-in-Council responsible for governance of the body. The executive power of a ULB is exercised by the Council. The Chairman presides over the Board of Councillors. The Chairman-in-Council / Mayor-in-Council, enjoys such power as is delegated by the Board.

Every ULB having a population of three lakh or more, groups the wards into five (up to 15 in respect of a municipal corporation) boroughs. Boroughs are constituted with not less than six contiguous wards and a Borough Committee is also constituted for each Borough. The Councillors of the respective wards are the members of such Borough Committee and elect the Chairman (not being a member of Mayor-in-Council /Chairman-in-Council) from among themselves. The Borough Committee discharges such functions, as the ULB requires it to discharge. At ward level, the ULB constitutes Ward Committee under the Chairmanship of the Ward Councillor. The organizational structure of the governing body of an ULB is as under:



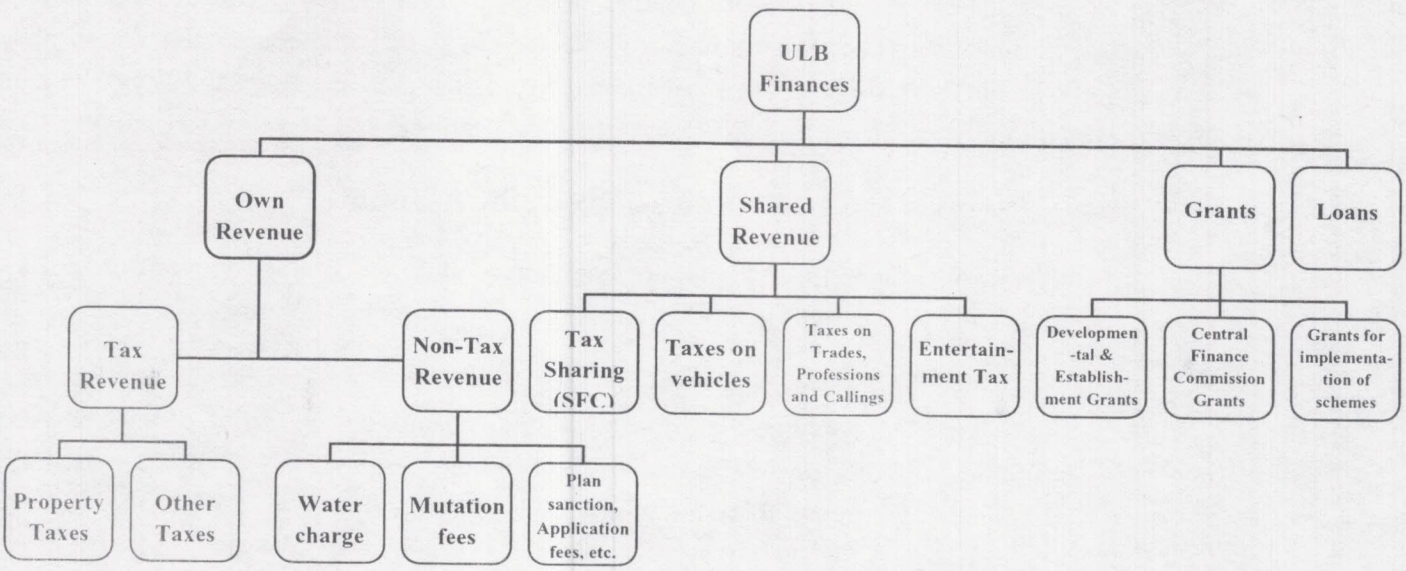
The Commissioner / Executive Officer appointed by the Government looks after establishment of ULB. Other officers are also appointed to discharge specific functions of respective area / nature. Subject to the supervision and control of the Chairman / Mayor, the Executive Officer / Commissioner functions as the principal executive of the ULB. The Executive Officer / Commissioner and the Finance Officer exercise such powers and perform such functions as notified by the State Government from time to time. The structure of an Urban Local Body is as below:



1.7 Financial Profile

The ULB fund comprises receipts from its own source, grants and assistance from governments and loans obtained from public financial institutions or nationalized banks or such other institutions as the State Government may approve. A flow chart of finances of a ULB is as under :

Sources of finances of ULBs



The property tax on land and building is the principal source of tax revenue of an ULB.

The main sources of non-tax revenue of an ULB are plan-sanction fees, mutation fees and water charges. All collections as permissible under the statute in force, such as tax and non-tax revenue, are meant for maintenance of administration and services to the tax payers.

The State Government releases administrative grants to the urban local bodies to compensate their revenue expenditure. Grants and assistance released by the State Government and the Central Government are utilised for developmental activities as specified in the respective schemes or projects.

The loans raised from different sources with prior approval of the State Government are utilised for execution of various projects / schemes.

1.8 Reforms in Accounting Procedure of ULBs in West Bengal

The recommendations of the C&AG's Task Force on Accounting Reforms regarding introduction of Accrual System of Accounting in ULBs were accepted by the Government of India at the national level. Subsequently, the Ministry of Urban Development, Government of India brought out National Municipal Accounts Manual based on these recommendations.

The Government of West Bengal decided to introduce accrual based Double Entry System in place of existing cash based accounting system in ULBs in West Bengal.

The Change Management Unit (CMU), entrusted with the job of making the desired changes has brought out an accounting manual for ULBs covering the aspects of accrual based Double Entry System except Kolkata Municipal Corporation. The Government of West Bengal has made amendments to the relevant provisions of the West Bengal Municipal Act, 1993 and the West Bengal Municipal (Finance and Accounting) Rules, 1999.

1.9 Coverage and applications of the Manual

The provisions in this Manual are intended to assist in conducting audit of ULBs. This Manual is strictly confidential and for departmental use only.

The instructions in this Manual are supplementary to those instructions, guidelines, etc. contained in different Manuals issued by the Office of the C & AG of India from time to time as well as the Municipal Laws, Rules / Orders issued by the State Government there under governing the functioning of the ULBs.

The directions provided in this Manual 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.

In addition to the Acts and Rules mentioned under para **1.5**, important Manuals and guidelines as herein under referred to in this Manual are indicated below:

Sl. No.	Manual	Abbreviation
1.	Regulations on Audit and Accounts By the Comptroller and Auditor General of India	RAA
2.	Manual of instructions for Audit of Autonomous Bodies, Second Edition-issued by the Office of the C&AG of India	MIA(AB)
3.	Auditing Standards for Panchayati Raj Institutions and Urban Local Bodies – (C&AG)	AS
4.	Financial Attest Audit	FAA
5.	Comptroller and Auditor General's Manual of Standing Orders (Audit), Second Edition-2002	MSO (Audit)
6.	Performance Audit Manual	PAM
7	International Organization of Supreme Audit Institutions Guidelines on PPP Auditing Standards issued in 2001	
8	Guidelines on Public Private Partnership [Guidelines Issued by the CAG of India In 2009]	PPPM
9	Manual on Internal Control Mechanism	ICMM
10	Manual of the Local Audit Department, West Bengal – 6th Edition	LAM-6
11	National Municipal Accounts Manual	NMAC
12	Guidance on conduction Environment Audit by ASOSAI	
13	Environment and Climate Change Auditing Guidelines by CAG of India	

CHAPTER -II

Audit Mandate - Powers and Duties of Auditor

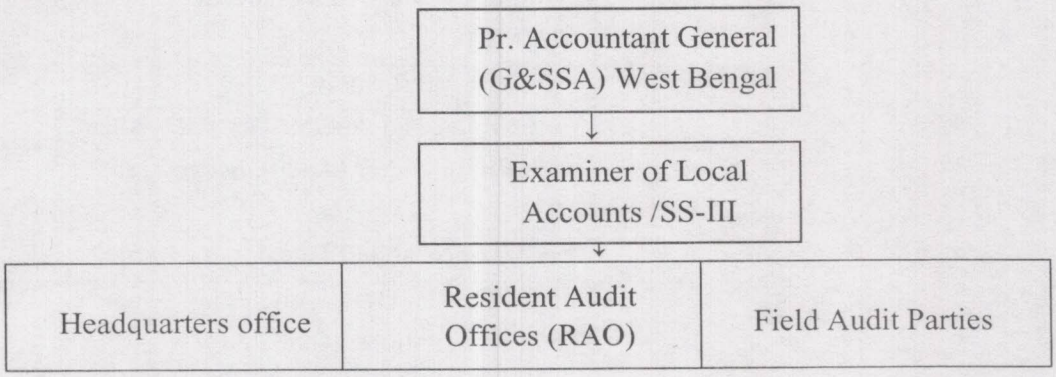
2.1 Audit Mandate

Article 243Z of the Constitution stipulates that the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the auditing of such accounts.

The West Bengal Municipal Act, 1993 and the Acts governing other Municipal Corporations in W.B envisage that the accounts of such a body shall be examined and audited by an Auditor appointed in that behalf by the State Government.

Accordingly, the Examiner of Local Accounts, West Bengal (hereinafter referred to as Examiner) was appointed as Auditor by the State Government to examine and audit the accounts of the ULBs as mentioned in **Appendix-II**. The Examiner, an officer of the Indian Audit and Accounts Department, discharges duties under the guidance of the Comptroller and Auditor General of India.

Hierarchy of the ULB group is as given below :



1. Function of Head quarters.

   Headquarter office is in charge of the policy formulation and evaluating best system to exercise in the most efficient, economic and effective way the following areas :

   i) In respect of audit planning
   ii) management of the employee
   iii) making liaison with the State govt and the C&AG Office
   iv) any other works assigned by the C&AG office.

2. Functions of RAOs:

   At present there are two RAO offices in LAD West Bengal. One is Kolkata Municipal Corporation and another is Howrah Municipal Corporation. One Resident Audit Officer is in charge of the RAO.

   (i) RAO will make its own audit plan in each financial year and will submit the same to HQ at the time stipulated by the HQ office for preparation of the integrated audit plan of the whole office

(ii) RAO independently will report the audit findings and will place before the Examiner of Local Accounts for examination.

3. Functions at FAPs

Sr. Audit Officer (HQ) is the Coordinating Officer of the field audit parties. SAO (HQ) with the approval of Sr. DAG (SS-III) will place the officials at different institutions to execute the audit plan. FAPs would submit the report at LAD HQ within seven days from the completion of the audit. The same will be checked by the SAO (Tran) and SAO (Accounts) for getting the approval of the Examiner of Local Accounts.

The cost of the establishment of the Local Audit Department is borne by the State Government. In conducting the audit of ULBs, the auditor appointed by the State Government shall be guided by the provisions of the West Bengal Municipal Laws, rules, manuals and codes framed thereunder and orders issued by the State Government form time to time in regard to functioning of ULBs. However, the auditing standards issued by the C & AG of India to govern audit of accounts of the ULBs taken up under the State Acts are to be complied with.

2.2 Powers of Auditor

For the purposes of an audit under the West Bengal Municipal Acts an auditor may-

- require by written notice, the production before him or before any officer subordinate to him of any document which he considers necessary for the proper conduct of the audit;
- require by written notice, any person accountable for, or having the custody or control of, any document, cash or article to appear in person before him or before any officer subordinate to him;
- require any person so appearing before him to make and sign declaration in respect of such document or to answer any question or prepare and submit any statement, and
- cause physical verification of any stock of articles in course of examination of accounts.

(Section 86(3) WBMA)

2.3 Responsibilities of ULBs for submission of records to Audit

The Commissioner / the Chairman-in-Council, as the case may be, shall produce or cause to be produced to the auditor all such accounts of the fund of the ULB as may be required by the auditor.

2.4 Penalty

Any person who wilfully neglects or refuses to comply with the requisition made by an Auditor shall, on conviction by a court, be punishable with a fine which may extend to one hundred rupees in respect of each item included in the requisition.

(Section 86(5) WBMA)

2.5 Duties of Statutory Auditor

2.5.1 The Auditor shall include in his report a statement showing:

- every payment which appears to him to be contrary to law;
- account of any deficiency or defalcation or loss which appears to have been caused by the gross negligence or misconduct of any person;
- the account of any sum received, which ought to have been , but have not been, brought in to any account by any person;
- any other material impropriety or irregularity which may be observed in the accounts

[Ref: Section 87(2) WBMA]

2.5.2 Audit of Balance sheet

Rule 22(2) of W.B Municipal (Finance & Accounting) Rules, 1999 amended in January, 2007 stipulates that the accounts as contained in the financial statements including the accounts of special funds, if any, and the Balance Sheet of each Municipality, shall be examined and audited by the Auditor appointed by the State Government. The Auditor's Report on the Balance Sheet, Income and Expenditure Statement, Receipts and Payments Statement, and Cash Flow Statement shall be addressed to the Chairman/ Mayor of the Municipality, with a copy being forwarded to the Director of Local Bodies or such other officers as the State Government may direct. The Auditor shall include in his report a statement in the manner prescribed in rule ibid in addition to that prescribed in sub-section (2) of section 87 of the Act[1].

(Rule 22 WBMFR, 1999)

2.6 Power of Auditor to surcharge

The Auditor may, after giving the person concerned an opportunity of being heard, disallow any item of accounts contrary to the provision of the Act, and surcharge the amount of any illegal payment on the person making or authorizing it, and charge against any person responsible therefor the amount of deficiency or loss incurred by the negligence or misconduct of such person or any amount which ought to have been but is not, brought into accounts by such person, and shall, in every such case, certify the amount due from such person:

Provided that any person aggrieved by and order of payment of certified sums may appeal to the State Government whose decision on such appeal shall be final.

[Section 86(4) WBM Act, 1993;- KMC Act,1980; - WBMC Act,2006 etc.]

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[1] Substituted by the MAD Notification No. 12/MA/O/C-4/1A-8/2005, dated 05.01.2007 and 43/MA/C-4/1A-8/2005, dated 02.02.2007 and shall come into force in the Kolkata Metropolitan Area, excepting Kolkata Municipal Corporation, from the financial year 2006-07 and for other municipalities including Siliguri Municipal Corporation from the financial year 2007-08

CHAPTER-III

Audit Objective and Practices

3.1 Audit Objectives

3.1.1 The broad aim of audit of ULBs is to safeguard the financial interest of the ULBs by sound and economic financial management practices and to promote public accountability. The executives of the ULBs are primarily responsible for enforcing economy and efficiency in the expenditure of public money. It is, however, the duty of audit to bring to light compliance lapses, system weaknesses, deficiencies and circumstances leading to avoidable expenditure. The audit assists the ULBs in the exercise of their financial control.

[Para 2 of Ch-I, AS]

3.1.2 Further, empowered by Article 243W of the Constitution of India, the Legislature of the State formulates laws containing provisions for the devolution of powers and functions to the ULBs under two categories (viz. obligatory and discretionary) mainly aiming at providing services to the people. The provisions of laws thus render the ULBs service-provider institution of self-government.

3.1.3 While devolution of functions has been ensured under Article 243W of the Constitution, the mobilisation of both internal and external resources have been ensured under Articles 243X and 243Y (appendix) extending the objectives of audit. So it is also the duty of audit to provide an unbiased, impartial and objective assessment of the performance relating to the services provided to the people by ULBs having regard to the resources available.

3.1.4 The Municipal Laws state that the ULBs shall having regard to the available resources provide obligatory civic services viz. water supply, sewerage and drainage, solid waste management, construction and maintenance of streets, building operation and protection of environment. These obligatory functions define that audit of a ULB shall be service oriented with reference to resource available.

3.2 Auditing Standards

3.2.1 The audit standard of the Supreme Audit Institution of India (SAI) have been suitably adapted with due consideration of the relevant statutes and rules for the auditing standards for the Urban Local Bodies.

(Para 4.2 of Ch-I AS)

3.2.2 Auditing Standards prescribe the norms of principles and practices these are expected to follow in the conduct of audit. In the audit of ULB it is required to

follow the auditing standards issued by the CAG of India to govern audit of accounts of ULBs taken up under the State Acts. These audit standards are formulated suitably adapting these of SAI and with due consideration of relevant statutes and rules.

[Para 2.1.2 of CAG MSO (Audit) & Ch 1 – IV of AS]

3.2.3 The auditing standards can be broadly considered under three headings:

(a) General Standards

(b) Field Standards

(c) Reporting Standards

(Para 4.3 of Ch-I AS)

3.2.4 The general standards define the basic professional needs of the Auditor, and are concerned with his relationship to the audited body. The Field standards regulate the audit examination, the steps or action that the Audit Institution and the Auditor have to follow in conducting or managing audit work. What the Auditor has to say at the end of the audit is governed by reporting standards.

(Para 4.4 of Ch-I AS)

3.3 Postulates

3.3.1 The basic postulates for auditing standards are basic assumptions, consistent premises, logical principles and requirement, which help in developing auditing standards and serve the Auditors in forming their opinion and reports, particularly where no specific standards apply.

(Para 5.1of Ch-I AS)

3.3.2 The Audit Institutions should establish a policy by which the standards are followed by these institutions for conduct of various types of audit work to ensure the high quality of work.

(Para 5.2 of Ch-I AS)

3.3.3 The Audit Institution should comply with the relevant auditing standards in all matters that are deemed material.

(Para 5.3 of Ch-I AS)

3.3.4 In general terms, a matter may be judged material if knowledge of it would be likely to influence the users of the Auditor's report.

(Para 5.4 of Ch-I AS)

3.3.5 Materiality is often considered in terms of value but the inherent nature of an item or a group of items may also render a matter material, as for example, mandatory disclosure requirements of statutes regardless of the amounts involved.

(Para 5.5 of Ch-I AS)

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

(i) The overall view given to the financial information
(ii) The total of which it forms a part
(iii) The corresponding amount in previous years
(iv) Associated terms

(Para 5.6 of Ch-I AS)

3.3.7 The Audit Institution applies its own judgment to the diverse situations that arise in the course of auditing.

(Para 5.7 of Ch-I AS)

3.3.8 In the observance of auditing standards the auditor in discharge of his responsibility, must exercise his judgment in determining the auditing procedures necessary in the circumstances, to afford a reasonable basis for his opinion and the content of his report, audit of issues and areas of audit and the nature, timing and extent of audit tests and procedures.

(Para 5.8 of Ch I AS)

3.3.9 The Urban Local bodies shall develop adequate information control, evaluation and reporting system to facilitate the accountability process and shall be responsible for correctness and sufficiency of the form and content of the financial reports and other information. As per the para 6.5 of the Guidelines for utilization of grants for local bodies, issued by Ministry of Finance, Govt. of India, in June 2001, the format for preparation of budgets and for keeping of accounts for Local bodies shall be as prescribed by the C & AG of India.

(Para 5.9 of Ch-I AS)

3.3.10 It is the responsibility of the audited entity to ensure that adequate control are in place and functioning to ensure that applicable laws and regulations are complied with and that probity and propriety is observed in decision making. This does not relieve the auditor from submitting proposals and recommendations to the audited entity where controls are found to be inadequate or missing.

(Para 5.10 of Ch I AS)

3.3.11 Auditor often expresses an opinion on the performance of auditee based on comparison of the information given in the financial statements over a period of time. Consistency in following the accounting standards will facilitate expression of a fair opinion.

(Para 5.11 of Ch-I AS)

3.3.12 Auditor has a right to inspect any office of accounts of the Urban Local Bodies; he can access any books, papers and other documents which are relevant to the transactions to be sent to him and he can put such questions to the persons

in charge of the office or make such observations and call for such information as he may require for the preparation of any prescribed account or report.

(Para 5.12 of Ch-I AS)

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

(Para 5.13 of Ch-I AS)

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

(Para 5.14 of Ch-I AS)

3.3.15 Audit Institution performs its role by carrying out audits of the accountable entities and reporting the results. To fulfil this role, it needs to maintain its independence and objectivity. The application of appropriate general auditing standards assist the Audit Institution in satisfying these requirements.

(Para 5.15 of Ch-I AS)

3.3.16 Audit Institution shall advise the appropriate authorities for the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to their needs. The audited entities should develop specific and measurable objectives and performance targets.

(Para 5.16 Ch-I AS)

3.4 Audit Practices

3.4.1 Audit approach

- **Right of Access to information**

In the course of scrutiny of accounts and transactions, 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 simple lucid language.

Further as per the Acts / Rules governing municipal administrations of W.B it is the statutory obligation of the audited entity to comply with written requisition for information / document which the auditor considers necessary for proper conduct of audit. In case of wilful negligence and refusal to comply with the requisition made by the Auditor, the concerned person shall, on conviction by a court be punishable with fine in respect of

each item included in the requisition for such amount as the State Govt. may decide.

(WBMA/S-86)

3.4.2 Audit Evidence

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

i) physical observation including joint inspection by the auditors and the executives, 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. In conducting assessment of the performance relating to the services provided to the people by the ULB, evidence may also be obtained from members of general public only when audit is of the view that evidence gathered directly from the audited entity is insufficient to arrive at proper conclusions

[Para: 2.1.10, MSO (Au)]

3.4.3 Three audit procedures are commonly used to obtain audit assurance.

The procedures, which are applicable to all types of audit, are:

(i) Compliance;

(ii) Analytical review; and

(iii) Direct substantive testing of transactions.

[Para: 2.1.11 MSO (Au)]

3.4.4 Compliance

Compliance is an audit procedure for evaluating internal controls. Its objective is to locate deviations from control procedures, for the purpose of evaluating the effectiveness of the internal control mechanisms.

During the planning stage the auditor should make a preliminary assessment of internal controls in the ULBs and determine whether adequate reliance can be placed on the controls. Actual compliance testing can be undertaken if the auditor concludes during the planning stage that adequate reliance can be placed on the controls of the ULBs.

Various steps involved in compliance testing are as follows:

- 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 one of the sub systems in audit of ULB could be "Maintenance of Cashier's Cash Book".

- The next step will be to identify the control objectives of each sub systems. For example the control objective for the sub system "Maintenance of Cashier's Cash Book" could be that the daily balance of cash / cheque in hand of the cashier had been physically verified and certified by the competent authority.

- 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. Therefore, key or important control of each control objective should be identified by audit initially.

- In addition evidence gathering techniques like review of documents, review of performance physical observation will be used to test check whether the key control function as envisaged has been achieved.

Based on the test check conclusion will be arrived at indicating the loopholes in the internal control and suggesting to introduce additional control for removing such loopholes.

(Para: 2.1.12 to 2.1.14, MSO (Au)

3.4.5 Analytical Review

Analytical review is a procedure that involves analysis of significant ratios and trends including the fluctuations that are inconsistent with the other relevant data or which deviate from expectations. The commonly used analytical review techniques are (a) comparisons involving a single component; (b) comparisons across components; (c) system analysis; (d) predictive analysis; (e) regression analysis and (f) business analysis.

(a) **Comparisons involving a single component:** There are two types of components. The first type involves the comparison of the value of a component with its budgeted value and the second involves comparison with current value with its value in previous year. In attempting comparison with the budgeted figure it is necessary to consider the reasonability and reliability of the budget. 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.

(b) **Comparisons across components:** This involves analysis of the relationship between more than one financial statement components. This procedure is generally more effective than single component comparisons because it considers the inter-relationships among different components. This procedure can provide assurance simultaneously for more than one component.

(c) **System analysis:** This involves the identification of anomalous items within an account balance rather than a macro level analysis of balance itself. The approach would be to scan or analyse individual entries in transaction listings so as to locate unusual entries or abnormalities.

(d) **Predictive analysis:** This involves the creation of an expectation using not just the financial data but also operating or external data independent of the accounting system. The key word is independent. It often requires more time than simpler analytical procedure, especially since it requires collection of reliable data from outside the accounting system.

(e) **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 requires understanding of the statistics of complex variables and is therefore not user friendly to the general auditor.

(f) **Business analysis:** This is a high level analysis of financial statements involving critical ratios related to financial stability, debt etc. It is a useful technique for identifying risk areas and better understanding of the entity and its operations. It is likely to prove a more useful tool for the more experienced members of the audit team who can apply their cumulative knowledge of the particular entity being audited.

The steps involved in analytical review are as follows:

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

(ii) **Defining significant difference**: Only very rarely the actual recorded amount will equal expectation of audit. It will not be worthwhile to investigate all cases of differences. Only those that are significant will need to be investigated.

(iii) **Comparing the actual with expectations**: Actual facts and figures recorded which are identified as significant are to be compared with expectation of audit.

(iv) **To investigate any significant differences between actual and expectations:** The reasons for the significant differences between actual and expectations should be investigated by audit.

The first four steps are to be documented and audit conclusion, as to whether assurance can be drawn, is to be made.

(Para: 2.1.15 to 2.1.22, MSO (Au)

3.4.6 Direct substantive testing of transactions

Direct substantive tests are those tests of transactions and balances which provides evidence of completeness, accuracy and validity of information in the accounting or financial statements. The testing involves examinations of samples of transactions and account balances and is a form of inductive reasoning where the reasonableness of the aggregate results is inferred from the evidence of the reliability of the individual details that have been tested. For example, to ensure observance of established procedure and accounting of purchases some purchase transactions need to be test checked.

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

i) Identification of the sub systems to be tested. For example, 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 objective 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 technique for gathering evidences. Continuing with the earlier example, to test the sub audit objective of whether the transactions are accurately reflected, calculation in the purchase voucher may be re-performed. In order to test whether all the purchase transactions are accounted for, stock register may be reconciled with the invoices of the suppliers.

iv) Determination of the sample size and performance of a test check using the identified technique for evidence gathering.

v) Formulation of conclusion on fulfilment or otherwise of the sub audit objective of the selected sub system.

(Para: 2.1.23 and 2.1.24 MSO (Au))

CHAPTER - IV

Audit Planning and Instructions

4.1 Commencement of Audit

4.1.1 The accounts maintained by each ULB shall be audited soon after the completion of each financial year in accordance with the provisions of relevant Act / Rules.

4.1.2 There shall be a list of ULBs to be audited every year and a suitable audit plan is to be prepared including selected units by rotation with composition of audit staff. The Principal Accountant General shall approve the audit plan effecting such modifications as may be found necessary.

4.1.3 *Arrangements should be made to contact the ULBs and to bring about a working arrangement for conduct of audit. The arrangement should, inter alia, give due attention to the following points:*

- *The date by which accounts will be made available for audit.*
- The time required and a tentative period during which audit will be conducted.
- Adequate internal arrangements within the institution for ensuring availability of all records for audit, furnishing replies to preliminary memos of audit in time, arrangement for discussion of reports / audit objections.

4.1.4 Each ULB should be informed in advance that audit of the entity would be taken up on a specified date and for this purpose, its books of accounts and other records shall be made available and necessary facilities provided for audit.

4.1.5 Even when the finalization of accounts is in arrears for a particular year in a ULB, it should be advised that records should be made available for audit of transactions.

4.2 Audit Planning

4.2.1 Biennial Audit Plan

Headquarters section is required to prepare a biennial audit plan. A single plan will integrate and include transaction audit and financial attest audit (certification audit), performance audit, district centric audit and thematic audit and will comprise a detailed plan for the first year and the broad frame work 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:

- provide assurance that all deserving and significant auditable entities have been considered while determining priorities;
- provide a framework for identifying the departments, programmes, functions etc. which are significant and vulnerable to risks and serious financial irregularities;
- prioritise the audit assignments to cover the mandatory audits and other high risk areas/sectors with special emphasis on current issues and thrust areas;
- pay special attention to new and emerging challenges to audit attributable to changes in the auditee environment and develop the necessary information base and skills:
- optimise the use of available resources for achieving the short term and long term audit objectives and
- minimise redundant audits.

[Para 2.1.25 & 6.1.9 of MSO (Audit)]

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 will 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.

Para 2.1.26 of MSO (Audit)]

4.2.2 Annual Audit Plan

As per time frame given by the Headquarters office like "January" each year, the Headquarters (Section/HQ) at will prepare a plan for local audit to be undertaken during the ensuing financial year based on the availability of parties during the year. The plan will be in the form of an annual programme and approved by the Principal Accountant General. This will be further split up into quarterly programmes for various inspecting parties. In addition to the units selected for

audit, copies of this programme of audit should also be sent to the Administrative Departments concerned.

[Para 6.1.11 of MSO (Audit)]

4.2.3 The Resident Audit Officers shall prepare the audit plan for the respective unit and forward the same to the headquarters section for incorporation in the annual/ biennial audit plan and approval of the competent authority.

4.2.4 Annual Programme for financial attest audits

Early in January each year the detailed annual programme for financial attest audit of the ULBs are to be prepared by the HQ Section. This programme should be in accordance with the annual audit plan and approved by the PAG.

(Para 3.2 of FAAM)

However, the policies / guidances formulated by C & AG of India in Financial Attest Audit Manual are to be followed in preparing audit plan of each ULB.

(Para 3.4 of FAAM)

4.2.5 Performance Audit Planning

Operational planning of the individual performance audits is the most critical process for securing a high standard of audit. Sufficient time should be provided for collection of data and preparation of detailed guidelines for the performance audit of the selected subjects. A good planning for the performance audit of any subject is almost half the job done and provides an assurance to the SAI top management on the quality of audit. While the time spent on the audit planning of the individual subjects may vary from subject to subject, generally about 20-25 per cent of the total time provided for the performance audits may be expected to be consumed in the planning stage. A good audit planning will ensure a focused field work by the audit team and also facilitate monitoring and review of the progress of audit by Principal Accountant General.

(Para 3.2 of Performance Audit Guidelines)

Quality assurance of the planning of the individual performance audit is achieved through:

- compliance to the guidelines and instructions;
- comprehensive data and information of the subject of performance audit;
- transparent assessment of skill, knowledge and competence of audit staff and matching the skill and knowledge required for the performance audit;
- review of the planning by SAI top management; and
- Peer review of the entire process of performance audit.

Para 3.47 of Performance Audit Guidelines)

4.2.6 Use of risk assessment in audit planning

Risk assessment methodologies and techniques need considerable strengthening and an appropriate programme for risk assessment should be developed. The following could be some of the risk indicators:

- Category of ULB
- Expenditure trends,
- Persistent and unexplained excess drawals,
- Leakage of revenue,
- Large purchases,
- Delivery under programmes not being susceptible to verification,
- Lack of attention to serious audit objections,
- Weaknesses in internal control mechanisms.

[Para 6.1.14 of MSO (Audit)]
Section 7/WBMA

4.3 Allocation of man power

An urban local government provides services to people, levies taxes and fees/charges, implements state and central schemes and maintains their own establishment. Therefore an audit party is to look into all audit areas viz. expenditure and establishment audit, scheme audit, receipt audit and audit of social security to the staff. In IA&AD expenditure, receipt and social security audit are generally conducted separately. But in audit of urban local body, all these areas are to be covered during transaction audit in addition to the audit of services provided to the tax-payers. Therefore, staffing pattern of an audit party is to be designed considering the audit coverage and the risk indicators as mentioned in para 4.2.6. As such the party for transaction and financial attest audit may be constituted as shown in the table below so that the statutes and the norms prescribed by the SAI are satisfied.

Party personnel	**Number of party personnel**		
	Small municipality (D & E Category)	**Big municipality (A, B & C Category)**	**Corporation**
Sr. Audit Officer/ Audit Officer	1	1	1
Assistant Audit Officer	1	2	2
Sr. Auditor/Auditors	1	1	2

4.4 Allocation of party days

The audit is a time-bound activity. Therefore party days allotted for audit of an entity should not be more than what is actually required in the field. Timeliness, effectiveness and economy are also to be considered while allotment of party days. The field party may be allotted party days as prescribed below:

Category of ULB	Party days	
	Transaction Audit	Financial Attest Audit
Small Municipality	15	10
Big Municipality	25	12
Corporations	30	15

4.5 Revision of man power and party days

The composition of a party and the allotment of party days may vary in specific case which is to be decided based on the merit of the issues involved. The reasons for allotment of additional party days shall be kept in record. The composition of a party and allotment of working days may be reviewed periodically with respect to quantum and sphere of transactions, and the methodology / technology adopted in maintaining accounts and standard of record maintenance.

4.6 General directions for Audit

4.6.1 The audit mandate provides for full and free access by the Audit to all premises and records relevant to audited entities and their operations and provides adequate powers to it to obtain relevant information from persons or entities possessing it.

(Para 2.8 of Ch-II of AS)

4.6.2 The Audit Institution must remain independent from audited entities. The audit should, however, seek to create among audited entities an understanding of its role and functions, with a view to maintaining amicable relationships with them. Good relationship can help the audit to obtain information freely and frankly and to conduct discussions in an atmosphere of mutual respect and understanding.

(Para 2.12 of Ch-II of AS)

4.6.3 The Audit Institution should not participate in the management or operations of an audited entity. If audit advice is to be given, it should be conveyed as audit advice or recommendation and acknowledged clearly as such.

(Para 2.14 of Ch-II of AS)

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

(Para 5.13, Chapter I of AS)

4.7 Duties of Auditors

4.7.1 Before taking up an audit, the auditor should call for the papers kept pending at the head office for disposal by the next Auditor.

4.7.2 Auditors must attend, during the regular office hours, the office where the accounts which they are auditing are kept. They must not take registers to their houses without previous sanction of the head of the office and of the Examiner.

4.7.3 In auditing accounts, all entries checked are to be ticked or cross-checked by the auditors and all vouchers initialled. For this purpose special brown chalk pencils are used and they must be carefully kept in the personal custody of the auditors. In the absence of these tick marks, the Examiner will presume that the necessary checks have not been applied. When, however, in comparing an entry in an original account or voucher with a subsidiary register an auditor finds that the latter does not agree he must make a cross (x) with his audit pencil instead of the usual tick mark. When the objection is removed, a circle should be drawn round the cross.

4.7.4 Auditors should not make notes, corrections or remarks in any of the registers or on any of the documents of the office which they are auditing.

4.7.5 Statements which are required under the various audit process to be appended to the inspection report should be prepared on the second or third day of the audit by the auditors. In case the compilation has to be delayed for any reason, it should be brought to the notice of the head of the office and scrutinized with special jealousy. This will enable the auditor in getting sufficient time to look into material irregularities disclosed by the statements. That can not be done if the compilation is relegated to the fag end of the audit.

4.7.6 Auditors must not throw on the next auditor any original work that they should have done themselves. In drafting the inspection report, they should avoid asking the entries or documents or registers being shown to the next auditor. They should try to trace the entries themselves or call for the documents, etc. through query statement and when not available bring the matter to the notice of the head of the office or other executives. If the omission still continues, they should see whether the previous auditor had also been hampered similarly in his work and

bring out the implications suitably in the draft. Where they fail to audit an account for want of necessary documents, they need only state the fact plainly and where important issues are involved they may suggest local enquiry by the executive.

4.7.7 Explanations should not also be demanded for the first time in the inspection report etc. If we asked for it and it is not given, we need only say so. When an explanation given is not considered adequate, auditors should first give a gist of it and then discuss with reference to Section, rule or order why it could not be accepted and what further action was necessary.

4.7.8 In criticising the budget it is not sufficient only to say that it was not prepared on the basis of average of 3 years actuals.

It is open to a local authority to provide for more or less as circumstances warrant. The comment, if made should therefore invariably be supplemented by saying whether justification for deviation was explained in the budget or in its forwarding letter.

Further, the deviation is not by itself a material irregularity. It would be a noticeable shortcoming if excess provision in the budget of receipts is not followed by energetic measures for better realisation. If no such measures be forthcoming, this should be pointed out. Where more than the last three years' average expenditure is incurred on the strength of the inflated provision for receipts and such expenditure leads to increase in the liabilities, then there would be a material irregularity deserving criticism in audit.

(Para 36 of Ch-III/LAM)

4.8 Instructions to auditors

4.8.1 Auditors need to be alert to detect control weakness, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity.

(Para 4.2.2, Ch-II of AS)

4.8.2 It would be impracticable to establish a code of rules, sufficiently elaborate, to cater to all situations and circumstances which an auditor might encounter. In the observance of auditing standards, therefore, the auditor in discharge of his responsibility must exercise his judgment in determining the auditing procedures necessary in the circumstances to afford a reasonable basis for his opinion and the content of his report, audit of issues and areas of audit and the nature, timing and extent of audit tests and procedures.

When factors external to the auditor and Audit Institutions restrict the audit or interfere with auditor's ability to form objective opinions and conclusions, the auditor should attempt to remove the limitation, failing that, report the limitation to the appropriate authority.

(Para 7 of Chapter II of AS for ULBs)

4.8.3 The auditors shall examine records and details of transactions no doubt but should apply mind to appreciate any transaction in its proper perspective. The auditors should make a study of the system, procedure prevailing in the ULB, its system of internal check and control, budget, administrative orders, annual/periodical reports and also make a general review of agenda and minutes to form and idea of the particular ULB as a prelude to commence audit. The local audit should be an intelligent scrutiny to assess the ULB's performance in its footing and shall never be a routine exercise or a check in a mechanical way.

4.8.4 The auditor should design the audit to provide reasonable assurance of detecting material misstatements resulting from non-compliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditor's attention that provides evidence concerning the existence of possible non compliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that non-compliance has occurred.

(Ref: Para 4.2.4, Chapter III of AS for ULBs)

4.9 Distribution of work

There should be clear demarcation of duties of the personnel in the audit parties. The broad out line of responsibilities and duties of various categories of personnel conducting local audit as contained in annexure to para 6.1.7 of MSO (Audit), and orders issued by the Examiner in this regard should be followed. The Senior Audit / Audit Officer in charge of the audit party is, however, not precluded from making changes in the distribution, to be indicated by him in writing, keeping in view the suitability of the individual official for performing the duties proposed to be entrusted or other relevant factors such as the absence of any of the members of the audit party. The inspection personnel should be involved in clearly defined areas of work so that their contribution in terms of quality and quantum of audit results can be identified and their accountability ensured.

The list of duties allotted and the list of work done by each member of the audit party should be attached with the draft Inspection Report.

4.10 Supervision and review

The officers entrusted with supervision and review of local audits shall discharge duties as described in different paragraphs of this Manual along with those assigned to them from time to time. They should maintain the following standards as prescribed in Para 5 of Chapter-III of the AS for ULBs in this regard.

The field standards include that the work of the audit staff at each level and audit phase should be properly supervised during the audit and a senior member of the audit staff should review documented work. The following paragraphs explain supervision and review as an auditing standard.

4.10.1 Supervision is essential to ensure the fulfilment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control is, therefore, necessary in all cases, regardless of the competence of individual Auditors.

4.10.2 Supervision should be directed both to the substance and to the method of auditing. It involves ensuring that:

- the members of the audit team have a clear and consistent understanding of the audit plan;
- the audit is conducted in conformity with the auditing standards and practices and in accordance with the professional judgment of the Auditor;
- the audit plan and action steps specified in that plan are followed unless a variation is authorized;
- working papers contain evidence adequately supporting all opinions/ conclusions, and recommendations;
- the Auditor achieves the stated audit objectives; and
- the audit report includes the audit conclusions, recommendations and opinions, as appropriate.

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

- all evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;

- all errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior officer(s);

- Changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities.

These standards emphasizes the importance of involvement of each higher level of supervision and does not in any way absolve the lower levels of audit staff carrying out field investigations from any negligence in carrying out assigned duties.

Chapter –V
General principles and rules of Audit

5.1 Drafting of Inspection Report

On the completion of audit, the inspecting officer shall prepare a draft inspection report.

(Ref: Section 190 of Regulations on Audit & Accounts)

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

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

(Ref. Para 1.1 & 2.1 Chapter IV of AS for ULBs)

5.1.2 The audit inspection report hereafter referred to as IR or Audit Report should be complete, i.e., it should contain all pertinent information needed to satisfy the audit objectives and to promote an adequate and correct understanding of the matter reported. It should also include appropriate background information.

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

(Ref. Para 2.10 Chapter IV of AS for ULBs)

5.1.3 Evidence presented should be true and the conclusions should be correctly portrayed so that the report is accurate. The conclusions should flow from the evidence. The need for accuracy is based on the need to assure the users that what is reported is credible and reliable.

The report should include only information, findings and conclusions that are supported by competent and relevant evidence in the auditor's working papers.

(Ref. Para 2.11, 2.11.1 & Chapter IV of AS for ULBs)

5.1.4 The presentation throughout the report should be balanced in content and tone. The audit report should be fair and impartial and not misleading and should place the audit results in proper perspective. This means presenting audit results

impartially and guarding against the tendency to exaggerate or over-emphasize deficient performance.

(Ref. Para 2.12 Chapter IV of AS for ULBs)

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

(Ref. Para 2.13, Chapter IV of AS for ULBs)

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

(Ref. Para 2.14, Chapter IV of AS for ULBs)

5.1.7 When factors external to the auditor and Audit Institution restrict the audit or interfere with auditor's ability to form objective opinions or conclusions, the auditor should attempt to remove the limitation, failing that, report the limitation to the appropriate authority.

(Ref. Para 7, Chapter II of AS for ULBs)

5.1.8 In drafting the reports, auditors should meticulously follow the "Style Guide"– 2nd edition issued under No. 217 Audit (AP) /6-2003 dated 23.11.2005 of the Director General (Audit) of the Hdqrs. office for the Indian Audit and Accounts Department.

The essence of the "Style Guide" is to adopt uniform format and language, render the report simple and reader friendly as well as interesting. Accountability – centred, third person active voice narration by designation enhances the readability and interest of the reader and induces objective response from the auditee.

5.1.9 There should invariably be a specific paragraph in each Inspection Report on the subject of Government grants and giving a statement of each such grant received (specifying condition if any) and spent and of the balance of each, the auditor should either record a certificate that the expenditure was restricted to the objects of the grant and that the conditions, if any, attached to the grant were fulfilled, or point out the deviations, if any. Irregularities, if any, in expenditure out of such grants should be recorded under this heading.

(LA Manual 6th edition para 41(d))

Draft Inspection Reports should include the following disclaimer statement in Part I: -

"The Inspection Report has been prepared on the basis of information furnished and made available by _____ (Name of auditee entity). The Office of Principal Accountant General (Name) disclaims any responsibility for any misinformation and / or non-information on the part of auditee."

(Authority: Headquarters' letter No. 629 LC/111-2005 dated the 7th October, 2005)

5.2 Prescribed form of IR

The results of audit and inspection should be set forth in an inspection report in the format at **Appendix III.**

5.3 Discussion of draft report with head of the auditee organization and modification after discussion

The inspecting officer and the officer in charge shall discuss the draft inspection report at the close of audit. The officer in charge shall confirm the facts and figures included in the draft inspection report. Any point of disagreement may be brought out and discussed with the inspecting officer during the meeting with a view to resolve the same. The officer in charge shall also offer his observations on the audit conclusions and recommendations, if not already done in response to the audit memos, and the inspecting officer shall reflect such observations in the inspection report. Where necessary and appropriate, the inspection report may make recommendations for remedying systemic deficiencies and improving control.

A written record of the proceedings of meeting duly signed by both the parties shall be kept.

(Ref: Regulation 191 on Audit)

5.4 Preparation of title sheet

While submitting the draft IR to the headquarters the audit parties should attach a title sheet duly filled in, in the proforma as in vogue as at **Appendix IV** of this chapter.

5.5 Submission of report to headquarter

Draft Inspection Report duly paginated and linked with audit queries and supporting key documents in respect of all the paras, is to be submitted to OAD Headquarter section within 7 working days from the date of completion of audit.

[Para 55(f) of LAM]

5.6 Editing draft IR

The inspection report submitted by the inspecting officer is to be scrutinized and edited in Headquarters. At the time of vetting of the inspection report the Branch Officers in charge of OAD Headquarters should satisfy himself / herself that only such of those objections or audit observations which merit inclusion in the report have been included therein.

(Ref: Para 6.1.21 and 6.1.24 of MSO (Audit))

5.7 Issue of IR

Edited inspection report is to be submitted to Examiner of Local Accounts for final approval. After approval of IR by the ELA it should be sent to the Chairman / Commissioner of the ULB and a copy thereof to the Director of local Bodies / Secretary to the Dept. of Municipal Affairs.

The disposal of the IR will be watched by the concerned headquarters section through the Sectional Register as per the following time schedule:

- Within 7 working days for receipt of the draft report from the party
- The inspection report shall as far as possible be issued within six weeks from the date of completion of audit. However, in no cases it shall be delayed after three months from the date of completion of audit. (Regulation 194 on Audit / Section 87 of W.B.M.A 1993, para 55(f) LAM)

5.8 Identification of PDP and forwarding to Report Section

The paragraphs of an IR which are considered by an Inspecting Officer supervising the inspection to be important and likely to be fit for inclusion in the Audit Report (i.e., Consolidated Report on ULBs) should be indicated in the title sheet of the report. Similarly, while vetting the Draft IR, Editing Officer should identify Potential Draft Paras for transfer of the same to Report Section for further processing. Identified paras should be noted in the Draft Paragraph Register at the time of issuing the report. The name of the members of the party contributing the PDP should also be invariably stated in the title sheet and recorded in the PDP register.

5.9 Control Register of IR:

In Order to have proper control over the receipt and issue of IRs, the concerned section of the LAD head office should open and maintain a Control Register with the following columns.

Control Register for issue of IR

Sl. No	Name of the unit with year of accounts audited	Name of the party member	Duration of audit		IR due within 7 days fro the date of closing	IR received at Head Qrs. On	Draft IRs submitted for approval no.	Draft IR approved on	Rectification, if any
			from	To					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

Draft IR sent for type			Draft IR sent for comparing			Typed IR submitted to DAG for signature on	FC copy signed by DAG on	Due date of issue of IR	Actual date of issue of IR with memo no	Remarks
Name of typist	From	to	Name of composer	From	To					
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)

5.10 Follow up action on Inspection Report

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

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

(Ref. Para 3, Chapter IV of AS for ULBs)

5.10.1 Provisions in section VII of MSO Audit in regard to raising, pursuance, registration and clearance of objections should be followed by the field audit parties and head quarters section.

5.10.2 OAD Hqrs section shall maintain Objection Book in the proforma of Form No. MSO (Audit)–10, for registration and watching settlement of audit observations.

Sl. No.	Ref. to accounts audited/officer inspected and designation of the officer responsible for clearance of the objections	IR No.	Para No.	Amount under objection pending recovery		
				Misappropriation / fraud / defalcation, etc.	Excess payment loss / shortage of stores etc.	Miscellaneous
1	2	3	4	5	6	7

Outstanding advances & loans	Nature of objection (gist to be given)	Details of correspondences	Details of amount under objection	Details of amount cleared / adjusted (including month and manner of clearance / adjustment)	Initials of SO / AAO and AO/ Sr.AO
8	9	10	11	12	13

5.11 Processing broad sheet reply and adjustment in objection book

Chairman / Commissioner of the ULB shall within three months of the date of receipt of the inspection report submit paragraph wise broad sheet replies (BRS) incorporating therein the findings of the Municipal Accounts Committee and the particulars of action taken by the Chairman in Council thereon along with the decision of the Board of Councillors on the points of dispute, if there be any in quadruplicate to the Directorate of Local Bodies/Secretary, Department of Municipal Affairs West Bengal. In the case of Urban Local Bodies falling with Burdwan and Jalpaiguri Divisions such BRS would have to be submitted in quintuple through the office of the concerned Deputy Director of Local Bodies who in his turn forward such BRS in quadruplicate to the Director of Local Bodies along with his observations thereon.

The Director of Local Bodies/Secretary, MAD West Bengal on receipt of such BRS, forward the same within a month from the date of its receipt to the Examiner of Local Accounts, West Bengal, along with his comments thereon in duplicate

and a copy thereof to the Government identifying the areas where Government decisions are called for.

(Rule 23(3) (4) of W.B. Municipal (Finance and Accounting) Rules, 1999)

When it is not possible to treat an objection raised in the course of audit as having been settled by the Principal Accountant General in consultation with the executive authorities and the administrative departments concerned or based on the recommendations of the Audit Committee, where constituted, details thereof should be reported to the Finance Ministry or Department for final decision.

(Para 7.1.19 of MSO (Audit))

Individual money value objections or paragraphs included in inspection reports such as those relating to recovery of overpayments, non availability of financial sanction etc., should be pursued to finality and should not be dropped from the objection books and inspection reports. However, objections raised on grounds of propriety and included in the Audit Report for discussion may be dropped from the objection books or inspection reports and further action thereon watched through the Audit Reports. Those objections not included in the Audit Report either because the amount involved is not significant or the impropriety is not serious and which have remained outstanding for more than two years may also be removed from the objection books and inspection reports after bringing them to the notice of the Secretary of the concerned department for further necessary action.

(Para 7.1.21 of MSO (Audit))

When it is decided to withdraw an objection once raised, either on reconsideration or in the light of information made available subsequently, the authority to whom the objection was originally addressed should be informed forthwith so that he can keep a note of the withdrawal of the objection.

(Para 7.2.14 of MSO (Audit))

CHAPTER-VI

General principles and practice of Audit

This section deals with general principles and practices to be observed in regard to audit in various fields of ULBs. The directions provided in this section are however not exhaustive, limiting the scope of audit. Audit checks prescribed should be observed in spirit and not merely on letter.

6.1 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 auditee institutions in their accounts,

ii) to provide an assessment of the due observance of laws, rules, procedures and systems in keeping with the financial interests of and propriety in functioning of the auditee institution, and

iii) to provide an assessment of the achievement of economy, efficiency and effectiveness in the implementation of the mandated activities of the auditee institution

[Ref : Para 2.1.3 of MSO (Audit)]

6.2 The audit of transactions will vary from one ULBS Institution to another depending upon the nature of transactions, the system of accounting and documents maintained in each ULBS.

6.3 Audit against sanctions to expenditure:

6.3.1 Financial powers delegated to different authorities of ULBS are described in the financial rules of the Bodies and/or special orders issued by State Government or other competent authorities.

6.3.2 In audit, apart from seeing that an item of expenditure is covered by a sanction either general or special, it has to be ensured that (a) the authority sanctioning it is competent to do so by virtue of the powers vested in it by the provisions of Rules and/or orders issued by competent authorities and (b) the sanction is definite and thus needs no further reference either to the sanctioning authority itself or to any higher authority for obtaining clarification thereon. A sanction to expenditure if received by Audit office, should be examined and admitted as regular and correct. In other cases, sanctions should be examined during local audit of ULB

6.3.3 In the audit of sanctions to expenditure, the following guidelines should be observed:

(a) If the sanctioning authority is vested with full powers in respect of a certain class of expenditure, a sanction issued by it can be objected to only on grounds of propriety.

b) If conditions are attached to the powers delegated to any authority, sanctions accorded under these powers can be objected to if it is found that such conditions have not been fulfilled.

(c) It has to be ascertained that orders defining the powers of any authority in precise terms are obeyed exactly in every instance.

(d) It has to be watched that expenditure sanctions are not split up to avoid the necessity of obtaining sanction of a higher authority.

(e) Sanctions with long period of currency and sanctions of a permanent nature require to be reviewed periodically, so that, if for any reason it is felt desirable that the sanctioning authority should review them in the changed circumstances, etc., suitable action may be taken in the matter.

6.4 Audit of expenditure from ULBs Fund

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

(i.) funds have been authorized by the Competent Authority prescribing the limits within which expenditure can be incurred;

(ii.) the expenditure conforms to the relevant provisions of the Act, Rules 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 authorizing 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.

[Ref : Para 2.2.2 of MSO (Audit)]

6.4.2 For the purpose of financial sanction, a group of works which forms a single project shall be considered as one work, and 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.

6.4.3 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.

[Ref: Para 2.2.37 (iv) & (v) of MSO (Audit)]

6.5 Audit against Rules and Orders (Audit against Regularity):

6.5.1 It has to be ensured that the transactions should conform to the provisions of several Codes, Manuals, Rules and Regulations, orders and instructions issued by Government and other competent authorities and made applicable to the ULBs. It is also important to ensure that rules and regulations are observed not merely in the letter but also in the spirit.

6.5.2 In verifying compliance with applicable tax laws, audit of receipts is regulated mainly with reference to the statutory provisions as judicially interpreted. Interpretation of law is a judicial function; the auditor does not review a judicial decision. Audit may, however, point out cases where there is an apparent lacuna or loophole in law and make suggestions for their amendments.

6.5.3 The regularity audit is an essential aspect of the ULBs auditing. One important objective that this type of audit assigns to the audit institutions is to make sure, by all the means put at its disposal, that the auditee's budget and accounts are accurate, complete and valid. This will provide users of the auditor's report with assurance about the size and development of the financial obligation of auditee. To achieve this objective, the audit institutions will examine the accounts and financial statements with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered.

(Ref : Para 7 of Chapter III of Auditing Standards)

6.5.4 Reviewing compliance with laws and regulation is especially important during auditing programs of the ULBs because decision makers need to know whether laws and regulation are being followed and they are having the desired results, and , if not, what revisions are necessary.

6.6 Audit against Provision of Funds :

6.6.1 Audit against provision of fund should be directed primarily towards ascertaining that the moneys expended have been applied to the services and purposes for which the same were intended and the expenditure under each head does not exceed the amount of budget. Every ULB is required to compile an annual budget indicating various sources of income, anticipated income from such sources, the 'expenditure planned against prescribed heads of account both revenue and capital. The budget so compiled must be approved by the apex body

in the annual meeting, including where necessary, a revised estimate for the year in progress.

6.6.2 In audit it has to be seen that:

- Were the prescribed dates for preparation of the (a) estimated receipts and expenditure (b) draft annual budget estimate (c) placement of the same to the Chairman-in-Council/Mayor, (d) sanction of budget estimate by the Board of Councillors and preparation and adoption of revised Budget estimate adhered to? If not the reasons thereof should be analysed.
- Could the auditor ensure that the different departmental heads prepare their estimated receipts and expenditure of the following year in consultation with the respective Borough Committees/Ward Committees? If not, the reasons thereof should be analysed.
- Could the auditor ensure that the Accounts Department prepared the Draft Annual Budget Estimate in the prescribed form in consideration of the departmental requirements? Were the necessary Schedules and Abstract in the prescribed forms forthcoming? If not, the same would be irregular and the auditor should record his observations accordingly.
- Was the Annual Budget Estimate sanctioned within two weeks after a specially convened meeting of the Board of Councillors? If not the reasons there for should be analysed.
- Was any deficit provided in the sanctioned budget? If so, the same would be irregular and the auditor should record his observations accordingly.
- Could the auditor ensure that the revised budget estimate was prepared and adopted in the same way as the original budget? Was any case of departure detected? If so, the same was irregular and the auditor should record his observation accordingly.
- Were copies of the sanctioned budget sent to the prescribed authorities?
- Was there any case of extension of time for adoption of budget and revised budget? Was such extension approved by the State Government? If not, the same was irregular.
- Was there any case of alteration of budget and revised budget? Was such alteration made in the prescribed form and approved by the Board of Councillors and the same intimated to the prescribed authorities?

- Did the budget format for original and revised budget estimate contain the prescribed heads viz. (a) budget head actuals for the year lastly completed (b) actuals for 9/6 months of the current year etc. etc.?
- Were necessary explanations in the prescribed columns forthcoming?
- Were the budget heads broadly divided into three categories of accounts, viz. (a) Revenue Account (b) Capital Account and(c) Extra-ordinary Debt Account?
- Did the aggregate of the opening and closing balances of the respective Account heads tally with the opening and closing balances of the Municipality?
- Did the unspent balance of development grant and loans as would be available from Grants and Loan Register(Form N79 and N72) as well as unspent balance of capital receipt from own sources at the close of a particular year represent the opening balance of Capital Account of the following year?
- Did the Ledger balance for Advance, Deposit and Material Accounts at the close of a particular year represent the opening balance of Extra-ordinary and Debt Account of the following year?
- Could the auditor ensure on a test check of a particular period that the items of receipts/expenditure of revenue, capital and extra-ordinary nature were booked under Revenue, Capital and Extra-ordinary and Debt Accounts respectively?
- Could the auditor ensure that the receipts on account of Development Grants and Loans available from the State Government as well as Development Authorities and Development Loans from LIC, HUDCO and Banks constitute capital receipt?
- Did the Municipality/Corporation have its own sources of receipt like sale proceeds of land and property, realization on account of investment from capital grant, collection of royalties for granting house connections and salamis realised on account of markets etc? If so, were such receipts shown as Capital receipts? If not, the same would be irregular and the auditor should take action accordingly.
- Could the auditor ensure that in case any capital expenditure was met out of own revenue income of that year, an equivalent amount was actually transferred to Capital Account from the Revenue Account and the same duly reflected under the appropriate budget head in the prescribed format?

- Could the auditor ensure that ordinarily an average of five years' receipts and expenditure was taken as the required estimate under each head? In case of any variations, were the same duly explained in the budget estimate?

- Could the auditor ensure that the details of outstanding liabilities, if any, were duly shown in the budget?

- In case of Kolkata Municipal Corporation, could the auditor ensure that the budget estimate separately stated the income and expenditure of the Corporation under the distinctive account heads viz. the Water-supply, Sewerage and Drainage Account, the Road Development and Maintenance Account, the Bustee Service Account, the Commercial Projects Account and the General Account?

- Did the budget estimate state the rates at which various taxes, surcharges, cesses and fees would be levied during the proposed year?

- Did the budget estimate state the amount of money to be raised as loan during the proposed year?

- Could the auditor ensure that the budget estimate was prepared, presented and adopted in the prescribed form as embodied in Sub-rule (6) of Section 131 of the Kolkata Municipal Act, 1980? Who prescribed the format? Was it approved by the State Government?

- In case of alteration of budget grants, was the same done on the recommendation of the Board of councillor / mayor-in-Council?

- Are the Municipalities and Municipal Corporations actually using the budget to monitor performance?

6.7 Audit of Classification:

6.7.1 It has to be verified in audit that the transactions are correctly classified in the accounts under appropriate prescribed heads of accounts in accordance with the budget provision and also general rules and regulations relating to classification of transactions.

6.7.2 Audit should also see that the major, minor and detailed heads of accounts as noted in the paid vouchers are authorised heads, classified according to the provisions made in the sanctioned annual budget and the expenditure which should have been classified under' 'Capital' section of the account has not been classified under 'Revenue' and vice-versa.

6.8 Audit of receipts:

6.8.1 The audit receipts embraces the audit of taxes, rents, salami, fees etc receipts of ULBs. It requires Examiner of Local Accounts to satisfy himself that the rules and procedures in that behalf are designed to secure an effective on the assessment, collection and are being duly observed to make for this purpose, such examination of the accounts as he thinks fit and report thereon. The following aspects relating to receipts should be examined in audit, that:

Sums due are regularly recovered and checked against demand;

Sums received are duly brought to credit in the accounts;

(i.) the collection and utilization of data necessary for the computation of the demand or refund under law have been made;

(ii.) the computation and realization of various taxes, rates, fees, etc. are in accordance with the applicable laws the demands on tax payers, etc. are raised promptly in the manner required by law;

(iii.) the regular accounting of demands, collections and refunds are made;

(iv.) the accounting and allocation of collections and their credit to the Fund have been made correctly;

(v.) the relevant and requisite records are being maintained properly;

(vi.) proper arrangements are in place required by law;

(vii.) the regular accounting to safeguard against negligence or omission to levy or collect taxes or to authorize refunds;

(viii.) adequate control and monitoring mechanisms have been devised to prevent loss or leakage of revenue;

(ix.) 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.) the machinery for detection of cases of evasion is adequate;

(xi.) 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.) claims of tax payers are pursued with due diligence and are not abandoned or reduced except with adequate justification and proper authority;

(xiii.) 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.) 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.

[Ref : Para 2.3.2 and 2.3.13 of MSO (Audit)]

Additional Points

- Could the auditor ensure that the levy, assessment and collection of taxes were made as per prescribed rules and bye-laws?
- Could the auditor ensure that the Board of Councillors actually framed regulations specifying the occasions for imposition of levy, rate of levy and mode of collection?
- Did the Board of Councillors impose any charges for any specific services rendered in pursuance of concerned municipal Act?
- Did the State Government prescribe the scale for levy of fees or imposition of charges?
- Could the auditor ensure the arithmetical accuracy of the computation of the Property Tax?
- Was the Property Tax imposed on the annual value of the lands and buildings?
- Was the computation of the Property Tax in accordance with the prescribed norms?
- Was there any case where the Property Tax imposed exceeded 40% of the annual value of the lands and buildings?
- Was revision of the Property Tax made more than once in five years?
- Was there any case of non-levy of surcharge on Property Tax in case such holding was used wholly or in part for commercial, industrial or such other non-residential purposes?
- Was there any case where the amount of surcharge was less than 20% or more than 50% of the total amount of the Property Tax?
- Was the rebate allowed on holdings used exclusively for residential purposes exceeded 20% of the Property Tax?

- Did the Board of Councillors levy a service charge on the buildings owned by the Central Government?
- Was there any case where reduction or remission of Property Tax was allowed more than once in a year?
- Could the auditor ensure that the valuation of all municipal holdings was reviewed at the termination of each successive period of six years?
- Was the duty for collection of taxes performed by the authorized personnel under the written order of the Chairman?
- Were separate Assessment Register and Demand and Collection Register maintained for each circle in the prescribed form?
- Were all the changes in the demands entered in the Assessment Register and postings were made in the Demand and Collection Register from it?
- Were bills prepared from the Demand and Collection Register?
- Were the details of the totals on completion compared with the entries in the Assessment Register for a quarter?
- Was the Collecting Sarkar ever allowed access to the Assessment Register and Demand and Collection Register?
- Were the columns showing the annual value and quarterly demands in the Assessment Register and abstract of demand and collection totalled at least once in a month?
- Did the Executive Officer or any other officer authorized by the Chairman/Mayor carefully check the entries after the total had been struck and sign the register in token of having made the check?
- Could the auditor ensure that all the unused tax receipt forms/books were kept under the personal custody of the Chairman/Mayor or a member of the Council nominated by the Chairman/Mayor?
- Was the Register of the Tax Receipt forms/books maintained by the Chairman/Mayor-in-Council?
- Did the Tax Collector maintain a hand book showing therein the circle-wise collection position of each month? Could the auditor reconcile the position shown in the annual statement of month-wise collection with the position shown in the Hand Book?

- Could the auditor ensure (on a detailed check of the position for a fixed period) that the Collecting Sarkar delivered everyday(or as permitted by the Chairman/Mayor) to the Cashier all the moneys collected together with the Daily Collection Register and the Receipt Book and the same was properly verified?

- Could the auditor trace the postings of the Daily Collection register from those of the Cash Book and the counterfoil of the Challan?

- Did the Tax Collector make necessary postings in the demand and collection register from the challan handed over to him by the Collecting Sarkar? Was the Collecting Sarkar given access to the demand and collection register? If so, the same should be pointed out.

- Did the Accountant verify total collections of every month as per his Cash Book with the cumulative total of collections as worked out by the Collecting Sarkar and put his signature accordingly?

- Did the municipality/corporation take steps to follow the National Accounting System as recommended by the Ministry of Urban Development, Government of India? If not, the reasons therefore should be analysed and audit observations furnished.

- Could the auditor ensure that in case of a demand (new assessment) raised for a period earlier to the financial year in which assessment is made, the demand was split in the Accounts Office according to the period to which it related to earlier period and the same was accounted as "Prior Period Income"?

- Were write offs authorised by the competent authority and as per approved accounting policies?

6.8.2 Audit points on Municipal Fund

- Could the auditor analyse the break up of the total amount of the fund under different heads and ensure that the total amount tallies with total amount of collections/receipts under different heads?
- Was there any case of misclassification in credit to the fund? If so, how was the same regularized?
- Was there any case of irregularity / misclassification in appropriation from fund? If so, how was it regularized?
- Was an amount equal to 30% of the amount realised on account of property tax credited to Water supply, Sewerage and Drainage Account under the Fund?

- Were the sums transferred by the Corporation from general Account to the five different accounts adequately compensated by State Government as subvention as per norms? If so, were the same utilized for the purposes related to the concerned works? If not, the same were irregular and the reasons therefore should be analysed?
- Was the amount credited to the Solid Waste Account equal to 15% of the amount credited on property tax? If not, the same was irregular and the reasons therefore should be analysed?
- Was the amount of the property tax realised from bustees credited to the Bustee Services Account?
- Was there any case of utilization of any amount from the Fund without proper appropriation? If so, the reasons therefore should be analysed?
- Was any expenditure made on physical assets outside Kolkata without a resolution carried by not less than one-half of the number of members of the Corporation?
- Was any expenditure made on physical assets outside the limits of a Municipality without the approval of the State Government? If so, the same was irregular and the reasons therefore should be analysed.
- Was the Bank Account operated by the persons authorized to do so?
- Was proper follow up action as per prescribed norms taken in case of expenditure from the Fund not covered by budget grant?
- Was a written requisition from a Secretary to the State Government to the Corporation forthcoming in case of temporary payments from the Fund for works urgently required in the public interest? Was it categorically certified by the Secretary that the work was urgently required in the public interest? Could the auditor ensure that the payment thereof was made from the Fund without unduly interfering with the regular work of municipal government and the cost thereof was recovered from the State Government and credited to the Fund?
- Was investment of surplus money, if any, made in accordance with the prescribed norms with the prior approval of the State Government?
- Was there any case of exclusive use of fund by a Municipality for a particular purpose at the instance of the State Government? If so was it done as per norms prescribed by the State Government?
- Was approval of the State Government obtained in respect of work etc. estimated to cost more than Rs. 5 lakh?

6.8.3 Audit points on Grants

- Were proper accounts kept in respect of grants received from Central and State governments?
- Were such grants received for general purposes or specific projects/schemes?
- Was there any case of utilization of the grant for any purpose other than the purpose for which the same was sanctioned? If so, the reasons therefore should be forthcoming. Was prior approval of the authority sanctioning the grant obtained in that case?
- Did the municipality/corporation keep separate accounts for Capital and Revenue grants?
- Was any amount received as General Grants accounted for as Specific Grants or vice versa? If so, how was the same regularized?
- In case of receipt of a Specific Grant in advance, did the municipality/corporation submit a "Utilisation Certificate" in the manner prescribed in the Grant Sanction Order?
- In case of grant receivable as a reimbursement of expenditure incurred, did the municipality/corporation submit a "Statement of Expenditure" to the sponsoring agency at the prescribed intervals? Was there any case of non-receipt of the amount of reimbursement due to such non-submission or delay in submission? If so, the reasons therefore should be analysed.
- Did the municipality/corporation open a designated bank account in case where the concerned Specific Grant so require and maintain separate Books of Accounts for the same?
- Did the municipality/corporation constitute special funds for any purpose? If so, was a separate Special Fund Account maintained for the same?
- Were the State Government's grants received based on the formula recommended by the State Finance Commission? What were the reasons for deviation from the recommendations?

6.9 Audit of borrowings in respect of ULB Fund

6.9.1 The primary objective of audit of borrowings, loans etc is to ensure that:

(i.) the transactions are within such limits, if any prescribed and are in tune with the authority that govern them;

(ii.) the transactions are correctly reflected in the detailed accounts; and

(iii.) the balances relating to these accounts represent amounts which are realizable and there exists a mechanism for periodic confirmation of balances.

[Ref : Para 3.13.1 of MSO (Audit)]

6.9.2 Important points to be looked into in the course of audit of borrowings have been discussed below:

(i.) Audit has the responsibility to ensure that the borrowings are so regulated as not to exceed the limits, if any, fixed from time to time and the conditions laid down in this regard are duly observed.

(ii.) In the case of loans raised, Audit should monitor the compliance with the conditions imposed (if any) by the higher authority while giving consent to their raising the loans or guaranteeing their repayment, or while granting a loan to them.

(iii.) Audit should ensure that the proceeds from borrowings have been properly brought to account and have been expended only on the objectives for which the loans were raised or to which borrowed moneys may properly be applied in accordance with the sound principles of public finance.

(iv.) Audit should also examine whether adequate arrangements have been made for amortization of the debt and bring to light instances in which this requirement has been ignored or the arrangements made appear *prima facie* to be inadequate.

(v.) The responsibility for the audit of transactions connected with the schemes similar to that of Debt Redemption Scheme is to verify that the conditions governing these schemes are scrupulously observed. It should be seen, in particular, that the annual debits against revenue under the schemes are calculated strictly in accordance with the approved programmes, that the appropriations for reduction or avoidance of debt are applied to the objects for which the money has been set aside, and that the liquidation of debt proceeds at the rate and on the lines prescribed.

[(Ref : Para 3.13.6 of MSO (Audit)]

6.9.3 Additional Points on Loans raised by ULB

6.9.3.1 When loans are raised for execution of any specific activities or for any other purpose in accordance with the provisions of the Act or Notifications issued there under, it should be seen in audit that -

6.9.3.2 In auditing accounts of **Sinking Fund** created by a ULB under the relevant provisions of Act and Rules for the redemption of loans raised, within the periods prescribed, the following points should be verified :

a) A separate account is maintained.

b) The Fund is sufficient to repay the principal and interest by the prescribed due date/dates.

c) Credits to the Fund are made in instalments regularly from the ULB funds debiting Revenue in accordance with the prescribed procedures.

d) Payments from the Fund are made only for the purpose for which it is created.

e) Accumulations in the Fund are invested in such securities as may be prescribed and such investments are sound.

f) A Register for Sinking Fund is maintained, posted up to date and the balances as per the Register agree with account balances.

6.9.3.3 Investment of Funds: Where funds of ULB as required under law or rules/regulations issued by the competent authority are to be invested in securities, it has to be seen in audit that-

i.) the amount allocated is in accordance with rules governing the fund and is permitted where no surplus is left;

ii.) the fund is being accumulated in accordance with prescribed scales and not in excess of ceilings prescribed;

iii.) investment is resorted to in accordance with rules with the specific sanction of the competent authority and the allocated fund is not out of any loan raised for specific purposes;

iv.) the investment is duly authorised and conforms to the prescribed pattern and it does not result in any avoidable loss;

v.) a watch is kept on the realisation of interest and interest realised is not appropriated to revenue unless it is out of general income but is allowed to swell the fund balance only;

vi.) accumulations in funds invested are duly matched with fund balance and where required, the shortfall in funds is duly made good;

vii.) excess receipt of Government grant/loan or receipts in advance is not diverted towards investments; instead, they should be paid back to Government for release when necessity arises.

viii.) a Register of Investments is properly maintained in the form and manner prescribed by rules; and

ix.) securities (investment documents) are kept in safe custody and their existence checked periodically with Investment Register and certificate of verifications is recorded in the Register.

6.10 Cash Book:

6.10.1 Cash Book is the most fundamental record and audit commences with the check of entries and posting in the cash book. The main purpose of auditing the cash book, is to verify that:

i.) all receipts are taken into account in full;

ii.) no improper or fraudulent payments are made;

iii.) all payments are accurately recorded;

iv.) the balances reflected in it are worked out correctly from time to time; and

v.) Payments are made to the Scheme implementing agencies properly and promptly.

6.10.2 For the purposes indicated above, the Cash Book should be generally examined to ensure that it is being maintained properly in the prescribed form and arrangements for obtaining cash, its custody, payment and accounting of cash transactions are in accordance with the relevant rules. The following points are to be covered during this examination:-

i.) Adequate security from the cashier has been obtained, accepted by competent authority and documents relating thereto are kept in the safe custody of the office.

ii.) Moneys received are remitted in full into the Bank or Treasury without undue delay and without appropriating them to meet departmental expenses.

iii.) Details of unspent balances in hand are shown when closing the Cash Book at the end of each month. Heavy cash balance, which is not required for immediate disbursement, is not kept on hand at any time.

iv.) No money is drawn from the Bank / Treasury far in advance of requirements.

v.) Advances paid for departmental purposes do not remain unadjusted for unduly long periods for want of accounts supported by vouchers or refund, as the case may be.

vi.) At the end of each month, the cash book is closed and the cash in chest is verified by the Officer-in-Charge of the cash who should mention in his own handwriting over his dated signature, cash actually found at the time of verification and whether the same tallies with the balance appearing in the Cash Book. Any discrepancy coming to notice is dealt with as per prescribed rules.

vii.) Totals of the Cash Book if not checked by the Officer-in-Charge of the cash, are verified by an official other than the Cashier. In token

of such verification, the official should, certify "Totals Checked" over his dated initials in the Cash Book.

viii.) Private cash (collection of Co-operative dues; etc.,) is not mixed up with the regular cash balance of the office.

ix.) No money paid to an employee is charged off in the Cash Book, unless it is in settlement of a personal claim and it is ensured that such employee remains accountable for the money received by him till he renders accounts for the same.

x.) Accounts of imprests and temporary advances, if any, are regularly closed and rendered promptly every month and the recouping officer properly verifies them before recouping. When the Cash Book is closed at the end of the financial year, permanent advance is fully recouped and accounted for in the main cash book.

xi.) On the first day of audit of any ULBs, the cash balances should be got verified in the presence of the officer in charge of the audit party and the results recorded in the cash book. Shortcomings (shortage or surplus), if any, noticed in this regard should be brought out in the Audit Report.

xii.) Verification of encashment / remittances of the ULBS audited (including subordinate offices, Engineering Divisions / Sub-divisions / etc.,) should be conducted for two selected months, in cases where the transactions of ULBS take place through Treasuries. Certificate to that effect should be enclosed to draft Audit Report.

6.10.3 Apart from the general scrutiny as above, detailed check of transactions relating to the month or months selected for such check should be done as follows:

(i.) All receipts of cash as shown in the counterfoils of receipt books as well as cash received from the Bank / Treasury and other receipts in the form of cheques, cash or bank drafts, etc., are traced in the Cash Book under the respective dates and with correct particulars, on the Receipts side.

(ii.) All receipts which are remitted into the Bank / Treasury were so remitted without any delay. Cash receipts are not diverted to meet expenditure, other than that, if any, authorised.

(iii.) Remittances into Bank / Treasury are supported by the entries in the Bank Pass Book / Remittance Register., in original challans duly receipted by the Bank / Treasury for the amounts shown in the Bank Pass Book / Remittance Register and in duplicate challans and Cash Book.

(iv.) Payments made are supported by proper vouchers complete in all respects.

(v.) Totals are correct and all balances have been worked out correctly.

(vi.) Permanent Advance, if any, held is accounted for in a complete manner in the Cash Book, clear details of cash on hand and un-recouped vouchers are recorded.

(vii.) Expenditure has not been incurred in excess of the permanent advance by using departmental receipts or other unspent balances of amounts drawn from the Bank / Treasury for a different purpose.

(viii.) Where subsidiary Cash Books are maintained, the transactions therein are duly taken over in the main Cash Book or a system exists where balances of all Cash Books are consolidated and reconciled.

(ix.) The entries of the Cash Book shall be authenticated by the competent authority.

6.10.4 ULBs drawing funds from the Treasury on presentation of bills receive the payment vouchers along with the monthly schedules from the Treasury and keep them in their custody. It should be verified in audit that in such cases, payment vouchers tally in all respects with the duplicate bills and the entries in the Cash Books. In particular, it should be seen that there are no tampering and that there is no scope for any manipulations or frauds. This verification should be done for the month / months selected for detailed check.

6.10.5 An intelligent review of the Cash Book entries and the Expenditure statement has to be conducted. Transactions involving heavy expenditure may be identified for a thorough check with reference to the office files, noting, sanctions issued by competent authority etc., connected with such transactions. Further, if any serious irregularity comes to notice during detailed check of Cashbooks and transactions for the selected month / months, the scrutiny should be extended to transactions of other months also.

6.10.6 Bank Reconciliation:

6.10.6.1 The following points should be seen in audit:

a) Inter bank transactions are not resorted to i.e., from one bank account to another bank account. These transactions, if any, should be scrutinised carefully to ensure that such amounts have been utilised properly and recouped within a reasonable time and that such inter-bank transactions are authorised by the competent authorities.

b) Undue and heavy withdrawals of money on self-cheques should be particularly scrutinised. The transactions connected with such withdrawals should be verified in detail with reference to vouchers / records in the office to make sure that services rendered and / or supplies made as recorded in the documents and registers have been actually and properly accounted for and represent real transactions relating to the activities (schemes or general purposes) of the ULBS Similar verification should be conducted in respect of cheque payments involving large amounts.

6.10.6.2 It should be verified that Bank reconciliation is regularly being done.

6.10.6.3 It has also to be seen/ensured in audit that-

(i.) action has been taken at the end of each month to agree the Bank balance with the Cash Book balance;

(ii.) proper action has been taken to reconcile the difference between the two balances and to clear the old differences expeditiously;

(iii.) in particular, for all payments in the Bank Pass Book there are corresponding entries in the Cash Book duly supported by proper vouchers and cases of absence of payment entries in the Cash Book and vouchers are promptly investigated in detail. Similarly, cases of remittances to Bank as shown in the Cash Book, not found in the Bank Pass Book should also be investigated thoroughly;

(iv.) comments about arrears in Bank reconciliation highlighting possibilities of misappropriation and frauds and the risks involved due to non-reconciliation / delays in reconciliation and the procedural deficiencies and lapses are highlighted in the reports;

(v.) Whatever warranted in the audit report should contain a clear comment that the bank/ cash balances as revealed in the books of account could not be verified and their accuracy ensured in audit due to such non-reconciliation and non-production of relevant records.

6.11 Audit of Register of cheques issued:

The cheque books are to be kept in safe custody, stock of books should be properly accounted for and the procedure for issue of cheques as laid down should be duly observed.

The main aspects to be covered in audit of Register of cheques are as shown below.

(i) Issue and Custody of cheque,

(ii) Cancellation of cheque, and

(iii) Treatment of lapsed or lost cheque.

To cover the above three broad areas, the following points are to be seen in audit:

(a) whether cheque Book was kept under custody of the authorised officer;

(b) whether retention of signed cheque in the office was avoided;

(c) whether any cheque was drawn in favour of any person to whom the money was not actually due except the cases involving expenditure on establishment;

(d) whether certificate of count of cheque leaves in a cheque book was recorded by the competent authority;

(e) whether the fact of cancellation of cheque was recorded by stamping 'cancelled' under initials of the drawer of the cheque both on the cheque and on its counterfoil; across the payment order in the voucher, in the Cash Book and other books of account;

(f) in case when a new cheque has been issued in lieu of a 'lapsed cheque' the auditor should verify whether :

i) issue of new cheque instead of lapsed cheque was justified;

ii) the old cheque is stamped 'lapsed' and preserved with the counterfoil;

iii) the number and date of the new cheque is recorded on the counterfoil of the lapsed cheque;

iv) the number and date of the lapsed cheque is recorded on the counterfoil of the new cheque; and

v) the fact has been recorded in red ink in the Cash Book on the date of issue as well as a note being made at the same time against the original entry in the Cash Book.

6.12 Analysis of Financial Statements:

In regularity (financial) audit and in other types of audit when applicable, auditors should analyse the financial statements to establish whether prescribed accounting procedures for financial reporting and disclosure are complied with.

Financial statement analysis aims at ascertaining the existence of the expected relationship within and between the various elements of the financial statements identifying any unexpected relationships and any usual trends.

The auditors should thoroughly analyse the financial statements and ascertain whether:

a) Financial statements are prepared in accordance with prescribed accounting procedures;

b) Financial statements are prepared with due consideration to the circumstances of the audited entity;

c) Sufficient disclosures are presented about various elements of financial statements; and

d) The various elements of financial statements are properly evaluated, measured and presented;

(Ref : Para 9 of Chapter III of the Auditing Standards)

6.13 Audit of Payment Vouchers:

6.13.1 Adherence to the following requirements should be verified in the course of detailed audit of vouchers* in support of payments:

(i) The vouchers should be in the prescribed form, in original and duly acknowledged by the payees in token of receipt. A brief abstract should be included in the authorized official language under the signature of the competent authority on all vouchers prepared in any other language, and the signatures, if not in the authorized script, should be transliterated. Sub-vouchers, if any, should contain notes of the dates of payment.

(ii) Vouchers should be numbered with reference to the Schedule of List of Payments, Schedule Dockets or other accounts, as the case may be.

(iii) Individual amounts detailed in the vouchers should add up to the totals and the totals indicated both in words and in figures.

(iv) The vouchers should bear a pay order signed by the competent person authorized under the Rules and Orders.

(v) Stamps bearing the mark 'Paid' should have been affixed on the vouchers.

(vi) There should be no erasers on the vouchers and the competent authority concerned should have attested individually all corrections and alterations on every occasion that they were made.

(vii) Unless otherwise provided in the rules of Government, revenue stamps should be affixed to all vouchers involving a net payment in excess of Rs. 5,000/- (Rs five thousand only).

(viii) No payment should have been made on a voucher or order signed by a subordinate instead of the competent authority or on a voucher or order on which only a facsimile signature has been stamped/ affixed. The sanctioning authority duly authorized for the purpose should have also certified all copies of sanctions.

(ix) Wherever prescribed, agreement should have been effected between two different documents.

(x) A voucher paid by transfer should be stamped as having been so paid; the head of account to which it has been credited should also have been noted on the voucher.

**Note : - In the course of audit, the relevant credit should be traced in the Cash Account whenever possible.*

(xi) Deductions on account of subscriptions to Provident Fund Income Tax, etc. should have been made wherever applicable.

(xii) No bills pertaining to pay or any allowance not claimed within one year of its becoming due (or such other period as may be prescribed in this behalf) should have been admitted for payment without the sanction of the authority prescribed for the purpose.

(xiii) Stores should have been purchased through the purchase organization approved by the Government/ Local Government (if any).

(xiv) The classification indicated in the voucher is correct and compares with the classification of the charge as mentioned in the approved budget.

(xv) All purchases made on proforma invoices and where the materials have not been received and taken to stock should be audited in detail.

**** Notes** : -*

(i) The term 'voucher' should be taken also to include 'sub-voucher' for all purposes of audit.

(ii) Cash memoranda issued by tradesmen for sales against cash payment should not be regarded as sub-vouchers unless they contain an acknowledgement of the receipt of money from the purchaser as named therein for the price of the articles sold.

(iii) After audit, the voucher or account concerned should be enfaced with the word 'Audited' in red ink over the initials of the person who conducted the audit.

(iv) If any objection is taken in audit to a voucher or to any item in a schedule or other account, a note of the objection should be recorded thereon in red ink in sufficient detail to make it easily understood.

[Ref : Para 3.1.20 of MSO (Audit)]

6.13.2 Compliance with the Income Tax Act, 1961 and Income Tax Rules, 1962

(A) Proper credit of Income Tax deducted from the ULBS employees

Audit should ensure that:

(a) the ULBSs are following the Income Tax Act, 1961 and Income Tax Rules, 1962 (as amended from time to time), regarding the deduction of Income Tax from its employees; and

(b) the said Income Tax deducted at source has been credited to the proper Head of Account in an appropriate manner.

(B) Income-Tax deduction at source on payments to Contractors / Sub-contractors / Suppliers under Section 194 C of the Income Tax Act, 1961

(i.) Deduction of income-tax at source under Section 194 C of the Income Tax Act, 1961, arises as and when any sum is paid to a contractor / sub-contractor / supplier for carrying out any work in pursuance of any contract, the consideration for which exceeds Rs. 20,000/-. Tax is to be deducted either at the time of credit of such sum to the account of the Payee, or at the time of payment thereof whichever is earlier. The rate of deduction of tax is 2 % or as directed by the Income Tax authority from time to time.

(ii) Audit should ensure that the ULB has followed the above procedure in connection with the payment to Contractors / Sub-contractors / Suppliers.

6.13.3 Deduction of Profession Tax

Audit should ensure that the Profession Tax has been deducted from the employees of the ULBs at the appropriate rates as notified by the State Government from time to time.

6.14 Vehicles

It should be verified that in respect of vehicles attached to the office, the following records are maintained:

(a) Log books in the prescribed form.

(b) A record of repairs and replacements indicating the cost and the dates on which they have been carried out.

(c) A register showing cost of petrol, diesel, oil, etc., consumed and all incidental expenditure.

(d) An inventory of accessories, tools, spares parts etc.

The following points should be seen in audit:

(i) The entries in the log book and other records are made in ink and there is no tampering of the entries.

(ii) The kilometer readings at the start and at the completion of each journey are noted by the officers using the vehicles in their own handwriting or by other subordinate officers duly authorised to authenticate the entries.

(iii) The purpose of the journey is noted clearly to indicate that journeys are official and also marked as 'Official' and signed by the officer using the car, van or jeep.

(iv) The log book is scrutinised by a Senior Officer once a month to ensure that there is no misuse of the staff car and that officers who used the staff car have made the necessary entries in the log book. A certificate to this effect is recorded in the log book by the officer authorised to scrutinise it every month.

(v) The log book is closed at the end of each month and a summary showing details of duty and non-duty journeys performed during the month is prepared in the prescribed proforma.

(vi) The staff car is used for bonafide official duties and its use for non-official journeys is allowed to a limited extent without detriment to official work.

(vii) All private journeys where allowed are charged at the rate fixed for the purpose and the charges at these rates are recovered correctly and promptly from the concerned persons for the entire distance travelled.

(viii) Proper control is exercised over consumption of petrol, diesel, etc. The average K.M. run per litre of fuel is worked out every month and it compares favourably with the optimum average consumption prescribed. In case consumption is more than the average, reasons for the same are investigated and suitable remedial measures are taken.

(ix) The cost of repairs and replacements is not on the high side.

(x) The replacement of same part/parts is/are not repeated in quick succession.

(xi) Reasons for frequent repairs/break down of vehicles/staff car are not such as to indicate negligence on the part of the drivers or laxity of control.

(xii) All bills paid towards the cost of POL are entered in the Register of POL.

(xiii) The entries made in the Register of POL agree with those made in the POL Account maintained in the log books.

(xiv) The accessories, tools and space parts are kept on record immediately on their purchase and the entries are verifiable from the relevant vouchers.

(xv) The stocks of accessories, spare parts, etc., are physically verified once a year by a responsible officer with reference to the inventory

and a certificate of verification recorded. Any shortage coming to notice is promptly enquired into and is got replaced or its value recovered from the person responsible for the shortage. The Stock verifier should also verify whether the accessories, spare parts, etc., are in good and usable condition.

6.15. Audit of Leave Account

Audit of leave account should primarily be directed to ensure that:

(i) leave account has been maintained in respect of every employee in the prescribed form;

(ii) leave account has been updated regularly;

(iii) all the entries in the leave account have been attested by the competent authority;

(iv) leave accounts have been closed regularly.

6.16 Audit of Fixation of Pay

It should be verified in audit that pay fixation on first appointment, on promotion or appointment to a next post on different scale has been done correctly in accordance with the rules applicable in each case.

When there is a general revision of pay, the fixation of pay in such circumstances should be test checked by the auditor with reference to Service Books.

[Ref : In the light of Para 3.2.11, 3.3.14 of MSO (Audit)]

6.17 Audit of expenditure on Medical Attendance

In scrutinising bills for medical attendance it should be verified that -

(i) The claims are in accordance with the rules and orders of Government and ULBs and

(ii) They are duly supported by proper certificates, receipts and vouchers.

6.18 Audit of Purchase:

The following are some of the points that should be kept in view and examined in local audit:

(i) Whether, so far as can be ascertained from the purchase files/records, demands received from other indenting authorities received at the relevant time were consolidated and bulked as far as possible to secure the advantage of lower prices for bulk supplies and, if so, whether the aggregate of the quantities ordered for the individual indentors in the

contracts entered into for the purpose was in excess of the quantities actually indented and so consolidated.

(ii) Availability of sanction of the competent authority for effecting purchases on the basis of a single tender or negotiations and of recorded reasons for resorting to this method of purchase.

(iii) Opening of all tenders on the due date and their authentication by the competent person and initialled with date by the person opening them.

(iv) Availability on record of the comparative statement and whether it was verified with reference to the original tenders.

(v) Whether any tender received belatedly after the stipulated date had been included in the comparative statement and considered, and whether orders of the competent authority were obtained for doing so.

(vi) Whether the lowest offer was accepted in each case. In case this was not done, whether adequate justification/reasons had been provided in writing for rejecting the lowest offer, should be examined. The difference between the lowest offer and that accepted should also be quantified.

(vii) In cases where more favourable or advantageous offers were rejected on the ground that the firms were untried, it should be examined whether the feasibility of placing a trial order on the firms was considered with a view to achieving economies and appropriate action taken

(viii) Whether the successful tenderer had indirectly derived any advantage over the other tenderers because of the insertion of certain special conditions; it should be particularly examined whether acceptance of these special conditions resulted in any increase over the prices actually quoted.

(ix) Whether the difference between the purchase price finally accepted and that estimated in the tender is within the limits prescribed; if not, it should be examined whether confirmation about the availability of additional funds was obtained.

(x) Whether the contract was placed on a registered firm; in case this was not done, whether sanction of the competent authority was obtained and obtaining appropriate security, guarantees, etc. were insisted upon for adequately safeguarding interests.

(xi) Whether, the accepted rates/prices had been modified or revised in any case after the conclusion of the contract and, if so, whether this was done with the approval of the competent authority, and the reasons justifying the revision were adequate.

(xii) In case any supplementary contract had been negotiated or payments authorized for any additional services required of the supplier subsequent to the acceptances of the tender, the appropriateness thereof should be examined from the competency and propriety angles.

(xiii) Whether the interests of the ULBs were adequately safeguarded and protected in arbitration proceedings by the staff concerned with the defence of the cases.

[Ref : Para 3.7.19 of MSO (Audit)]

6.19 Audit of accounts of stores and stock:

6.19.1 The audit of the accounts of the stores and stock shall be directed towards ascertaining that the 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 any important deficiencies in quantities of stores held or any grave defects in the system of control.

6.19.2 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 ULB 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 have been purchased only under approved rate contracts (if any). The system of open competitive tender should be adopted for purchases from contractors/ 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 persons 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 the 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 rules and regulations and orders issued from time to time by the Government.

(vi) Necessary precautions should have been taken to safeguard the interests of the ULBs, 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.

6.19.3 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 therefore;

(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, etc., where these could be utilized;

(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;

(ix) persons entrusted with the 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; and

(x) 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.

6.19.4 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 the notice of appropriate authority.

(ii) Maintenance and accounting of unserviceable stores that cannot be utilized by the authority 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 for the use by the ULB 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 realized. Instances of proceeds against credit sales remaining unrealized for considerable periods should, therefore, be analyzed and commented upon.

6.19.5 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/ ULB. Audit may, therefore, see that this has been done and that balances in stock do not exceed the prescribed limits. Audit should also scrutinize 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/ ULB. 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 utilizing the budget grants.

6.19.6 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 relevant register;

(iii) the previous stock balances have been correctly worked out, carried forward and authenticated by the competent authority; and

(iv) the entries have been maintained chronologically based on receipts and issues.

6.19.7 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 authorized 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 for verification is adequate and proper;

(c.) discrepancies found on stock verification are properly investigated and reconciled; and

(d.) the persons responsible for stock verification are, wherever possible, independent of those responsible for the physical custody of stores or for maintaining the accounts.

[Ref: Para 2.4.3 to Para 2.4.10 of MSO(Audit)]

6.20 Audit of bills for purchases and supplies of stores

Besides the general checks prescribed for bills and vouchers, it should be verified in auditing bills of contractors or suppliers that:

(i) the purchase of the stores has been sanctioned by the competent authority;

(ii) all purchases of stores are made strictly in accordance with provisions of W.B Municipal (Finance & Accounting) Rules,1999 and the instructions issued in this regard by the Government from time to time;

(iii) the rates charged in the bills are in conformity with those in the agreements;

(iv) the necessary inspection certificates have been furnished with the bills in cases where the contract stipulates inspection in stages, at the time of manufacture or after erection at site;

(v) claims in respect of freight charges, insurance charges, etc. are duly supported by cash receipts, irrespective of the amount involved, when orders have been placed on FOR destination basis;

(vi) the prices claimed in respect of contracts concluded on the basis of prices prevailing in the market on the date of receipt of the order by the firm or on the day of supply are not at variance from the market prices as intimated by the suppliers and have also been confirmed by the purchasing authority;

(vii) the actual dates of despatch/delivery of stores conform to those stipulated in the contracts/agreements in cases where deliveries are to be spread over and made in phases at different times, involving varying prices linked to deliveries;

(viii) no payments on account of customs duty or increase in customs duty have been made except under the provisions of the contract or under orders of the competent authority in respect of stores procured from outside the country;

(ix) discrepancies or deficiencies, if any, pointed out by the consignees in their receipt certificates have been duly taken into account and appropriately dealt with before releasing final payments for supplies in respect of which the advance or part payments stipulated in the contracts; and

(x) the stores have been delivered within the stipulated period and belated deliveries or slippages, if any, have been regularized by the competent authority.

[Ref : Para 3.7.16 of MSO (Audit)]

6.21 Audit of Contracts:

6.21.1 Source documents regarding the audit of contracts

The following are the main source documents to be checked in the audit of contracts and `agreements:-

(i) Contract files/documents maintained by the Accounts and payment vouchers furnished by the ULBs

(ii) Administrative Approvals and Technical Sanctions of the competent authority forming the basis of contracts.

(iii) The records/registers maintained by the ULB

(iv) Bills for supply of Stores/Materials.

(v) Copies of Contracts and Agreements.

(vi) Any other document that would facilitate effective audit.

[Ref : Para 3.7.6 of MSO(Audit)]

6.21.2 General principles governing audit of contracts

Audit should examine whether the following fundamental principles have been observed while entering into contracts or agreements involving expenditure from the ULB Fund, or not:

(i) The terms of a contract must be precise and definite, and there must be no room therein for ambiguity or misconstruction.

(ii) Standard forms of contracts should be adopted wherever possible, the terms being subjected to adequate prior scrutiny.

(iii) As far as possible, legal and financial advice should be taken in the drafting of contracts before they are finally entered into.

(iv) No contract involving an uncertain or indefinite liability or any condition of an unusual character should be entered into without the prior consent of the competent financial authority.

(v) Similarly, terms of a contract once entered into should not be materially varied without the prior consent of the competent financial authority.

(vi) Contracts should invariably be placed only after inviting open tenders and the lowest tender accepted. In cases where it is not considered practicable to invite open tenders or to accept the lowest tender, the reasons for the deviations should be recorded.

(vii) In selecting the tender to be accepted, the financial status of the tendering individuals and firms must be taken into consideration, in addition to all other relevant factors.

(viii) Even in cases where a formal written contract is not entered into, no order for supplies should be placed without at least a written agreement in regard to price.

(ix) Provision must be made in contracts for safeguarding Government/ULB property entrusted to contractors and for recovery of hire charges, if any, therefore.

(x) When a contract is likely to endure for a long period or where the contract provides for a clear schedule for the fulfilment of the various stages of the contract, it should include a provision for unconditional power of revocation or cancellation at the discretion of the ULB at any time on the expiry of reasonable notice to that effect. The period of notice should not normally be longer than six (6) months.

(xi) All contracts should have a provision for recovery of liquidated damages for defaults on the part of the contractor, unless any special instructions are issued by the competent authority.

(xii) 'Cost Plus' contracts have been avoided except where they are inevitable.

Note : - *A 'Cost Plus' contract means a contract wherein the price payable for supplies or services under the contract is determined on the basis of the actual cost of production of the supplies or services concerned plus profit either at a fixed rate per unit or at a fixed percentage on the actual cost of production.*

(xiii) The terms of contract for the purchase of perishable stores should invariably include a 'warranty clause'.

(xiv) It should be ensured that in all contracts where a warranty clause is included, the position regarding delivery of goods in replacement of rejected ones is made clear beyond doubt.

(xv) 'Lump sum' contracts have not been entered into except in cases of absolute necessity. Wherever such contracts are entered into, all possible safeguards to protect the interest of the ULB should invariably be provided for in the conditions of the contract.

(xvi) A schedule of quantities with their issue rates of such materials, which are supplied by the ULB, and are used in the contract work, should form an essential part of the contract. It should also contain an escalation clause pertaining to rates of such materials, the prices of which are controlled by Government and which the contractor arranges himself, so that the ULB may get the benefit of any saving in the quantities of the material actually used in execution.

(xvii) The question whether any value added tax, sales tax, purchase tax, octroi and terminal taxes and other local taxes and duties are to be paid and, if so, by which party, should be settled and cleared up before entering into any contract, involving transfer of movable property whatever its nature may be.

(xviii) Before entering into a contract or an agreement, all pros and cons should be considered and validity of contractual documents should be ensured. Effective steps have been taken to keep a vigil on the performance of parties concerned.

(xix) No work should be done under an agreement/contract beyond the date of expiry of its tenure. Wherever it is considered that the work has to be continued beyond the date of expiry of the tenure, timely action should be taken for renewing the contract/agreement for the further period required, after a suitable review of the provisions of the old agreement/contract to see whether any modifications therein are required.

[Ref : Para 3.7.2 of MSO(Audit)]

6.21.3 Audit of Acceptance of Tender/Contracts/Agreements

Important points to be verified while auditing Acceptance of Tenders (ATs), Contracts or Agreements are as follows:

(i) Complete particulars of quantities and rates/prices should have been furnished, the rates/prices stipulated being firm.

(ii) Important and material clauses relating to delivery schedule, place of delivery, inspection of stores, despatch instructions, particulars of consignee, etc. should have been clearly specified and not omitted.

(iii) Normally, the AT/purchase order should have been signed by an authority competent to enter into contracts. If, however, this has been signed by an authority not competent to enter into the contract, it should be verified that a certificate to the effect that the competent authority has approved the purchase is recorded thereon, mentioning also the designation.

(iv) If the AT provides for payment to a party other than the contracting firm, a power of attorney should already have been registered in the books of the ULBs.

(v) Provisions relating to payment of sales tax, excise duty, value added tax, etc. should be checked with reference to the instructions issued by the Government from time to time. Vague provisions such as "sales tax/value added tax will be paid, if legally leviable" should be objected to and the contracting authority asked to state in definite terms whether sales tax, excise duty, value added tax, etc. are payable and, if so, the rates, basis of payment, etc.

(vi) ATs issued in the latter part of a financial year should be specially scrutinized and any tendency on the part of the ULB to resort to rush of expenditure brought to notice.

(vii) If the AT provides that the supplier should furnish a solvency certificate for the contractual amount, Audit should verify that no fact has been suppressed in the documents connected with the solvency certificate and that the financial interests of Government/ULB have been adequately protected.

(viii) The contract should have been sanctioned by a competent authority and signed by the authorized person.

(ix) In respect of contracts entered into with a firm, each one of the partners, or the duly constituted attorneys in the case of absent partners, should have signed all the documents constituting the contract. In the latter case, the original powers of attorney duly registered in a Court of Law will be verified and an attested copy obtained for audit purposes.

(x) The contract should not have been entered into by or on behalf of a minor.

(xi) Security deposit, if any, should have been furnished in the appropriate form and of the correct amount and within the period stipulated in the contract.

(xii) All the conditions and requirements printed on the contract form should have been complied with.

(xiii) Penalties leviable under the terms of the contract should have been enforced in the event of any default or breach of the conditions.

[Ref : Para 3.7.13 of MSO (Audit)]

6.21.4 Propriety Audit in respect of contracts

If considered necessary, cases of the following types may be scrutinised:

(i) Inclusion of any new item not originally contemplated in the contract.

(ii) Cases involving extension of the stipulated delivery schedule when payment of higher prices had been agreed to initially on grounds of urgency of requirements and early delivery.

(iii) Cases involving payment of compensation to contractors/ suppliers' firms.

(iv) Contracts, even if sanctioned by the competent authority including the Government, containing any extraordinary or unusual stipulations.

(v) Cases involving adoption of any special and apparently objectionable procedures of purchase, inspection and payment.

(vi) All contracts concluded on cost plus profit basis.

(vii) All contracts entered into with private firms for functioning as Government/ULB approved stockists.

(viii) Sanctions to *ex gratia* payments.

[Ref : Para 3.7.14 of MSO (Audit)]

6.21.5 Additional check-points regarding audit of contracts

Besides the checks prescribed for purchase in this Manual, the following checks should be exercised keeping in mind the general principles of financial propriety:

(1) Deviations from contracts require authority not inferior to that required for the conclusion of the original contract. Audit should also see that any payment outside the strict terms of the contract or in excess of the

contracted rates has not been made without the consent of the competent financial authority.

(2) Standing contracts should be reviewed occasionally and if Audit has reason to believe that the rates accepted in those contracts are considerably higher than the rates prevailing at the time of review, such variations should be brought to the notice of the competent authority.

(3) Unusual items in the contracts and agreements should be scrutinized carefully.

6.22 Audit of Public Works Accounts

6.22.1 Objectives and Scope of the Audit of Works

The main objective of audit of Works is:

(i) initial accounts, vouchers etc., have been received in a complete state;

(ii) all sums received/paid have been credited/debited to the proper heads of account;

(iii) all charges are covered by sanctions and allotments;

(iv) all vouchers and accounts are properly prepared, arithmetically correct, and are correctly classified; and

(v) claims admitted for payment are valid according to the rates sanctioned by the competent authority.

[Vide Para 4.1.1 of MSO (Audit)]

6.22.2 Source documents

The following are the source documents to be checked at different stages of the Audit of Works:

(i) accounts including schedules;

(ii) vouchers;

(iii) cash and stock accounts;

(iv) sanctions;

(v) estimates of works;

(vi) tenders;

(vii) relevant registers;

(viii) Transfer transactions, etc.

[Ref : Para 4.1.2 of MSO (Audit)]

6.22.3 Audit checks to be exercised in connection with the Audit of Works

6.22.3.1 The following are the different checks to be applied in connection with the Audit of Works :

(i) the initial accounts, vouchers, etc., have been received in a complete state;

(ii) all sums receivable have been realized and credited to the proper head of account;

(iii) the charges are covered by proper sanctions and allotments and are supported by complete vouchers setting forth the claims and the acknowledgements of the payees legally entitled to receive the sums paid;

(iv) vouchers and accounts are properly prepared in all respects in accordance with rules and are arithmetically correct;

(v) all charges are correctly classified;

(vi) claims admitted for payment are valid and in order on the basis of rates sanctioned by the competent authority and of acts (e.g., quantities or work done, supplies made, service rendered, etc.) certified by authorized person;

(vii) every payment is so recorded and a receipt for it so obtained that a second claim against the ULB on the same account is impossible;

(viii) no one has exceeded the financial powers delegated to him by virtue of various Rules, Regulations and Orders issued by the Government/ Competent Authority from time to time;

(ix) allotments made for individual works out of the lump sum provision made for a group of works, are not exceeded and expenditure against such individual allotments is adequately monitored;

(x) in cases where two or more disbursing authorities have to operate simultaneously against a single sanction, orders of the competent authority are obtained placing specific restrictions on the extent to which each such authority could enter into monetary transactions. It may be advisable in such cases to provide for separate working estimates or other sanctions to cover the transactions of each authority and, for the purpose of bringing the expenditure to accounts, these should be treated as far as possible as independent transactions pertaining to the same group of works or the same project. If, however, this is not possible, special arrangements must be made for checking the total expenditure against the sanction;

(xi) the works expenditure is checked with reference to the estimates in order to ensure that the charges have been incurred only in pursuance of the objects intended in the estimates;

(xii) the authorized gross expenditure on a work is not exceeded without the orders of the competent authority and any surplus recoveries of expenditure are not utilized towards such additional expenditure;

(xiii) savings on account of abandonment of parts of a work, as evidenced by the quantities of the work executed or otherwise, are not utilized towards an unauthorized object;

(xiv) recoveries of expenditure should be watched in order to bring all marked deviations from the provision for such credits in the estimates of works;

(xv) Muster Rolls and petty vouchers should be checked in detail;

(xvi) satisfactory and efficient arrangements exist for checking tenders and the comparative statement of tenders correctly incorporates the totals as checked on the individual tenders;

(xvii) the progressive expenditure does not exceed the amount of the sanctioned estimate or the allotment sanctioned for individual works or item of expenditure or groups of works or items of expenditure and action is being taken for regularization of excesses, if any, over the estimate/allotment;

(xviii) the rules and orders in force are duly observed in respect of all the transactions of the ULB;

(xix) proof of payment to the correct individual; and

(xx) observance of standards of financial propriety as enumerated in this Manual.

6.22.3.2 An important component of the audit conducted with reference to sufficiency of the authority for incurring the expenditure, is the scrutiny of sanctions and orders. Audit must verify whether expenditure on a work is covered by:

(i) a sanctioned detailed estimate for the work; and

(ii) an allotment (for each year during which any expenditure is incurred on the work), which may either for the work itself or for the whole unit of appropriation within which the work falls along with one or more other works according to the rules on the subject prescribed by the Government from time to time.

6.22.3.3 Every sanction, whether relating to expenditure on works or other transactions of the ULBS, should be audited in terms of the guidelines contained in Paragraph 6.3 of this Manual.

[Ref : Para 4.1.4, 4.1.6, 4.1.11 and 4.1.12 of MSO(Audit)]

6.23 Audit of grants – in – aid

6.23.1 The main aim of audit of grants-in-aid is to ensure that -

(i) the grants are utilized for the purpose for which these are given; and

(ii) sound economical, financial and managerial practices are duly followed while incurring expenditure out of such grants.

Audit has to bring to light instances of waste, failures, system weaknesses and deficiencies resulting in in-fructuous expenditure.

[Ref : Para 3.5.1 of MSO (Audit)]

6.23.2 The audit has to verify that -

(i) each item of expenditure is covered by the sanction of the authority competent to sanction it;

(ii) the authority sanctioning it is competent to do so by virtue of the powers vested in it by the provisions of the Act, Rules or orders made there under or by the rules of delegation of financial authority framed by the competent authority;

(iii) the sanction is definite and thus needs no reference either to the sanctioning authority itself or to any higher authority;

(iv) the expenditure conforms to the provisions of the sanction; and

(v) all financial transactions have been correctly recorded in the accounts under examination and have been allocated to the appropriate heads of account.

[Ref : Para 3.5.9 of MSO (Audit)]

6.23.3 The audit should check that -

(i) the sanction conforms to the pattern of assistance or rules, governing such grants – in – aid as approved;

(ii) the suitability of the institution/beneficiary seeking the grant has been assessed by the sanctioning authority;

(iii) no grants are sanctioned where there is reasonable doubt or suggestion of corrupt practices unless the institution/ beneficiary concerned has been cleared of the allegations;

(iv) every order sanctioning a grant indicates whether it is recurring or non-recurring in nature and the object for which it is given and clearly specifies the general and special conditions, if any, attached to the grant;

(v) a provision to the effect that the accounts of the grantee institutions/beneficiaries shall be open to inspection by the sanctioning authority/Audit whenever considered necessary by them is incorporated in all orders sanctioning the grant; and

[Ref : Para 3.5.10 of MSO (Audit)]

(vi) Grants are not paid in excess of actual requirements of the grantee/beneficiary for the financial year or, say, for a period of one year from the date of issue of the sanction and that any general or special orders for releasing a particular grant in instalments are complied with.

[Ref : Para 3.5.13 of MSO (Audit)]

6.23.4 The extent of audit of the expenditure incurred from a grant by the grantee depends on whether the grant is conditional or unconditional. Where conditions are attached to the grant, these generally relate to the particular objects on which the grant may be utilized or the timeframe within which the money must be spent. Whatever be the nature of the conditions, Audit has to verify that these have been fulfilled. The following procedure should be observed in such cases :

(i) The audit scrutiny should include a complete or test check of the extent to which the prescribed conditions have been fulfilled.

(ii) The auditor should either include in his report a certificate that the conditions attached to the grant have been or are being fulfilled, or furnish details of the deviations from or breaches of these conditions.

(iii) Audit should watch the utilization of the grant from the administrative, technical and financial points of view.

[Ref: Para 3.5.16 and 3.5.17 of MSO (Audit)]

6.23.5 In view of large amounts disbursed as grants – in – aid in connection with developmental schemes, it has become an important function of Audit to watch:

(i) that there is no tendency to continue disbursing fresh grants to a grantee when substantial amounts out of the earlier grants remain unutilized;

(ii) that an adequate machinery is available with the executive authorities to maintain a constant watch over the progress of expenditure from the grant, the continued solvency of the grantee and the safety of the funds provided;

(iii) whether the intended developmental schemes are being implemented economically and efficiently and producing the results expected of them;

(iv) the extent to which the agency or authority being audited is adequately discharging its financial responsibilities in relation to the schemes being implemented; and

(v) whether there are instances of overpayment, loss, extravagance, avoidable excess or infructuous expenditure attributable to improper planning, incorrect sequencing of activities, delays in completion, etc.

[Ref : Para 3.5.20 of MSO (Audit)]

It should also be seen that any portion of the grant not ultimately required for expenditure upon the specified object will be surrendered.

[Ref : Para 3.5.21(ii) of MSO (Audit)]

CHAPTER -VII

7.1 Compliance / Regularity Audit & Audit of Internal Control

7.1.1 The regularity audit is an essential aspect of the auditing of ULBs. One important objective that this type of audit assigns to the Audit Institution (AI) is to make sure, by all the means put at its disposal, that the budget and accounts of ULBs are accurate, complete and valid. This will provide users of the Auditor's report with assurance about the size and development of the financial obligation of the ULB. To achieve this objective, the AI will examine the accounts and financial statements of ULBs with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered.

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

7.1.3 In conducting audit of ULBs covering non-expendable assets, the Auditor should see that the internal procedure adequately secures correct accountal of non-expendable assets, verification of their physical existence and obsolescence and disposal.

7.1.4 In verifying compliance with the applicable tax laws in respect of ULBs, audit of receipts is regulated mainly with reference to the statutory provisions as judicially interpreted. Interpretation of law is a judicial function; the Auditor does not review a judicial decision. Audit may, however, point out cases where there is an apparent lacuna or loophole in law and make suggestions for their amendments.

7.1.5 The Auditor should see that the internal procedure adequately secures correct and regular accounting of demands, collections and refunds, so that no dues are left outstanding on the books of ULBs without sufficient reason and the claims are pursued with due diligence and are not abandoned or reduced except with adequate justification and with proper authority.

7.1.6 Auditor's alertness to fraud is important in detecting fraud during routine audit. The Auditor should be alert to situations or transactions that could be indicative of fraud, abuse and illegal acts and if such evidence exists, Auditor should extend audit steps and procedures to identify the effect on the ULB's operations and programmes.

An audit made in accordance with the standards prescribed from time to time, will not guarantee the discovery of all fraud, abuse or illegal acts that might have been committed. Nor does the subsequent discovery of fraud, abuse or illegal acts committed during the period covered under audit necessarily mean that the Auditor's performance was inadequate. However, if the audit was conducted in accordance with the prescribed auditing standards, the Auditors have fulfilled their professional responsibility.

Where there are reasonable grounds for suspicion, the Auditors must go beyond the mechanical performance of auditing procedures and extant audit steps and procedures to track down improprieties.

7.1.7 The following paragraphs explain compliance as an auditing standard :

7.1.7.1 Reviewing compliance with laws and regulations is especially important when auditing programmes of the ULBs because decision–makers need to know if the laws and regulations are being followed, whether they are having the desired results, and, if not, what revisions are necessary.

7.1.7.2 Those planning the audit need to be knowledgeable of the compliance requirements that apply to the ULBs being audited. Because the laws and regulations that may apply to a specific audit are often numerous, the Auditors need to exercise professional judgement in determining those laws and regulations that might have a significant impact on the audit objectives.

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

7.1.7.4 In conducting audit of ULBs in accordance with the standards, the Auditors should choose and perform audit steps and procedures that, in their professional judgement, are appropriate in the circumstances. These audit steps and procedures should be designed to obtain sufficient, competent, and relevant evidence that will provide a reasonable basis for their judgement and conclusions.

7.1.7.5 Generally, the authority of a ULB is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. In designing steps and procedures to test or assess compliance, Auditors should evaluate the ULB's internal controls and assess the risk that the control structure might not prevent or detect non-compliance.

7.1.7.6 Without affecting the independence of the AI, the Auditors should exercise due professional care and caution in extending audit steps and procedures relative to illegal acts so as not to interfere with potential future investigations or legal proceedings. Due care would include consulting appropriate legal counsel

and the applicable law enforcement organization to determine the audit steps and procedures to be followed.

(Ref para 7, chapter III of AS of ULBs)

7.1.8 In addition to the above, the principles and instructions issued by the Comptroller & Auditor General of India under Manual of Standing Orders (Audit), Regulations on Audit and Accounts, etc. should be strictly adhered to.

7.2 Audit against propriety

7.2.1 Audit objectives

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 moneys or stores even though the accounts themselves may be in order and no obvious irregularity has been committed. Such audit, often called Propriety Audit. Objective of audit against propriety is to support a reasonably high standard of public financial morality and sound financial administration and devotion to ULBs' financial interests. To ensure that the relevant rules and orders of competent authority have been observed and that there is no irregularity in respect of an item of expenditure, it is important to see that the broad principles of orthodox finance are borne in mind by the officers sanctioning and / or incurring expenditure.

7.2.2 Points to be seen -The following general principles, have been accepted as standards of financial propriety:

- The expenditure should not be *prima facie* more than the occasion demands. Every officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money.
- No authority should exercise its power of sanctioning expenditure to pass an order, which will be directly or indirectly to its own advantage.
- Public money should not be utilised for the benefit of a particular person or section of the community unless -
  - ❖ the amount of expenditure involved is insignificant; or
  - ❖ a claim for the amount could be enforced in a court of law; or
  - ❖ the expenditure is in pursuance of a recognised policy or custom.
- No authority should sanction any expenditure, which is likely to involve at a later date, expenditure beyond its own power of sanction.

- 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.

Any infringement of the principles enunciated above should be reported and taken up by Audit with the authorities at appropriate levels.

7.2.3 Key areas of audit scrutiny

Further, illustrative list of tasks to be carried out in relation to propriety audit is listed below in respect of expenditure Audit.

(i) To prevent extravagance in expenditure suggestions to be designed.

(ii) Periodical review of sanctions is needed to check a long period of currency and of sanctions of a permanent nature.

(iii) Comparison of rates prevalent in neighbouring localities for similar works and supplies is one of the important issues.

(iv) Scrutiny of contracts, with a view to see whether their terms are not unduly liberal or include necessary safeguards to protect ULB's interests.

(v) 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.

(vi) Review of arrangements for invitation of tenders and conclusion of contracts and their adequacy.

(vii) 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.

(viii) Scrutiny of orders delegating financial authority.

(ix) Investigation of serious financial irregularities including frauds and embezzlements with a view to suggesting improved methods for their prevention or quicker detection in future.

(Para 2.2.9 & 2.2.46, 2.2.47 of MSO Audit)

7.3 Performance Audit

7.3.1 Performance auditing is an independent assessment or examination of the extent to which an entity, programme or organization operates efficiently and effectively, with due regard to the economy. It embraces:

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

[Ref : Para 11.01 of MIA(AB)]

7.3.2 Performance Auditing Guidelines applicable to the Indian Audit and Accounts Department should be followed during the performance audit of ULBs, when taken up.

However, a few important topics relating to techniques for evidence analysis, quantitative data analysis and evidence gathering and also on Risk based on the Performance Auditing Guidelines are discussed below for appropriate use by auditors in conducting regular audit of ULBs as well.

The auditors are encouraged to apply other techniques/methods also as enjoined in the Performance Auditing Guidelines.

7.3.3 Evidence Analysis Techniques

Evidence analysis is crucial to the performance audit. Meticulous use of appropriate evidence analysis techniques enhances the authenticity of audit findings and therefore, their acceptance by the entity. However, these do not contain an exhaustive list of evidence analysis techniques and the Performance Auditors are encouraged to apply other appropriate techniques for evidence analysis.

(Ref : Para 1 of Appendix - E of C. & A. G.'s Performance Auditing Guidelines)

7.3.4 Quantitative Data Analysis and Evidence gathering techniques

Important techniques used in quantitative data analysis and evidence gathering as laid down in Appendix E of Performance Auditing Guidelines to be followed.

7.3.5 Risk

7.3.5.1 It is important to identify and analyse the risks associated with the entities under audit jurisdiction. Risk is the exposure to the chances of failure or loss. The risk is related to the probability that an event or action will adversely affect the entity. In the context of performance audit, it is the risk to delivery of an activity/scheme/programme of the entity with economy, efficiency and effectiveness. Performance audit provides assurance on performance of the public sector activity/scheme/programme.

7.3.5.2 Since all activities of the entities cannot be audited for resource constraints, awareness of entities/ areas that puts the programme or public resources at risk from the point of view of economy, efficiency and effectiveness helps focus audit attention on them. In a broad sense, it provides a framework for assurance in performance auditing.

In analysing risks, following questions should be addressed :

- What can go wrong?
- What is the probability of it going wrong?
- What are the consequences?

7.3.5.3 The audit perception of risk to value for money is one of the criteria in selecting an entity or programme for audit and subsequently focusing attention on specific areas within the entity or programme.

7.3.5.4 Once the subject is chosen, further risk assessment of the audit areas/issues within the topic helps focus on key issues in the individual audit. Some considerations are:

(i) ***Financial materiality*** of a topic is the amount of expenditure/ revenue, assets/liabilities involved in the entity/ project/ activity under review;

(ii) ***Significance*** of a topic is its importance in the context of the organization, programme or subject. A topic will have a high significance if the project or activity it addresses is central to the functioning of the entity;

(iii) ***Visibility*** of a subject is an assessment of the interest it generates in the general public and of the legislature. While no uniform index of visibility can be prescribed, legislative debates, media reports/articles and subjects of workshops and seminars could serve as an index of visibility;

(iv) ***Past performance audits as well as regularity audits*** by the Supreme Audit Institution (SAI) could provide an index of significance, materiality and risk of the subjects;

(v) ***Estimated impact*** of the performance audit is also a criterion for prioritisation. This could be the impact of improved economy, efficiency and effectiveness of the entity/project/activity which is the subject of performance audit. Impact can be assessed through an understanding of the entity's risk profile and the areas proposed to be addressed by the topic;

(vi) ***Coverage*** refers not only to previous SAI coverage but also to other independent reviews of the activity. Such reviews may have been conducted by internal audit, external consultants or government committees or the activity could have been subject to programme evaluation. As a general rule, a low ranking would occur when there has been a substantial review of the activity within the past two years. A higher ranking would be warranted where the audit has been requested by the legislature or by the government and the previous performance audit indicated that such a follow-up should occur; and

(vii) ***The stage of the programme development*** should also be kept in mind when assessing management performance.

(Ref : Para 2.15 to 2.18 of Performance Auditing Guidelines)

7.3.5.5 Purposes of assessing risk

The purposes of assessing risk are to:

- determine risk levels as input to the audit plan;
- determine which areas are high risk and to help develop an effective audit approach;
- to design audit procedures to ensure that the audit risk is reduced to an acceptably low level; and
- to assist auditors in their professional judgements.

[Ref : Para 8.12 of MIA (AB)]

7.3.5.6 Identifying risks

Following steps need to be conducted for risk analysis of the entity.

(a) **Inherent risks:** Some entities/ activities are inherently more risky than others. Examples of such entities activities could be where a new activity or technology has been introduced, where there are complex laws and regulations, occurrence of unusual events, frequent changes in the scope of the activity, multiplicity of interested parties, a controversial social and political debate surrounding the issue, etc. Information that can lead to identification and understanding of these issues would be available in the legislation, parliamentary questions, legislative speeches, entity's

plans, annual report, budget, policy files, board minutes, organizational charts, internal guidelines, operating manuals, programme evaluation, internal audit reports, management information systems, recent audit reports, reviews and media reports, etc.

(b) **Control environment risks:** Information required to identify such risks associated with the control environment of the entity can be obtained from the sources mentioned above. In addition, the assessment of the control environment during financial audit could be of great value. The programmes with multiple levels of execution, reporting and accountability relationships may be assessed from the point of view of possible weakness in control environment risks.

(c) **Risks associated with the stage of development:** It is also essential to keep in view the stage of the entity's programme development while assessing risks. In the development stages, it will be particularly important to examine if the management has set measurable, operational objectives, which clearly identify how the programme will contribute to the organisation's objectives. During programme implementation, it will be important to see whether appropriate performance measures are maintained and analysed to assess performance and whether there is a clear identification of roles and responsibilities for each level of programme. If the programme has been in place for some time, it will be important to assess whether a formal evaluation has been undertaken to ascertain whether the programme is continuing to meet relevant needs as also the extent to which these needs still exist or are being met by other programmes.

(d) **Risks assessment as per programme analysis:** Programme risk analysis over various stages of the programme, inputs, processes, etc. can provide a good structure for identifying risks. It can act as a thinking aid while identifying risks to value for money in an entity/programme.

[Ref:Para 2.20 of Performance Auditing Guidelines]

7.3.5.7 Materiality of the risks

After identification of the risk factors that operate in the entity/programme, it is important to assess their materiality judged on the intensity of risks and their possible impact. Assessing the intensity can be done on a scale consisting of high, medium and low risks. The effect of these risks on performance also needs to be assessed. The existence, intensity and impact of the risks would need to be considered in tandem while prioritising audit focus.

(Ref : Para 2.21 of Performance Auditing guidelines)

7.3.5.8 Risk analysis

A risk analysis should be carried out with reference to the various parameters of the entity, programme or the subject after a careful study of all relevant documents. A good risk perception to the programme or entity's performance will facilitate determining the audit thrust areas, audit objectives and setting the most appropriate audit criteria. It will also assist in selection of appropriate sampling techniques for the units to be audited and for the selection of vouchers/information/data. The risk factors can be attributed to the different forms of inputs, processes, information systems, accountability relationships, outputs and outcomes on the basis of the perceived weakness in the design parameters, organizational structure, information system, transparency, criteria or means adopted for monitoring and review etc.

(Ref: Para 3.12 of Performance Auditing Guidelines)

7.3.5.9 Risk Model

The risk model and the procedure of using the risk model have been discussed in Para 8.14 and 8.15 of MIA (AB), which should be followed.

7.4 Audit of Scheme Transactions

7.4.1 Introductory: During normal audit of ULBs it will be necessary to pay special attention to transactions relating to schemes implemented by different departments under the control of that institution.

7.4.2 Points to be covered during Audit

The more important points to be seen during audit of schemes are as follows:

(1) Expenditure has been incurred strictly in accordance with the guidelines/instructions issued in respect of the scheme and to serve solely the purpose for which the scheme has been sanctioned.

(2) Cash accounts, Stores and Stock accounts, vouchers and requisite documents/records/registers are .properly prepared and separately maintained, if so prescribed.

(3) When moneys relating to a scheme are kept in a Bank, whether the opening of the Bank account and its continuance are duly authorized and whether remittances into and drawls from the Bank account are in order.

(4) In the case of schemes undertaken for the benefit of S.C. / S.T, Women and Children / Backward Classes, etc., coming under the purview of the Social Welfare Department, etc., the necessary certificates such as Caste certificate, income certificate, age certificate, etc., as prescribed are obtained from the authority competent to give such a certificate, before a person is identified as a beneficiary under the scheme.

(5) Contributions from beneficiaries, if prescribed, have been recovered and properly accounted for.

(6) The physical and financial achievements with reference to prescribed targets are closely monitored by the Head of Office and remedial steps are promptly taken in case shortfalls, lapses or defects come to notice.

(7) Fund for specific work

(i) Where funds are provided by the departments of Government for construction of departmental buildings and staff quarters etc., entrusted to Works and Engineering Department, it is to be ascertained whether the progress of works is properly monitored by the funding departments and suitable action is taken to get them completed on time.

(ii) In respect of incomplete works, reasons for non-completion are to be ascertained, analysed and commented upon, highlighting blocking of funds and wasteful or unfruitful expenditure.

(8) Proper documents are maintained to prove that the beneficiaries under each scheme are properly selected by following the procedure laid down in the guidelines of the scheme and follow up action is taken to ascertain that benefits have been actually accrued to the intended beneficiaries.

(9) Expenditure reconciliation

(i) Expenditure statements or accounts with vouchers, certificates, statements, etc. and progress reports are regularly submitted to the Controlling Officer and the other authorities by the due dates as prescribed.

(ii) Such statements or accounts are correct and complete in all respects and their genuineness is verifiable from the original initial records maintained in the office.

(iii) The expenditure figures are reconciled with the Bank Pass Book figures and are not boosted by fictitious adjustments or by drawing huge amounts as Advances and not rendering detailed accounts within a reasonable period.

(10) Advances are not drawn and charged off as final expenditure in the scheme accounts, especially towards the end of the financial year.

(11) If the accounts are to be rendered after getting them audited by the State Audit Agency or a Chartered Accountant, etc., they are got audited and submitted with the prescribed audit certificates and other details by the due dates.

(12) Proper Utilisation Certificates in respect of assistance / grants received for implementing the schemes are furnished promptly.

(13) Unutilised amounts at the end of the year are refunded if so prescribed by the scheme sanctioning authority.

7.4.3 Suggested Layout for reporting

The following layout with such modifications as may be necessary in respect of individual audit based on their scope and content or special features could be adopted in respect of audit of Central/State schemes and programmes:

(i) Introduction – Brief description of the project/scheme/ programme and its objectives with sub-objectives; details of the inputs or action plan identified in the project/scheme document to achieve the stated objectives.

(ii) Scope of Audit - Extent of coverage, size of sample, etc.

(iii) Organisational arrangements.

(iv) Allocation of financial resources and flow of funds.

(v) Physical and financial targets.

(vi) Utilisation of financial assistance/ resources - Critical analysis of the expenditure actually incurred on the project/scheme with reference to allocations / targets, including irregularities in expenditure, instances of diversion or misuse of funds.

(vii) Output analysis - Critical analysis of the goals, achievements and shortfalls in respect of each component/sub-component of the project/scheme, including deficiencies in implementation.

(viii) Utilisation of materials/equipment.

(ix) Creation of assets and their utilisation.

(x) Manpower resources and their utilisation.

(xi) Impact assessment – Realisation of socio-economic objectives- Achievements and shortfalls – Observations on efficacy and cost effectiveness of the project/scheme.

(xii) Arrangements for monitoring and evaluation as well as effectiveness of such arrangements.

[Ref : Para 3.8.39 of MSO (Audit)]

7.4.4 Types of Schemes under ULBs

In order to develop human resources, infra-structure, civil amenities and to achieve economic self-sufficiency, to secure social justice, different types of

schemes have been launched by the Central or State Government jointly or separately. The schemes implemented by ULBs are as follows:

1. Jawaharlal Nehru National Urban Renewal Mission (JNNURM)
2. Mid-day-Meal Programme
3. National Social Assistance Programme (NSAP)
4. Employment Generation in Urban Area Scheme (EGS)

Salient features of the Scheme and points to be seen by Audit are discussed below:

7.4.4.1. Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

7.4.4.1.1 Objectives of the Mission

The objectives of the JNNURM are:

- Focused attention to integrated development of infrastructure services in cities covered under the Mission;
- Establishment of linkages between asset-creation and asset-management;
- Scale-up delivery of civic amenities and provision of utilities with emphasis on universal access to the urban poor;
- Special focus on urban renewal programme for the old city areas to reduce congestion; and
- Provision of basic services to the urban poor (BSUP) including security of tenure at affordable prices, improved housing, water supply and sanitation.

7.4.4.1.2 Financial Assistance under JNNURM

- The Government of India has proposed substantial assistance through the JNNURM over the seven-year period. During this period, funds shall be provided for proposals that would meet the Mission's requirements.
- Assistance under JNNURM is additional central assistance, which would be provided as grant to the implementing agencies as per criteria laid down in the guideline.
- Ensure adequate investment of funds to fulfil deficiencies in the urban infrastructural services.
- Planned development of identified cities including poor-urban areas of growths, urban corridors, so that urbanisation takes place in dispersed manner.

7.4.4.1.3 Components of the Programme

The mission comprises of the following components:

i) **Urban Infrastructure and Governance (UIG)**

The UIG component will provide for urban infrastructure projects relating to water supply (including sanitation), sewerage, solid waste management, road network, urban transport and redevelopment of inner (old) city areas etc.

ii) **Basic Services to the Urban Poor (BSUP)**

Housing and slum development through projects for providing shelter, basic services and other related civic amenities are part of the BSUP.

iii) **Urban Infrastructure Development Scheme for Small & Medium Towns (UIDSSMT)**

This component will provide for urban infrastructure projects relating to water supply, sewer, solid waste management, roads etc. in small and medium towns (other than the mission cities identified under UIG and BSUP).

iv) **Integrated Housing and Slum Development Programme (IHSDP)**

This component will provide for housing and integrated slum development in non-mission cities / towns.

7.4.4.1.4 The objectives of the Mission

The objectives of the Mission are to be made through adoption of the following strategy:

i) Planned urban perspective framework,

ii) Preparation of City Development Plan,

iii) Preparation of Detailed Project Reports,

iv) Private Sector Participation in development,

v) Flow of funds directly to the State Level Nodal Agency from the Central and State Government.

The main objective of the reforms under JNNURM has been stated to provide an enabling environment for the growth of the cities by enhancing effective urban service delivery and civic structure. State Government and ULBs are required to accept implementation of an agenda of reforms. Mandatory reforms to be implemented by the

State/ULB within the mission period are broadly categorized as follows:

- State level reforms like 'Implementation of 74th Constitution Amendment Act', 'Reform in Rent Control', 'Rationalisation of Stamp Duty', etc.
- ULB level reforms are mainly related to systems and process improvement which are time consuming and need proactive involvement of ULB like 'Shift to Accrual Based Double Entry Accounting System', 'Property Tax Reforms', 'Internal earmarking of funds for poor' and 'e-governance'.

7.4.4.1.5 Audit Checks

Following are the audit checks:

- Whether e-governance has been undertaken and actually resulted in efficient service delivery?
- Whether GIS database has been prepared and used in property tax management?
- Whether 90% collection efficiency has been achieved in respect of Property Tax?
- Whether user charges are being fully recovered for water supply and SWM?
- Whether the CDP is comprehensive and complete?
- Whether DPRs had been prepared and reliable date used for preparation of the same?
- Whether DPRs included the following :
  1. Status of availability and quality of water supply to slum dwellers;
  2. Proposed sewerage and storm drainage lines;
  3. Status of health facilities such as availability of health centers/maternity centers etc.;
  4. Details like distance of schools from slum or are being constructed under BSUP/IHSDP;
  5. Preparation of project proposal for sewerage and water supply as per respective manuals;
  6. Roads and Transport project in general in line with National Urban Transport Policy; and
  7. Identification of beneficiaries through socio economic survey.
- Whether SLNA released GOI allocation to ULB promptly?
- Did the State Govt. release its matching share?

- Are there cases of funds being parked in deposits / banks etc.?
- Whether poorest were covered under housing, rather than spending money only on infrastructure?
- Whether preference had been given for integrated development of slums (houses along with infrastructure)?
- Whether willingness of the beneficiaries taken in case of rehabilitation project?
- Whether a mechanism had been evolved to prevent resale of such properties before a reasonable period of 10-15 years?
- Whether housing component in the projects are at least 50 per cent of the total project cost?
- Whether overall cost of one dwelling unit under BSUP project had been restricted to ₹ 2.50 lakh?
- Was there a violation of the JNNURM guidelines in selection of the project?
- Whether project was executed as per approved designs/specifications?
- Whether bidding/tendering was done in conformity with the approved DPR?
- Were there any cases of undue favour to contractor /supplier or payment of advance?
- Whether the records of assets created under JNNURM have been maintained?
- Whether physical and financial verification of the programme was conducted by ULB?
- Whether per capita water supply increased after completion of water supply project?
- Whether sewerage projects avoided discharge of untreated sewage into natural streams?
- Whether transport project enhanced ease of travel and traffic congestion?

7.4.4.2 Employment Generation in Urban Area Scheme (EGS)

The Government of West Bengal launched Employment Generation Scheme (EGS) in September 2005 for employment generation as well as improvement and maintenance of civic infrastructure in urban areas by direct engagement of urban poor without involvement of contractors. The works under this scheme have to be done directly by the ULBs either through Ward Committees or through Community Development Societies (CDS) with the overall objective of ensuring

creation of wage employment for the members of the CDS and urban poor. The works under the scheme were to be identified by the Ward Committees / CDS.

7.4.4.2.1 List of schemes can be taken

An illustrative list of schemes for creation/maintenance of civic infrastructure under which schemes can be undertaken are given below:

i. Drainage works
ii. Water supply
iii. Social forestry on roads, community lands/schools/hospital premises
iv. Beautification of parks, canals/river banks
v. Preservation of water bodies
vi. Improvement of markets
vii. Creation of marketing outlets for DWCUA/T&CS Groups

The above list is not, however, exhaustive.

7.4.4.2.2 Audit Points

- Whether grants under the Employment Generation Scheme were utilized for the period for which it was available? If not, reasons for non utilisation of grants may be highlighted.
- Whether grants under the Employment Generation Scheme were utilized directly by the ULBs either through Ward Committees (WC) or through Community Development Societies (CDS)?
- Whether wage material ratio was adhered to as per the Scheme Guidelines?
- Whether ULBs have submitted one set of vetted estimates of individual work accompanied by the recommendation of the WCs and the Board of Councillors' to the Municipal Affairs Department?
- Whether ULBs have maintained registers for stock of material, quantum of work done and complete list of identified urban poor / CDS members eligible to participate as wage earners in the scheme?

- Whether ULBs have engaged contractors in violation of scheme guidelines?

7.4.4.3 Mid-day-Meal Programme

The National Programme of Nutritional Support to Primary Education, popularly known as Mid-day-Meal (MDM) Scheme was launched on 15 August 1995 to cover all the students of primary classes. The Programme is intended to give a boost to universalisation of primary education, by increasing enrolment, retention and attendance and simultaneously impacting on nutrition of students in primary classes. The Central Government assists the ULBs by providing food grains, the actual cost incurred in transportation, cooking cost, assistance to construct kitchen-cum-store, assistance for provisioning and replacement of kitchen devices and assistance for management, monitoring and evaluation.

The Central Government provides wheat/rice at the rate of 100 grams per student per day free of cost to the local bodies through the nearest Food Corporation of India go downs. On the basis of allocation of food grains for each district by the Government of India the District Collector (DC) further allocate the entitlement of each school/local authority and specify for lifting of the food grain.

Following are the audit checks:

1. What is the system of collection food grains from godowns? Whether any agency engaged for the purpose?
2. Whether the food grains allotted by the DC were lifted from the go downs and distributed to the school authority within due date?
3. Is there any system of maintaining stock books for food grains by the ULBs and Agency?
4. Whether any supervisory mechanism adopted by the ULBs for ensuring that the food provided has got calorific value equivalent to 100 grams of wheat/rice?
5. Is there any case of wastage of food grains or pilferages?
6. Whether the funds provided for cooking of food grains, construction of kitchen shed is as per norms and utilized for the purpose?
7. Whether all the schools are covered under the scheme?
8. Whether the quantity of food grains distributed is as per norms i.e. at the rate of 100 grams per children per school day subject to minimum attendance of 80 per cent?
9. Whether the utilization certificate for food grains are obtained from the school authorities and monthly statement certifying the quantity

of food grains lifted are forwarded to the Department of Education?

10. Whether the stock of food grains maintained by the agency is physically checked by the ULBs with reference to stock register at periodic interval?

7.4.4.4 National Social Assistance Programme (NSAP)

7.4.4.4.1 Social security, invalid and old age pensions figure as items 23 and 24 of the 7th Schedule of the Constitution of India in the Concurrent List. It is in compliance of these guiding principles, that the Government of India introduced on Independence Day, 1995 the National Social Assistance Programme (NSAP) as a fully funded Centrally Sponsored Scheme targeting the destitutes to be identified by the States and UTs with the objective of providing a basic level of financial support.

Destitutes are defined as any person who has little or no regular means of subsistence from his / her own source of income or through financial support from family members or other sources. In order to determine destitution, the criteria (if any) in force in the States / UTs could also be followed.

7.4.4.4.2 The NSAP initially had the three following components:-

a) National Old Age Pension Schemes (NOAPS)

b) National Family Benefit Scheme (NFBS)

c) National Maternity Benefit Scheme (NMBS)

7.4.4.4.3 Changes in the composition of NSAP

- ***Transfer of National Maternity Benefit Scheme to Department of Family Welfare*** The National Maternity Benefit Scheme was transferred to the Department of Family Welfare to become part and parcel of the Population Stabilization Programme w.e.f. **1.4.2001**.

- ***Introduction of Annapurna Scheme*** On **1st April 2000,** a new scheme known as the Annapurna Scheme was introduced to provide 10 kgs of food grains per month free of cost to eligible beneficiaries not covered under NOAPS.

- In the **year 2002-03,** NSAP was transferred to the State Plan and funds were, from then on, released as Additional Central Assistance (ACA) to States and UTs with the Ministry of Finance releasing funds to the States Consolidated Fund as a single allocation for all the sub-schemes with the freedom given to the States to allocate to the individual sub-schemes as per their

requirement. In the case of Union Territories (UTs), the Ministry of Home Affairs makes the release.

- From the **year 2007**, the scheme was expanded to cover all eligible persons **Below Poverty Line (BPL)**. The scheme for old age persons was renamed as Indira Gandhi National Old Age Pension Scheme (IGNOAPS).

- ***Introduction of Indira Gandhi National Widow Pension Scheme (IGNWPS) and Indira Gandhi National Disability Pension Scheme (IGNDPS)*** NSAP was expanded in 2009 to cover more vulnerable groups. In **February 2009**, Government of India approved pension to BPL widows in the age group of 40-64 years. This scheme was named **Indira Gandhi National Widow Pension Scheme (IGNWPS)**.

Government of India also approved pension to BPL persons suffering from severe or multiple disabilities in the age group of 18-64 years. This scheme was named **Indira Gandhi National Disability Pension Scheme (IGNDPS)**. For the purpose of defining severe or multiple disabilities the following legal provisions will be followed:

(a) As per Section 56(4) of the Persons with Disabilities Act, 1995 (PWD Act, 95), "persons with severe disability" means a person with 80% or more of one or more disabilities.

(b) As per Section 2(h) of the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (National Trust Act,1999), "Multiple Disabilities" means combination of 2 or more disabilities.

7.4.4.4.4 SALIENT FEATURES OF SCHEMES OF NSAP

(1) Components of NSAP

The NSAP at present includes five sub-schemes as its components:

a) Indira Gandhi National Old Age Pension Scheme (IGNOAPS)

b) Indira Gandhi National Widow Pension Scheme (IGNWPS)

c) Indira Gandhi National Disability Pension Scheme (IGNDPS)

d) National Family Benefit Scheme (NFBS)

e) Annapurna Scheme

(2) **Eligibility Criteria and Scale of Assistance :** The assistance under the sub-schemes of NSAP are applicable only for persons belonging to Below Poverty Line (BPL) category. The other eligibility criteria and the scale of assistance under the sub-schemes of NSAP are as follows :

- **Indira Gandhi National Old Age Pension Scheme (IGNOAPS)**: The eligible age for IGNOAPS is 60 years. The pension is Rs.200 p.m. for persons between 60 years and 80 years. For persons who are 80 years and above the pension is Rs.500/- per month.

- **Indira Gandhi National Widow Pension Scheme (IGNWPS)**: The eligible age is 40 years and the pension is Rs.300 per month. After attaining the age of 80 years, the beneficiary will get Rs.500/- per month.

- **Indira Gandhi National Disability Pension Scheme (IGNDPS)**: The eligible age for the pensioner is 18 years and the amount is Rs.300 per month. After attaining the age of 80 years, the beneficiary will get Rs.500/- per month.

- **National Family Benefit Scheme (NFBS)**: Rs. 20000/- will be given as one time assistance to the bereaved household in the event of death of the bread-winner. A woman in the family, who is a home maker, is also considered as a „bread-winner" for this purpose. The family benefit will be paid to such surviving member of the household of the deceased poor, who after local enquiry, is found to be the head of the household. For the purpose of the scheme, the term "household" would include spouse, minor children, unmarried daughters and dependent parents. In case of death of an unmarried adult, the term household would include minor brothers/ sisters and dependent parents. The death of such a bread-winner should have occurred whilst he/she is more than 18 years of age and less than 60 years of age.

- **Annapurna Scheme**: 10 kg of food grain (wheat or rice) per month per beneficiary. The scheme aims at providing food security to meet the requirement of those eligible old aged persons who have remained uncovered under the IGNOAPS

(3) **Norms for Central Assistance** Central assistance to States / UT under NSAP is determined on the basis of BPL population of the State. The numerical ceiling for each State / UT has been fixed taking into account the population figures as per the census of

2001 and the poverty ratio determined by the Planning Commission. However, if there are more deserving beneficiaries, the State has the option to give them pension from their own resources.

States are urged to provide an additional amount at least equivalent to the assistance provided by the Central Government so that the beneficiaries can get a decent level of assistance.

Many State Governments have their own social pension schemes for vulnerable groups. Some of them started even before the Central Government. Naturally there is wide variance in guidelines, eligibility conditions and assistance norms across the country. This has created differences in the level of social assistance and eligibility criteria among different States / UTs.

(4) **Awareness generation:** One of the main tasks for attaining the objective of the schemes of NSAP is awareness generation among the people about eligibility, scale of assistance and the procedure to be followed for obtaining benefits. District, Block/Intermediate and Village level panchayats and urban local governments should play a vital role in creating awareness among the people. States should ensure wide and continuous publicity about the entitlement under the schemes of NSAP and the procedure for claiming them through posters, brochures, media and other means.

(5) **Confirmation of the existing beneficiaries:** There is a need for annual verification of the existing beneficiaries under NSAP. The States may constitute Special Verification Teams for the purpose under an authorized officer. The teams should include representatives of Non-Government Organisations of repute which are active in the locality. Details of members of the team and the process may be given wide publicity. After the verification, lists of persons proposed to be confirmed or deleted should be published separately. The list proposed for deletion should also give the reasons for deletion. It may be indicated that any interested person may file claims and objections within 15 days to the head of the Verification Team. Those persons who are proposed to be deleted should be individually intimated giving reasons for the proposed deletion and should be given a chance to file an appeal to the head of the Verification Team who should take a decision within 15 days. If there is any second appeal, it should be made before the Revision Authority.

(6) **Identification of new beneficiaries**: For the identification of new beneficiaries, Gram Panchayats / Municipalities should be given the central role. Elected heads and representatives should be sensitized on the criteria and processes of NSAP. The state Government should launch an awareness campaign on NSAP through the media and locally through the Gram Panchayats / Municipalities. Based on the available BPL list, the beneficiaries should be proactively identified by reaching out to their households. Applications are needed for enrollment of a new beneficiary. A specimen form is given as Annexure. The States may prepare simple format in the local language and mak the application forms available widely, free of cost. Also it should be downloadable from the website. Field level workers / officials should be entrusted with the task of idenfying beneficiaries and getting the forms filled up. Also support should be provided to get the requisite certificates from the authorities concerned. For age, the birth certificate or school certificate may be relied on. In their absence ration card and EPIC may be considered. If there is no valid document, any Medical Officer of any government hospital may be authorized to issue the age certificate. In the case of widows, the State may designate a Revenue Authority to issue the certificate. In case of persons with disability, the State should mandatorily organize camps at convenient localities to which the potential beneficiaries are taken by vehicle free of cost. Disability Certificates should be issued on the spot.

(7) **Verification of applications :** The States may designate a Verification Officer or Verification Team under an authorized officer to verify the applications. This should be completed within two weeks from the date of receipt of the application. The Verification Officer should make the necessary recommendation for sanction or rejection with reasons.

(8) **Discussion in the Gram Sabha / Ward Sabha / Area Sabha**: The list of applicants with the recommendations of the Verifying Authority should be discussed in the Gram Sabha in rural areas or Ward Sabha / Area Sabhaassemblies designated by the State Government in urban areas and thereafter in the Gram Panchayats and Municipalities and suggestions of these fora should be considered and reported on by the Verification Officer. If the time limits are not adhered to by Gram Sabha / Ward Sabhas, Gram Panchayats / Municipalities the Verification Officers would submit his recommendations to the Scrutinizing Officer under intimation to the Gram Panchayat / Municipality.

(9) Every State shall designate "Sanctioning Authority" at the appropriate level – Municipality / Block level. After receipt of applications which are verified and recommended by the Gram Sabha / Mohalla Committee, the Sanctioning Authority will convey approval to the applicant in the form of a Sanction Order with a copy to Gram Panchayat / Municipality concerned.

7.4.4.5 Thirteenth Finance Commission

The Thirteenth Finance Commission (TFC) was required to make recommendations on the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Local Bodies of the State on the basis of the recommendations of the State Finance Commission. Accordingly TFC has recommended grants in two components to the ULBs i.e.

(i) General Basic Grant and

(ii) General Performance Grant. While the basic grants are released by the Central Govt. on the basis of certification from the State, the Performance grants from the second and subsequent years depends on fulfilment of nine numbers of mandatory conditions during previous years.

Though the conditions are to be taken care of by the State, some are the responsibility of the Urban Local Bodies, viz:

1) ULBs should notify every year the targets to be achieved in regard to certain essential services i.e. Water Supply, SWM, Sewerage and Storm Water Drainage by the end of next fiscal year and publish the same in State Gazette.

2) ULBs should recover at least the operation and maintenance cost of services they render.

3) All functionaries of ULBs are to be brought under Local Body Ombudsman who will look into the complaint of corruption and maladministration.

4) Property Tax to be levied on the basis of demands generated as per provision of existing Act and Rules.

5) ULBs need to maintain their accounts and records for placing before the audit team.

6) Developing and using comparable and audited data.

7) A portion of grants to be spent on revamping fire services etc.

Although the 13th FC has not made any specific recommendation on the utilization of Grant the principles followed for utilization of fund

during the period of 12th FC are equally relevant during the period of operation of 13th FC. (Order no.1768/MA//C-10/3S/21/2010 dated 20.09.2010 issued by the Department of Municipal Affairs, Govt. of West Bengal).

7.4.4.5.1 Audit Checks

Following are the audit checks:

1. Whether property tax is levied by the ULBs as per provision of the existing Act and rules?
2. Whether the mandatory reforms i.e. benchmarks for water supply, SWM, Sewerage and Storm Water Drainage services are set up and published?
3. Whether the operation and maintenance cost are recovered from the beneficiaries for services like water supply, SWM, sanitation, drainage street light etc.?
4. Has the ULB developed data bank and implemented e-governance?
5. Is their any effort to revamp fire services by ULBs as recommended by the 13th FC?
6. Whether general basic grants received in two installments in January and July?
7. Is there any unspent balance at the end of the financial year?
8. Is there any case of diversion of fund?
9. Whether priorities were given to provide basic amenities of civic life like SWM, Water Supply, Sanitation, Drainage, Street Light etc. from 13th FC Fund?
10. Whether proper register / record are maintained to get updated information towards incurring expenditure from the grant?

7.5 Public Private Partnership

7.5.1 Audit objectives

Creation of durable and high quality infrastructure is a prerequisite for rapid economic development and requires sustained investment supported well by technological innovation, skilled workforce and excellent project management. For governments alone to bring together all these elements is not always possible. This realization has brought together the public and the private sector in a mutually beneficial relationship in the form of Public Private Partnerships (PPPs) to execute not only infrastructure projects but also engender innovative strategies for social development. The basic intent of PPP is to encourage the private sector

to dedicate its capacity to raise Capital and the ability to complete projects on time and to budget for the welfare of the community, without having to compromise the profit motive. At the same time, the public sector would retain its responsibility to provide goods and services to the public at large at affordable rates. This arrangement, indeed, calls for a judicious approach to decision making and underscores the need for a framework that enables the private sector partner to make reasonable returns on investments without diluting the standards and quality of services provided.

The PPP policy provides a framework that enables public and private sectors to work together to improve public services delivery through private sector provision of public infrastructure and related services. According to the above framework, the objectives of PPP are to encourage private sector involvement in public infrastructure and related services where value for money for the government could be clearly demonstrated. Encourage innovation in the provision of infrastructure and related service delivery. Encourage rigorous governance over the selection of projects and competition for the award of contracts. Clearly articulate accountability for outcomes. PPP projects are aimed to provide 'improved' public services by sharing risks in a balanced manner. It must be accepted that the private entrepreneurs come into the PPP arrangements primarily with profit motive, and with a view to pursuing their business prospects, which alone impels them to assume the risks associated with the PPP projects. However, these arrangements involve substantial public interest which both the parties to the arrangements are bound to safeguard, with the public sector partner retaining the accountability to ensure it. This does not mean that they are competing between them, but are to work together as partners and colleagues in the process of national development. In auditing the PPP projects, public auditors must appreciate the respective roles of each partner and focus in audit on the achievement of the end results and compliance with the established rules and procedures at all stages of the project.The key to the success of PPP projects is a balanced and fair sharing of risks and benefits between the partners, and transparency and accountability in all transactions relating to the award and management of the contract.

(The INTOSAI Auditing Guidelines on PPP in 2001 and C&AG of India's Public Auditing Guidelines on PPP in Infrastructure Projects in 2009)

Basically, the following common approach to audit will form the basis of all PPP audits.

- ❖ Detailed scrutiny of project documents starting from the conceptual stage to the formulation and approval stage.
- ❖ Verifying the legal and contractual obligations arising from the several contracts and agreements entered into between the parties.
- ❖ Review of financial modelling to test the feasibility and justifications for the grant of concessions, testing revenue generation using quantitative techniques.

- ❖ Assessment of the transparency and integrity of the bidding process.
- ❖ Financial audit to verify the justification for the viability gap funding / annuity payments.
- ❖ Limited audit of the construction and engineering to verify quality innovations, economy and efficiency.
- ❖ Quality test, where necessary, to ensure the adherence to specifications and compliance with standards.
- ❖ Engaging experts to test aspects of quality and standards, if required.
- ❖ Survey to test the accuracy of demands and revenue collections against projections.
- ❖ Customer satisfaction level analysis through sampling techniques.
- ❖ To check the actual revenue generation and sharing.
- ❖ To ensure safeguarding the value of public money.

7.5.2 Audit of Project formulation and approval Presumptions

- Proper feasibility studies must have been conducted with the assistance of legal, financial and technical experts.
- The proposals must be accompanied by pre-feasibility / feasibility reports.
- 'In-principle' agreement not required where the project is based on approved Model Concession Agreement (MCA).

Audit of Project formulation and approval

Documents to be generated:

1. Strategic Plan
2. Feasibility Report
3. Detailed Project Report
4. Shareholders' Agreement
5. State Support Agreement
6. Operation, Maintenance and Development (OMD)Agreement
7. Concession Agreement
8. Technical Operation Agreement (if required)
9. Lease Agreement
10. Substitution Agreements
11. Independent Engineer's/ Auditor's Agreements
12. Escrow Account Agreement
13. Other Subsidiary Agreements

7.5.3 Audit of Project formulation and approval

Audit checks in respect of the Project

- Need and justification/prioritization in view of the long term plan.
- Possibility of realistic demand projection – study of alternatives in feasibility study.
- Possibility of overcoming govt. budgetary restraints – will Project stand of its own?
- Whether up-gradation of design and standards planned in phases and compatible with increasing requirements?
- Whether output specifications clear and unambiguous with out confusion?
- Inclusion of all aspects in the cost projections (e.g., service roads, toll plazas, by-passes, passenger terminals and facilities, lifts and equipments) and all other Capital expenditure including interest during construction (IDC).
- Do the specifications as per feasibility report conform to approve standard specifications?
- How transparent are the cost estimates?
- Whether total capital cost and obligations related to funding justified in view of the expected cash?
- Whether project approval based on established procedure – various authorities' appraisal speaks about project's success?
- Whether the integrity of the project formulation based on sound analysis of all features – the project not only viable and justified but expected to yield good value for money?
- Whether the assessments of the project authorities not only based on technical parameters, but also on accepted norms and specifications and are transparent?

7.5.4 Audit of concessions and concession period

Definition of concession

The exclusive right, license and authority granted to the private partner (concessionaire) by the government or the public sector partner under relevant agreement to construct, operate, and maintain the project for a mutually agreed period (concession period) from an appointed date, and

to receive grant, annuity at pre-determined levels and/or to collect user charges, tariff or toll for providing services from the project.

7.5.5 Audit checks in respect of concessions

- Whether the concessions granted, their magnitude and the period, reasonable on the backdrop of the enormous authority delegated to the private partner possibly under monopolistic conditions?
- Whether the area of land transferred by the public authority to the concessionaire, justified from the perspective of the project, its use for commercial development, and the extent to which it can be commercially exploited?
- Whether concessionaire selected through competitive bidding and toll rates, price indexation, technical parameters clearly stated?
- Whether the bidders clearly advised to indicate grant requirements, percentage of revenue to be shared by them with the govt. authority?
- Whether the pattern of the MCA issued by the Govt. totally followed – in case of variations are they reasonable and justified?
- Whether the grant of concession clear and specific without unintended gains of the private partner – what about clarity of language?
- Whether concession period properly and realistically estimated, i.e., total project cost and year-wise cash flow analyzed on DCF technique help arrive at the correct concession period?
- Whether all incomes from commercial development such as advertisement, service stations, amusement centres, commercial buildings included in the cash flow – whether commercial development clearly spelt out?
- Whether the calculation of concession period reasonable and justified based on proper projection of reaching the optimum traffic volume/rendering relevant public service?

7.5.6 Audit checks in respect of Risk Allocation

Details of risks:

What Risk	Whose Risk	Incidence of Risk
Feasibility/ Organizational Risk	Government / Public Sector	Improper study of alternatives, projections of demand, Cash Flow, ROI
Condition Precedent Risk	Private party	Availability of Land/Assets, environment and statutory clearances

What Risk	Whose Risk	Incidence of Risk
Financing Risk	Private party as also Government	Raising finance, abatement of interest, repayment of principal, Govt.'s contingent liability
Construction Risk	Private party	Delay and variations due to inefficiency
Operation and Maintenance Risk	Private party	Not following quality / standard of OMD agreements as per independent Engineer's report
Demand Risk	Private party as also Government	Improper basis and justification, or change of economy leading to wrong projected demand
Revenue Risk	Private party as also Government	Shortfall in demand and revenue loss for unrealistically higher user charges
Risk from unforeseen developments	Private party as also Government	Force majeure– political, business, technological changes invalidate PPP assumptions
Termination Risk	Promoting Public Sector Partner	Management failure Bankruptcy, dismal performance of private partner, and overlooking such possibility at inception stage
Residual Value Risk	Government/ Public Sector	Poor health of the assets transferred at close of project

7.5.7 Audit checks in respect of Risk Allocation

- Whether allocation of project risks between partners – balanced and fair, as per Concession agreement (e.g., whether construction and O&M risks transferred to the private partner)?
- Who bears project cost risks – sponsoring consortium/ construction agency/ financiers/ bankers/ insurers or all of them proportionately?
- Whether guarantees and assurances given by govt./public sector partner well defined and quantifiable – resultant contingent liabilities

transparent and limited – specific terms available for avoiding liabilities by acceptable substitution clauses?

- On whom political and economic risks lie and whether justified conditions rule them?
- What about revenue risks identified in the agreement – validity of demand and revenue volume – provision for readjustment of concession period for lower/ higher traffic volume vis-à-vis revenue, than projections – following globally accepted norms in this regard?
- Whether extension/compression of the concession period well guarded by clear language worth-resolving disputes/differences?
- Whether proper step-in or buy-out clauses exist that would help take remedial actions without loss of time in case private partner fails in its obligations?

7.5.8 Audit of Financing Risks

- Whether entire risks transferred to the private partner – what risks lie on govt., and under what conditions?
- Whether financial close achieved within sanctioned time – delay leading to escalation of project costs, erratic demand and revenue projections – any extension sought by private partner, penalty therefore, if stipulated?
- Whether terms of lending reasonable (e.g., as per RBI bank rate) – cost of financing corroborates with loan receipts and interest paid?
- Whether schedule for release of sanctioned loan conforms to work completion milestones limiting interest during construction (IDC) which will in effect ensure completion of the project as per budget and in time?
- Whether Independent Auditor's report on verification of Escrow Account satisfies that the whole amount is received and invested for project construction as per total project cost (TPC)?
- Whether performance bond furnished by the private sector partner valid, adequate, and appropriate to the level of assurances – whether release of bond, in terms of agreement?
- Whether there is undue loading of the TPC for over-engineering or padding of cost element including IDC?

7.5.9 Audit of Viability Gap Funding

- Viability Gap Funding (VGF) is a grant, one time or deferred, given by GoI under the Scheme for FSPPPI with the objective of making such projects commercially viable.

- VGF / Annuity during construction / operation of the project occurs due to gap created out of total capital cost, revenue generation based on projected demand, tariff / toll structure, rate of return, cash flow as mentioned in the Detailed Project Report (DPR).

- Central / State Governments grant VGF upto 40% under FSPPPI scheme – 20% of capital cost for inability to raise user charge to commercial level + 20% by the sponsoring Ministry (Private partner to have at least 51% share and 'Best practice' adherence agreement).

7.5.10 Audit checks

- Compatibility of eligibility conditions such as status of the private partner, nature and type of project – with the FSPPPI scheme.
- Total capital cost – inclusion of no non-essential items of the project – phased construction to avoid telescoping of expenditure.
- Reasonability of the tariff / user charge – state government's certificate showing reasons for not charging commercial rates – logic for the reason.
- Correct working out of financial and economic IRR – VGF calculation on these factors.
- Proper bidding process under FSPPPI scheme and selection of the private partner.
- Verification of project proposal, financial plan by a leading Financial Institution (FI) – reasonability of VGF.
- Fulfilment of VGF constraints/conditions.
- Matching grant from the sponsoring ministry / state govt./ any statutory authority – justification of VGF in full/part in that case.
- Bringing in of equity support by private partner before release of VGF correlation of release of grant by FI with release of debt instalments.
- Monitoring project milestones for release of VGF and contract conditions.

- Change in scope of project after granting VGF – implications on capital cost – contingencies/recoveries.
- Utilization of VGF in the construction of the project as certified by independent Engr./Auditor.
- O&M grant – basis, support, justifications – assumptions of revenue, demand growth/ shortfall, tariff structure etc.
- Lowest bid and established procedure as basis for grant element.

7.5.11 Audit of Tariff/ Toll/ User Charges

Audit checks

- Possible ambiguities in fixation of tariffs etc. which private partners recover – with reference to terms of contract and concession agreement.
- Application of Debt-equity ratio as per industry norms – ROR on TPC vis-à-vis ROI.
- Formula for tariff etc. in concession agreement – in line with industry practice.
- Authority to levy user charge – cap on the same.
- Regulations of Independent authority regarding tariff/fee – applicability to all providers of similar service – impact of such eventualities.
- ROI beyond stipulated, under tariff fixed by regulatory authority – sharing of windfall income by PPP partners – users' interest.
- Unreasonable linkage of user charge to TPC.
- Incentive to the concessionaire for correct reporting of cost in reckoning revenue.
- Impact on tariff/toll in case of change of scope during construction – guarding users' interest.
- User charges, Wholesale Price Index and Consumer Price Index – 40% of user fee indexed.

7.5.12 Audit of Total Project Cost

Audit checks

Whether shifting of all liabilities to the private partner proves counter-productive -

- Scope of verification of TPC by public sector partner
- Verification and adoption of TPC by the lead financing agency
- Planning of construction in stages to identify costs involved at each stage
- Postponing of avoidable costs to restrict TPC
- Costs as per standard unit cost – financing costs as per RBI rates – amendment of TPC in case of refinancing plan in concession period
- Correct interest during construction (IDC) – no loading for penalties and other charges
- Insurance costs during construction as per approved standard / Commissioning charges realistic
- Components of TPC – caps on various elements of costs included in TPC – Public sector partner's right to review elements of TPC
- Saving through innovative practices – reflection on tariff/ user charges -- Rewards/incentives for reducing TPC
- Inclusion / exclusion of items of cost with the change of scope

7.5.13 Audit Findings and Reporting

- Unambiguous, supported by evidences, fair, accurate, constructive, concise report focused on what have been achieved, and not how it was achieved, i.e., the end result.
- To be presented at the exit conference – supported by audit findings – public sector partner asking for no clarification.
- Emphasis on good practices and not on what went wrong – avoidance of multiple audits and evaluations – focus only on technical issues neglecting social and economical effect of PPP – not desirable.
- Focus also on the project's meeting the set objectives – adequate opportunities to the PPP partners to respond to findings of audit – to report responses, if applicable.
- To dovetail the audit findings in line with established objectives of audit – audit observations not for discouraging PPP innovations and calculated risk taking by the public sector partner – impact of PPP policy on user community, development / management of project may be highlighted.

- Recommendations to be carefully framed – lessons learnt rather than fault finding to be precisely reported, to the point – very little scope for amendment to the contract, hence significant and not routine points to be reported to evaluate the project in the best public interest.
- To compare audit recommendations and findings with audit objectives set as part of audit plans at the beginning to ensure that audit is proper – Peer review to check the credibility of the audit report.

7.6 Financial Attest Audit

7.6.1 Introduction

Financial attest audit is primarily concerned with expression of audit opinion on a set of financial statements. It includes:

- Examination and evaluation of financial records and expression of opinions on financial statements;
- Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations which affect the accuracy and completeness of accounting record; and
- Audit of internal control and internal audit functions that assist in safeguarding assets and resources and assure the accuracy and completeness of accounting records.

(Ref: Para 1.3 of the Financial Attest Audit Manual)

7.6.1 (a) Background methodology for preparing Municipal Accounts

Municipal accounts

Accounting Manual for ULBs in West Bengal (except Kolkata Municipal Corporation[2]) based on the National Municipal Accounts Manual was prepared in February 2006 for switching over to double entry accounting system. Accordingly, Section 84 (effective from 1 October 2006) of the West Bengal Municipal Act, 1993 and Rule 22 (2) (with effect from 1 January 2007) of the West Bengal Municipal (Finance and Accounting) Rules, 1999[3] were amended for mandatory preparation of Balance Sheet, Income & Expenditure Account, Receipts & Payments Account and Cash Flow Statement with effect from the

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2 Kolkata Municipal Corporation (KMC) follows 'Accrual based Double Entry Accounting System which is not governed by the Accounting Manual for the other ULBs.

3 Not applicable in case of KMC.

financial year 2006 – 07 for the ULBs in Kolkata Metropolitan Area and from 2007 – 08 for other ULBs.

The West Bengal Municipal Act, 1993 and the Acts governing other Municipal Corporations envisage that the accounts of such bodies shall be examined and audited by an auditor appointed by the State Government. Accordingly, the State Government in exercise of the power conferred by the Municipal Acts of the State appointed the Examiner of Local Accounts (ELA) an officer of the Indian Audit & Accounts Service as the Auditor for audit of the accounts of the Urban Local Bodies. The Acts further envisage that the Auditor shall prepare the report on the accounts examined and shall send such report to the Mayor/ Chairman and a copy thereof to the Director of Local Bodies or such other officers as the State Government may direct.

The ULBs are to prepare the following statements in accrual system of accounting :

- Trial Balance
- Income and Expenditure Statement
- Balance Sheet
- Receipts and Payments Account; and
- Cash Flow Statement

ACCOUNTING DOCUMENTS

The accounting documents[4] can be classified into the following based upon the nature of transactions :

1. Primary accounting documents
2. Primary Books of Accounts
3. Ledgers
4. Trial Balance

7.6.2 Statutory provisions relating to Financial Audit

i) Municipality

The Municipal Accounts as contained in the annual financial statement shall be examined and audited by an auditor appointed in that behalf by the State Government.

Within six months of the close of a year, a financial statement for the preceding year in respect of a municipality shall be prepared in the

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4 for detailed to see the Accounting manual for Urban Local Bodies

form and manner prescribed, and presented before a meeting of the Board of Councillors. Financial Statement shall consist of a Balance Sheet of the sources and application of funds, Income and Expenditure Accounts disclosing the surplus (excess of income over expenditure) or deficit (excess of expenditure over income) for the financial year. Receipts and Payments Account (showing the head-wise receipts and payments for the year along with balances of cash in hand, cash at Bank and cash at treasury) and a cash flow statement (showing the receipts and payments of cash as per three distinct categories of operating, investing and financing activities). Every such statement shall give a true and correct view of the state of affairs of the Municipality.

(Ref: Section 86 and 84 of The West Bengal Municipal Act, 1993)

ii) Kolkata Municipal Corporation

The Municipal Commissioner is responsible to submit Annual Accounts to the Auditor. The Annual Accounts of the preceding financial year of the Corporation shall be audited, at the end of the next financial year by the Auditor appointed by the State Government in this behalf.

(Ref: Sections 160 of The Kolkata Municipal Corporation Act, 1980)

iii) Howrah Municipal Corporation and Other Municipal Corporations

The Commissioners are responsible to submit Annual Accounts to auditors appointed by the State.

(Ref: Section 87 of The West Bengal Municipal Corporation Act, 2006 and Section 77 of the Howrah Municipal Corporation Act, 1980)

The Examiner of Local Accounts (ELA) is appointed as Auditor for all ULBs by the State Government.

7.6.3 Analysis of Financial Statement

Following paragraphs explain analysis of financial statements as an auditing standard:

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

The auditor should, therefore, thoroughly analyse the financial statements and ascertain whether:

- Financial statements are prepared in accordance with prescribed accounting procedures;

- Financial statements are presented with due consideration to the circumstances of the audited entity;
- Sufficient disclosures are presented about various elements of Financial statements;
- The various elements of financial statements are properly evaluated, measured and presented; and
- The auditors should take into account that some entities may use cash basis accounting, whereas others may use accrual or modified accrual basis of accounting.

The methods and techniques of financial analysis depend to a large degree on the nature, scope and objective of the audit and on the knowledge and judgment of the Auditor.

Where the audit institution is required to report on the execution of budgetary laws, the audit should include:

- For revenue accounts, ascertaining whether forecasts are those of the initial budget, whether the audit of taxes, rates and duties recorded, and imputed receipts, can be carried out by comparison with the budget of the audited entity;
- For expenditure accounts, verifying credits to assist budgets, adjustment laws and, for carryovers, the previous year's financial statements.

Where the audit institution is required to report on systems of tax administration or systems for realizing non-tax receipts, along with a systems study and analysis of realization of revenues / receipts, detection of individual errors in both assessment and collection is essential to highlight audit assertions regarding the system defects and comment on their efficiency to ensure compliance.

(Ref: Para 9.2 of Auditing Standards for Urban Local Bodies)

7.6.4 The General financial attest audit objectives: - Assertions in financial statements.

i) It is the responsibility of an auditor, before certifying an account, to make sure that competent, relevant and reasonable evidence was obtained to support the auditor's judgment and conclusions. There are some general audit objectives designed to ensure that the right sort of evidence is obtained; for example, to show whether the accounts are complete and whether the recorded transactions have properly occurred and are properly classified.

ii) For the purpose of expressing an opinion on the financial statements being audited, auditor collects evidence. To be relevant, audit evidence must relate to the general audit objectives (also called

"assertion"). Assertions are positive Statements about the "state of beings". For example, an assertion may be that all receipts were accounted for, or that all the investments shown in accounts were really owned by the entity. These general audit objectives (assertions) are designed to ensure that the auditor obtains evidence to support all aspects of the opinion required to be expressed on an accounts.

(Ref: Para 2.19 and 2.20 of Financial Attest Audit Manual)

7.6.5 Assertions for receipts and payments or income and expenditure account items

There are five general audit objectives (assertions) as indicated below.

These objectives are explained below -

Completeness: - "Completeness means that all transactions relevant to the year of account have been recorded. This implies that no transaction has been over looked. This assertion directly tests for potential understatement of figures in accounts. To take an example, if the accounts are prepared for the financial year 2009-10 and an item of expenditure which takes place during 2009-10 was omitted from accounts, the "completeness" objective is not fulfilled.

Occurrence:-"Occurrence" means that all transactions occurred and were relevant to the year of account. For instance, if an item of receipt was booked in the accounts for the financial year 2009-10, to satisfy the objective, the items should properly relate to only 2009-10 and not to any other financial year. This assertion directly tests for potential overstatement of figures on the accounts.

Measurement:-"Measurement" means that the recorded transactions have been correctly valued, properly calculated, or measured in accordance with established accounting policies, on an acceptable and consistent basis. This involves much more than clerical accuracy as it requires the auditor to check the conformity with established accounting policies and standards and consistency in the measurement.

Disclosure:-"Disclosure means that the transactions have been properly classified and disclosed where appropriate. This implies that the receipts and expenditure were booked to the proper account head and the disclosures in the notes and foot notes in the accounts are appropriate and adequate.

Regularity:-"Regularity" is a unique requirement. This requires that the recorded transactions are in accordance with primary and secondary legislation and other specific authorities required by them.

7.6.6 Assertions for balance sheet or items of assets and liabilities.

There are five general audit objectives (assertions) as indicated below.

These objectives are explained below:-

Completeness: 'Completeness' means that all assets and liabilities have been recorded in the accounts and nothing was omitted. The objective directly tests for potential understatement of assets and liabilities. For example, if the financial statements omit some investments or liabilities, the 'completeness' objective is not satisfied.

Existence: 'Existence' means that all recorded assets and liabilities exist. This objective directly tests for potential overstatement of assets and liabilities. For example, if the accounts show some amount as cash balance, which does not exist, the 'existence' objective is not satisfied.

Valuation: 'Valuation' means that the values given to the assets and liabilities are accurate and have been arrived at in accordance with the established accounting policies on an acceptable and consistent basis. This goes beyond mere arithmetical accuracy and requires conformity with accounting policies and standards and their consistent application.

Ownership: 'Ownership' means that the assets are owned by the entity, the liabilities are properly those of the entity and both arise solely from regular activities. The balance sheet represents an accumulation of the entity's rights and obligations. 'Ownership' assertion requires that the assets and liabilities reported actually represent those rights and obligations. For example, if an item is shown in the accounts as amount receivable, the entity should have the legal right to sue and collect the amount.

Disclosure: 'Disclosure' means that the assets and liabilities have been properly disclosed in accordance with the applicable reporting framework. This implies that the assets and liabilities were booked to the proper account head and the disclosures in the notes and foot notes in the accounts are appropriate and adequate. For instance, if obligations under guarantees given by the entity are not shown in the accounts, the requirement of 'disclosure' is not satisfied.

(Ref: Para 2.21,2.22, 2.24 and 2.25 of Financial Attest Audit Manual)

7.6.7. Reasonable and not absolute assurance

Audit opinions provide reasonable assurance that the financial statements are free from materials misstatement and irregularity. An understanding of the terms "reasonable assurance" and "material "is central to an understanding of the audit and the audit opinion.

Financial statements are not required to be absolutely correct. No system of internal control can guarantee completeness and accuracy of accounting

records nor can it be absolute proof against human error and fraud. Audit opinion should be based on reasonable assurance since providing assurance with absolute certainty would be vastly expensive.

(Ref: Para 2.28 and 2.29 of Financial Attest Audit Manual)

7.6.8. Audit materiality

The concept of materiality underlines the whole process of financial audit. The users of financial statements do not need absolute accuracy to make informed decisions. All audit techniques and procedure are derived from this concept. Auditing is considered as a form of judgment concerned with verification and examination of quantifiable information. In this process, an auditor collects and evaluates evidential matter to establish facts and to draw conclusions and inferences.

In financial attest audit, evidential matter primarily consists of underlying accounting data and all corroborating information available to the auditor. The evidence should be collected with reference to the general and any special objectives of audit. For example, the auditor seeks evidence to confirm that items have been omitted from the accounts, and that no items in the accounts have been included wrongly or have been misstated, and that all items have not been properly disclosed. In relation to assets and liabilities, the auditor has to obtain evidence as to the existence of assets and liabilities and they have been recorded at responsible values. With the application of various audit techniques, an auditor collects different types of evidence.

The principal source of evidence for audit conclusion will be the records of the auditee. It is the primary duty of audit to ensure that the audit conclusions drawn about the financial statement subjected to audit are based on sufficient, competent and relevant evidence. Evidence must be planned, gathered and analyzed before any conclusion can be reached. Evidence 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 achievement.

ii) Reperformance of accounting routines (e.g., checking computation).

iii) Analysis of financial statements and interrelationships or comparison between elements of relevant information.

iv) Vouching i.e checking of documents in support of transaction.

v) Critical scrutiny of documents (e.g., reviewing data to identity unusual items).

vi) Confirmation and inquiry.

vii) Evolution of the quality of internal control mechanism.

viii) Interviews with executives.

ix) Computer assisted audit techniques.

(Ref: Para 2.31, 2.73, 2.75 and 2.76 of Financial Attest Audit Manual)

7.6.9. Audit sampling

While audit is not required to examine all the transactions and vouchers, nonetheless, it has to obtain sufficient evidence to reach an appropriate conclusion. This requirement is met through careful selection and sampling of the transaction or items to be audited.

The audit procedure like inspection, observation, inquiry and confirmation, computation and analysis are applied to transactions and account balances. Audit can apply such techniques to an entire set of data (100%) or may choose to draw conclusions about the entire set of data (the population) by testing a representative sample of items selected from it. This latter procedure is audit sampling.

Audit sampling is the testing of less than 100% of the items within a population to enable Audit to from certain conclusion about the population. The population can be a class of transactions (like grants-in-aid) or an account balance (like loans).

Generally, a population should be divided (or stratified) into at least three segments -

i) high value items;

ii) key items;

iii) the remainder

The high value and key items are separately examined 100 percent and audit would examine a sample of the remainder.

(Ref: Para 2.95 to 2.97 and 2.99 of Financial Attest Audit Manual)

7.6.10. Overview of the financial attest audit process

The numerous steps in the financial audit process can be broadly grouped in three phases.

A) Planning

The field standards include:

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

The following paragraphs explain the auditing standard:

In planning an audit of Urban Local Bodies, the Auditor should:

Identify important aspects of the environment in which the audited entity operates;

a) Develop an understanding of the accountability relationships;

b) Consider the forms, content and users of audit opinions, conclusions or reports;

c) Specify the audit objectives and the tests necessary to meet them;

d) Identify key management systems and controls and carry out a preliminary assessment to identify their strength and weaknesses;

e) Determine the materiality of matters to be considered;

f) Review the internal audit of the audited entity and its work programme;

g) Assess the extent of reliance that might be placed on other auditors, for example, internal audit;

h) Determine the most efficient and effective audit approach;

i) Provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations; and

j) Provide for appropriate documentation of the audit plan and for the proposed fieldwork.

B) The following planning steps are normally included in an audit

a) Collect information about the audited entity and its organization in order to assess risk and to determine materiality.

b) Define the objective, scope and methodology of the audit. Objective is what the audit is intended to accomplish. Scope of audit is the boundary of audit and should be directly linked to the objectives. Methodology comprises the work involved in gathering and analyzing data to achieve the objective. Auditors should design the methodology to provide sufficient, competent and relevant evidence to achieve the objectives.

c) Undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later.

d) Highlight special problems foreseen when planning the audit.

e) Prepare a budget and a schedule for the audit.

f) Identify staff requirements and a team for the audit.

g) Familiarize the audited entity about the scope, objectives and assessment criteria of the audit and discuss with them as necessary.

(Ref: Para 4.2.1 and 4.2.2 of AS of ULBs)

C) Executing

i) Entry conference

Entry conference at the commencement of each field audit serves more than one objectives. It affords an opportunity for introduction of the audit team members with the chief of the entity and heads of various divisions. The entry conference affords an opportunity for the audit officer to explain the audit plan as applicable to the entity consists of the audit objectives, approach and time frame besides appraising the entity of the information and documents that will be required by the audit team. The working procedures for audit may also be established in this meeting. The audit office may also utilize this occasion to request the chief of the entity to provide assistance to the team by way of office accommodation, access to office equipment.etc. It is useful to make a request for the entry conference in the letter of understanding/audit engagement letter itself to enable the chief of the entity to set aside appropriate time on the very first day of the audit and inform his division heads in time. The entry conference should be followed by a brief minutes of the proceedings.

(Ref: Para 4.4 of Financial Attest Audit Manual)

ii) Distribution of work

After preliminary survey of workings of the auditee unit, the Supervisory officer of the audit team will distribute the work of audit amongst the Party members. The work will be distributed considering the nature/importance /volume of transaction of particular receipts and Expenditure during the period of audit.

iii) Nature of evidence

The auditor should obtain competent, relevant and reasonable evidence to support his judgment and conclusions.

- *Competent evidence*

  Competent evidence is information that is quantitatively sufficient and appropriate to achieve the auditing results and is qualitatively impartial such as to inspire confidence and reliability.

- *Sufficient evidence*

  Sufficient audit evidence will be obtained if the extent of tests (both compliance and substantive tests, as may be relevant) is adequate.

- *Reliable evidence*

  Reliable audit evidence is evidence that is impartial. The reliability of audit evidence is dependent upon its nature, its source and method used to obtain it.

Some time, alternative forms of evidence, source and methods are available and the following guideline may be noted regarding their relative reliability and the audit team should seek to ensure that the most reliable sources and methods are employed within the time and cost constrains imposed upon audit.

- Documentary evidence is more reliable than oral evidence.
- Evidence, of which the auditor has direct personal knowledge, is the most reliable evidence.
- Independent evidence obtained from external sources is more reliable than internal evidence (obtained from the audited entity) if that evidence is truly independent and complete.
- Visual evidence is highly reliable confirming the existence of assets, but not their ownership or value.
- Drawing conclusions solely through examining relationship between figures in the account (analytical review) is less reliable evidence.
- Oral evidence must be considered as the least reliable. When feasible, auditors should attempt to obtain documentary confirmation of oral evidence (e.g., agreed written records of interviews or meetings).
- The reliability of information generated within the auditee entity is a function of the reliability of internal control systems within the entity.
- Photocopies are less reliable than the originals. The source of photocopies should be identified by noting the source and, as far as possible, the photocopies should be certified.
- Evidence, which is accepted by the auditee entity, is always reliable.
- The auditor may gain increased assurance when audit evidence obtained from different source is consistent.

(Ref: Para 4.5 to 4.10 of Financial Attest Audit Manual)

iv) Use of interviews for gathering evidence:

Interview technique can be gainfully used in structured or unstructured manner to elicit information from the entity both in planning as well as execution phase. Auditors can use the interview mode to obtain both qualitative and quantitative information.

(Ref: Para 4.16 of Financial Attest Audit Manual)

v) Test of details:

- Very rarely, an audit team will be able to obtain competent, *relevant and reasonable evidence in respect of each audit objective through tests of control and analytical procedure alone.*
- Tests of detail involve obtaining evidence about all, or a sample of, transactions in population. For example, if the focused substantive procedures have pinpointed a specific risk to a small population, the audit team may test all such transactions. The audit team may also test all transaction where, even without specific identified risks, the total population is small. Where it is not feasible or cost-effective to test all transaction in a population, the audit team can adopt a sampling approach.
- Where the audit team plans to test audit objective using tests of details, it should identify the relevant population and:
  - I) Apply an appropriate sampling technique to select items from the population and examine supporting evidence for those items; or
  - II) Examine supporting evidence for the entire population.
- If the tests of details, including tests of accounting estimates, identify errors, the audit team should evaluate the impact of those errors to determine whether there is material misstatement in the financial statements or material irregularity in the financial transactions included in them.

(Ref: Para 4.36 to 4.39 of Financial Attest Audit Manual)

vi) Exit conference

In audit of all units, the audit team should conclude the audits with an exit conference/meeting with the Chief Officer of that audit unit. The head of the audit party, or the group supervisory officer should lead the team from the audit side in the exit conference depending upon the size and level of the field entity. All audit observations should preferably be issued to the entity at least one or two days

before the scheduled exit conference. The exit conference is an opportunity for the entity to discuss the audit findings with the audit representatives. This also, affords opportunity to the audit officer/group supervisory officer to clarify any points of doubt that the entity may like to raise. The minutes of exit conference should be recorded and endorsed to the entity.

(Ref: Para 4.79 of Financial Attest Audit Manual)

vii) Updating the audit plan for the financial attest audit

- The audit plan is based on the evidence available and assumptions made at a particular point in time .As such, it is only valid for as long as those assumptions hold and should not be followed blindly if circumstances changes.
- The audit team should be alert throughout the field work to any matters, which may come to attention either as a result of audit procedure from other sources which may necessitate a revision in the planning assumptions and audit procedures.
- The audit plan is based on an assumed level of error or control failure. There is a need to revise the audit procedure if the result of audit testing reveal higher than expected levels of error or control failure. Each member of the audit team has a responsibility for considering the implications of such error or failure.
- The audit plan should be flexible. At each stage of the audit, the audit team should consider whether the planned approach remains appropriate and monitor any major events which may require a change in the plan such as a change in the operations and services provided by the auditee entity or the volume and nature of the expenditure or income.

(Ref: Para nos. 4.80 to 4.83 of Financial Attest Audit Manual)

viii) Documentation of field work

- The audit working papers should document the audit procedures undertaken, the conclusions drawn and the implication for the audit opinion. They should record the reasoning on all significant matters where the members of the audit teams have exercised judgment.
- The audit working papers help individual audit team members to ensure that they have completed all the work necessary; they provide the evidence to back up the opinion reached and allow review of the audit work to be carried out.

- The audit working papers recording field work should inter alia show:

a) That all the audit procedures in the plan have been completed or that justification has been given and approval obtained for any departures.

b) The result of audit procedure, drawing out clearly any errors or control weakness identified.

c) That all errors or control weakness have been investigated and discussed with the management of the auditee, as necessary.

d) Any matters that are unresolved or that should be informed in writing to the auditee.

e) The conclusions that audit team members have drawn from the fieldwork, the judgments made in reaching these conclusions and the reasoning underlying them.

- All correspondence with the auditee should be retained, together with minutes of meetings. Wherever possible, the later should be agreed with the auditee.

(Ref: Para 4.84 to 4.87 of Financial Attest Audit Manual)

ix) Audit completion

Overall review of financial statements

- In the completion phase of audit, the audit team should perform an overall review of the financial statements. The review will consider whether -

a) The financial statements comply with requirements of applicable statutes, rules and instructions, if any;

b) Accounting policies confirm to the relevant accounting standards, Rules and Instructions and have been properly disclosed, consistently applied and are appropriate to the auditee;

c) The financial statements as a whole are consistent with the audit team's knowledge of the auditee and result of audit procedures;

d) The manner of disclosure within the financial statements is fair/proper.

- The overall review of financial statements serves the following purposes;

a) It ensures that the disclosure and information presented in the annual financial statements are adequate for expressing audit opinion on the true and fair view to be given and that the financial statements are prepared in accordance with the requirement of legislation, Accounting Rules and applicable instructions;

b) To look critically at the information presented in the financial statements and ensure that it is consistent with the audit team's knowledge of the auditee and the results of procedures.

- The accounting policies of the auditee would already have been considered at the planning stage of audit. This consideration should be updated at the completion stage in the light of the results procedures.

- Before commencing analytical review of the financial statements, the audit team should agree and cross reference them to the lead schedules in the audit working paper. These checks ensure that the financial statements are prepared from the accounting records. If the audit team receives further drafts of the financial statements, it should agree them to the cross referenced draft and ensure that all adjustments are properly documented, audited and reflected in workings papers. Where significant adjustments and amendments are processed, the audit team should update the review of the financial statements.

(Ref: Para 5.2 to 5.4 and 5.6 of Financial Attest Audit Manual)

x) Summarizing the audit

- After completing the audit procedure, the audit team should prepare an executive summary of audit findings. This summary explains the key audit issues, their resolution, agreed adjustments and concludes on the appropriate form of audit certificate. The summary is reviewed and signed by the Audit Officer and Examiner of Local Accounts.

- The executive summary is a high level summary, which explain audit findings. While it is concise document, it should contain sufficient information to stand alone as summary of the evidence which supports audit team's conclusion on the appropriate form of audit certificate. It should include:

- A summary of the auditee's operations and purpose;
- A summary of the regularity framework within which the auditee operates;
- An explanation of the audit approach and the balance between tests of controls and substantive procedures;
- A summary of the key risks identified;
- A commentary on the expenditure and income of the auditee;
- A commentary on key balances;
- A commentary on the accounting policies in significant account areas;
- A summary of the results of audit procedures;
- Details of areas where difficult questions of principle or judgment were involved;
- Matter brought forward from previous year's audit;
- A summary of audit issues and their resolution;
- Commentary on unadjusted errors which are significant, but not material;
- A summary of other important matters for attention;
- Outstanding matters, for example, outstanding re-appropriation orders or letters authorizing agreed amendments to the financial statements;
- A summary of matters carried forward to the next year's audit; and
- A conclusion on the appropriate form of audit certificate.

Where the proposed audit certificate will be other than unmodified, the full rational should be given in the executive summary.

(Ref: Para 5.20 to 5.22 of Financial Attest Audit Manual)

xi) Submission of audit documentation for review and certification accounts

- The team leader responsible for the supervision of the audit should, thereafter submit to the Sr. Audit Officer (Accounts) the working paper folders containing all the audit documentation. If there are outstanding matters to be resolved before the accounts can be certified, the team leader should

bring them to the attention of the Group Officer or Senior Audit Officer in charge of the audit of financial statements on a summary sheet.

- Separate folders should be opened for submission of -
  a) the result of audit (the examination folder); and
  b) the signed accounts for certification (the certification folder).
- The team leader's submission to the first stage reviewer in the examination folder should include the executive summary and its supporting documents. The team leader should also state formally -
  a) That the audit has been completed; and
  b) His opinion as to whether a clear certificate can be given and, if not, his reasons for any proposed modification in audit opinion.
- The certification folder should contain -
  a) The signed accounts appropriately ticked to indicate that they have been audited.
  b) The letter which accompanied the signed accounts when they were sent for certification; and any further letters from the signatory to the accounts (or some authority empowered to act for him) authorizing amendments to the accounts.
  c) Any superseded pages of the accounts (which should be clearly cancelled).
  d) A copy of the list items awaiting clearance before the accounts can be certified.
- Working papers also serve as a connecting link between the field work and the audit report. These should, therefore, be completed and appropriately detailed to provide a clear trail of the audit. The confidentiality of the working papers should be maintained and they should be retained for a period sufficient to meet the professional, legislative and legal requirements.

(Ref: Para 6.11 to 6.14 and 6.17 of Financial Attest Audit Manual)

xii) Reporting

Auditor's Opinion

Normally, the audit reports on completion of financial attest audit will be in the form of audit certificates. However, in appropriate

cases, a detailed report can be annexed to the audit certificate. In case the format of audit certificate is prescribed under the provisions of any law or engagement, such prescribed format shall be used.

- 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 upto that date (which, in the case of financial attest audits, may be beyond the period of financial statements).

  c) **Objective and scope: -** The opinion or report should include reference to the objective and scope of the audit. This information established the purpose and boundaries of the audit.

  d) **Completeness: -** Opinions should be appended to and published with the financial statements to which they relate. The auditor's opinions and reports should be presented as prepared by the auditor. Sometimes, the auditor may acquire information from time to time which cannot be freely disclosed in the national interest. This can affect the completeness of the audit reports. 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 circumstances of the audit engagement and local regulations or practice. This is unnecessary where formal procedure exits for its delivery.

  f) **Identification of subject matter: -** The opinion or report should identify to which it relates. This includes information such as the name of the auditee entity and the date and period covered by the financial statements.

  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 that the audit 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 procedure.

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

- The audit opinion will also contain separate sections dealing with -

  a) Respective responsibilities of the executive and auditors.

  b) The basis of the opinion expressed.

  c) The opinion on the financial statements.

7.6.11 Audit Report of ULBs should include the points as prescribed under the respective Acts detailed below:

7.6.11.1 Municipality

As soon as practicable after the completion of the audit of Annual Accounts of the Municipality, but not later than three months thereafter, the Auditor shall prepare the report on the accounts audited and examined, and shall send such report to the Chairman of the Municipality and a copy thereof to the Director of Local Bodies or such other officers as the State Government may direct.

The Audit Report shall include a statement showing:

- Every payment which appears to him to be contrary to law,
- Account of any deficiency or defalcation or loss which appears to have been caused by the gross negligence or misconduct of any person,
- The account of any sum received, which ought to have been, but have not been, brought into any account by any person,
- Any other material impropriety or irregularity which may be observed in the accounts.

(Ref: Section 87 of the West Bengal Municipal Act, 1993)

The Audit Report shall state the following in addition to a statement as prescribed in Section 87 of the West Bengal Municipal Act:

(I) a) Whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;

b) Whether, in his opinion, proper books of account as required by the Act and these Rules and any other stipulation have been kept and are presented in proper form, by the Municipality so far as it appears from his examination of those books;

c) Whether the Municipality's Balance Sheet, Income and Expenditure Statement, Receipts and Payments Statement and Cash Flow Statement dealt with by the report are in agreement with books of accounts;

d) Whether appropriate internal controls have been adhered to;

(II)(a) Where any of the matters referred to above in sub-clause (a) of clause (I) are answered adversely or with a qualification, the auditor's report shall state the reason for the same and with further explanation and inclusion of statistical impact, if possible;

(b) The Auditor shall comment in respect of the following matters in the annexure (**Appendix-V)** to the Audit Report:

(i.) Whether all the expenditure incurred by the municipality are authorised by appropriate provision in the sanctioned budget, whether made originally or subsequently and are in all cases such as are authorized by law;

(ii.) Whether all sums due to and received by the Municipality have been brought to account within the prescribed time limits and are in all cases such as are authorised by law;

(iii.) Whether all transactions (incomes, expenditures, assets and liabilities) are correctly classified and stated in sufficient detail;

(iv.) Whether in respect of all bills for charges on account of all works and other expenditure, proper certificates have been furnished in support of them and that no deviation has been made from the sanctioned plans and the estimates without the sanction of the competent authority;

(v.) Whether the amounts received as specific grants have been utilized for the purposes as stated in the grant sanction order;

(vi.) Whether the Special Funds, if any, have been created as per the provisions of relevant statutes and whether the Special Funds have been utilized for the purposes for which created;

(vii.) Whether the Municipality is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets; whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;

(viii.) Whether physical verification has been conducted by the municipality at reasonable intervals in respect of stores;

(ix.) Whether the procedures of physical verification of stores followed by the Municipality are reasonable and adequate, if not, the inadequacies in such procedures should be reported;

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

(xi.) Whether the valuation of stores is in accordance with the accounting principles laid down by the State Government from time to time. Whether the basis of valuation of stores is same as in the preceding year. If there is any deviation in the basis of valuation, the effect of such deviation, if material, should be reported;

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

(xiii.) Whether there exists an adequate internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other assets;

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

(xv.) Whether the Municipality is regular in depositing Provident Fund dues and Profession Tax deducted with appropriate authorities and if not, the extent of arrears;

(xvi.) Whether the Municipality is regular in depositing tax deducted at source (income tax and works contract tax) and other statutory dues, if not, the nature and cause of such delay and the amount not deposited;

(xvii.) Whether any personal expenses have been charged to revenue account; if so, the details thereof;

(xviii.) Whether the total liabilities of the Municipality can be met out of the Municipal Fund when falling due;

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

(Ref: Rule 22 (2) of W.B. Municipal (Finance and Accounting) Rules, 1999 (Amends))

7.6.11.2. Kolkata Municipal Corporation, Howrah Municipal Corporation and Other Corporations

The Auditors appointed shall:

a) forward to the Mayor-in-Council information on any material impropriety or irregularity which may be observed in the expenditure, or in the recovery of money due to the Corporation, or in the accounts of the Corporation;

b) forward to the Mayor-in-Council information on any loss or waste of money or other property owned by or vested in the Corporation which has been caused by neglect or misconduct and may forward the names of the persons who in their opinion, are directly or indirectly responsible for such loss or waste;

c) furnish to the Mayor-in-Council such information concerning the progress of audit as the Mayor-in-Council may from time to time require;

d) as soon as may be after the completion of audit deliver to the Mayor-in-Council a report on the accounts of the Corporation and submit a duplicate copy thereof to the Corporation;

e) conduct a special audit, when so directed by the State Government or the Corporation, on any receipt or expenditure of the Corporation or examine any accounts of stores and stocks and submit a report on the same to the Mayor-in-Council and the Corporation.

(Ref: Sections 161 of The Kolkata Municipal Corporation Act, 1980, Section 78 of The Howrah Municipal Corporation Act, 1980 and Section 88 of The West Bengal Municipal Corporation Act, 2006)

7.6.12. Opinion

An audit opinion is normally in a standard format, relating to the financial statements as a whole. The content of the opinion will need to

indicate unambiguously whether it is unmodified or modified and, if the latter, whether it is modified in certain respects or is adverse or a disclaimer of opinion.

7.6.12.1 Basis of opinion

The audit certificate should include a statement expressly setting out the basis of the audit opinion. This will include:

I. a statement certifying that the Examiner of Local Accounts has performed his examination in accordance with relevant Acts of the Municipality / Corporation;

II. a statement as to compliance or otherwise with Auditing Standards, together with the reasons for any departure there from;

III. a statement that the audit process includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements; and

IV. a statement that the audit was planned and performed so as to obtain reasonable assurance that the financial statements are free from material misstatement.

7.6.12.2 Expression of opinion

- The audit certificates should contain a clear expression of opinion on the true and fair presentation.
- Audit procedures are also carried out to form an opinion as to whether or not:

  i. Proper accounting records have been kept by the entity.

  ii. The financial statements are in agreement with the accounting records and returns.

  If any of these requirements have not been met, it should be stated in the audit certificate. The certificate should also state whether or not all the information and explanations required for the purposes of audit were obtained or not.

7.6.12.3 Unmodified opinion

An unmodified opinion is given when, in the judgment of the ELA, the financial statements give a true and fair view and have been prepared in accordance with relevant accounting requirements. In forming this judgment, the ELA should be satisfied in all material respects.

(Ref: Para nos. 7.12 to 7.17 of FAAM)

7.6.12.4 Modified opinions

The audit opinion should be modified where the ELA is unable to satisfy himself that the financial statements are free from material misstatement whether caused by fraud, error or other irregularity.

Different types of modified opinions are explained below:

a) The point at which 'some' error (acceptable) in the accounts becomes 'too much' error (unacceptable) is the point when qualification becomes necessary. The critical question to be answered is would this level of error distort the overall view given by the accounts? If the error in the financial statements were thought likely to have such a serious effect, it would be regarded as 'material'. It is not just the value of the error which must be considered. The materiality of error must also be judged in relation to the nature of the error and to the context in which it occurs.

b) Uncertainty can arise in either of the following circumstances:

- the ELA is unable to obtain all the information and explanations he considers necessary to complete his audit (resulting in a limitation on the scope of his audit); the absence of proper accounting records might be the cause, or the ELA might be prevented from carrying out a necessary audit procedure so that a material figure in the account cannot be confirmed.
- the ELA cannot reach an objective conclusion as to the outcome of a situation due to the circumstances themselves; for example, there may be doubts about the obligations under a guarantee given which would have material financial consequences for the ULBs.

c) Disagreement qualifications arise where the ELA disagrees with something the ULBs has included in, or omitted from, the accounts. There are various circumstances in which disagreement may occur, such as:

- ULB may present figures in the accounts which are not in accordance with the applicable accounting rules or not based on appropriate accounting policies or principles;
- the ELA may disagree with facts or amounts in the accounts (disagreement needs to be distinguished from uncertainty in this regard);
- the ELA may disagree with the way the ULB has disclosed facts or amounts in the financial statements;

- the ULB may fail to comply with legislation or regulations; the ELA might then need to disagree on the grounds that there were regularity errors in the accounts, or the accounts were not in the required form.

In the circumstances described in (b) and (c) above

- Fundamental uncertainty would be reflected in the certificate by the ELA stating that he was unable to give an opinion on the accounts (disclaimer of opinion);
- Fundamental disagreement would result in the ELA giving an adverse opinion stating that the accounts did not 'give a true and fair view (adverse opinion)'.

Before issuing a modified opinion or a disclaimer of opinion, the matter should be discussed with the management of ULB in full regarding the circumstances giving rise to the modification and the ULB should be given the opportunity to make corrections to the financial statements or provide further information in support of the figures contained in them.

(Ref: Para nos. 7.27 to 7.29, 7.31, 7.32, 7.39 and 7.40 of FAAM)

7.6.12.5 Format of Audit Report

The Audit Report on Annual Financial Statements of ULBs should be prepared in the format given in **the Appendix-V.** In respect of the Municipalities the comments of ELA on items as stipulated under Rule 22 (2) of W.B. Municipal (Finance and Accounting) Rules, 1999 (Amends), should be incorporated in an **Annexure** as given in the appendix along with the Audit Report.

7.6.12.6 Audit points on the basis of accounting system as recommended by National Accounting Manual (NAM)

- Did the municipality/corporation take steps to follow accrual system of accounting?
- Did the municipality/corporation prepare Income and Expenditure Statement and Balance Sheet every year in the prescribed formats?
- Did the "Income" and "Expenditure" in accounts constitute both revenue received and receivable and amounts paid and payable respectively?
- Were there cases of incurrence of expenditure on repairs and maintenance during the period of the financial year but not actually paid during the year? If so, were such amounts treated as liability (payable) and disclosed as such in the Balance Sheet? If not, the same would be irregular.

- Were the collections made on behalf of the State Government credited to the control account called "State Government Levies in Taxes- Control Account"?
- Was any subsequent collection or recovery of "Receivables for Property & Other Taxes" which were already written off recognized as a "Prior Period Income"?
- Were the demands raised with retrospective effect treated as prior period income to the extent it pertained to earlier years?
- Were write-offs of Cess adjusted against the provisions made and to that extent 'recoverable' got reduced?
- Was revenue in respect of Water Tax, Water Benefit Tax, Water Supply Charges, Water Meter Rent, Sewerage Charge, Disposal Charges recognized in the period in which they became due, i.e., when the bills were raised?
- Was revenue in respect of Connection Charges for Water Supply recognized on actual receipt?
- Did the computation of cost of fixed assets include cost incurred/money spent in acquiring or installing or constructing fixed asset, interest on borrowings attributable to acquisition or construction of fixed assets up to the date of commissioning of the assets and other incidental charges incurred up to that date?
- Was the additional expenditure incurred for improvement of the fixed asset capitalized and included in the cost of the asset?
- In case the benefits of revenue expenditure for repairs and maintenance of the asset was less than for a year, was such expenditure charged off?
- Were assets under erection/installation on existing projects (including advances for capital works and project stores) shown as "Capital Works-in-Progress"?
- In case of forfeiture of Earnest Money Deposit and Security Deposit and the right for claiming refund of deposit having expired, was the amount involved recognized as income?
- Was deposit received under Deposit Works treated as a liability till such time the projects for which money was received? Was the cost incurred against it reduced from the liability upon completion of the projects?
- Was expenditure in respect of stores (material, equipment, etc.) procured recognized on accrual basis?

- Was the stock lying at the period- valued at cost in accordance with the FIFO (First in-First out) method?
- Was revenue in respect of disposal of material recognized on actual receipt?
- Did the municipality/corporation follow any prescribed codification structure for classification of income and expenditure under different heads?
- Could the auditor ensure that:
- repair works to newly purchased or previously abandoned buildings, which were required for bringing them into use were classified as Original Works?
- where a portion of an existing structure was dismantled and replaced and if the cost of such replacement represented a genuine increase in the permanent value of the property as an asset, the work was classified as Original Work?
- where the PWD issued any permission for road digging or any other activity for private purpose, it actually recovered the charges incurred for repair of the damaged road or any other structure from the person seeking permission?
- the money received from the Government for Deposit Works was accounted as a liability of the municipality/corporation?
- certain percentage of the value of the Deposit Works was provided to the municipality/corporation as service charges?
- revenues (percentage charges) in respect of Deposit Works were accrued along with the expenditure of Deposit Works?
- Earnest Money Deposit was refunded to the unsuccessful bidders?
- advance was provided to the contractors as per the terms and procedures of the municipality/corporation?
- payment was made against bill raised after deducting the Security Deposit, income tax, works contract tax and other deductions/recovery including advance provided, if any?
- on receipt of approval for payment, entries were made for money advanced in the Cheque Issue Register and in the Register of Advance in the prescribed forms for the cheques issued to the contractors?
- the details of expenditure incurred on capital projects were recorded in the Capital Works-in-Progress Account?

- Separate Capital Works-in-Progress Control Accounts were opened for Civil, Electrical, Water Works and Other projects?
- the Contract Completion Certificate was annexed to the final bill?
- on receipt of the bill the particulars were entered in the Register of Bills in the prescribed form?
- in the Contractors Control Account the particulars for liability for amount payable to various contractors were credited and the amount paid to them debited?
- on completion of construction of the asset, the cost incurred for construction was passed on to the relevant asset account?
- the Accounts Department passed necessary accounting entries to record the difference between the Stores Issue Rate and the Recovery Rate for materials issued to contractors?

  On completion of an Original Work, reconciliation was carried out by the Accounts Department in respect of the amount expended as shown in the Works Register maintained by the Executive and the capital work-in-progress control?
- ledger maintained by the Accounts Department?
- the Accounts Department ensured that the tax deducted at source and works contract tax deducted from the contractor's bill, etc. were deposited with the Government in accordance with the provisions of the relevant Acts?
- the Works Department, Accounts Department and the Internal Audit Department exercised the following internal controls—
  - ✓ ensure budget availability at the time of approval of the bill;
  - ✓ ensure that all the dues, including liquidated damages/penalties, were recovered from the contractor before making the final payment;
  - ✓ ensure that no amount was due from the suppliers/contractors, which might be otherwise adjusted before payment;
  - ✓ ensure that all the bills/invoices of contractors were journalized before release of payments.
- all reconciliation statements were certified by the Head of the Accounts Department?
- the Stores Department prepared a Summary of Daily Collections and forwarded the same to the Accounts Department?

- on receipt of the Summary of Daily Collections, the Accounts Department passed necessary entries?
- the Stores Department prepared the Material Receipt Note in the prescribed form?
- from the Material Receipt Note, the Stores recorded the receipt of materials in the Stores Ledger?
- on receipt of bill from the supplier, the Stores verified the bill received with the Material Receipt Note and recorded it in the Register of Bills for Payment?
- on acceptance and approval of the material supplied and on receipt of the processed bill from the Stores, the Accounts passed necessary entries?
- Grants received in advance were deposited in the respective Designated Grant Bank Accounts and the same were accounted for in the following manner:
- the details of the Grant Sanction Order were recorded in the Grant Register;
- separate Cash Book in prescribed form was maintained in respect of all grants;
- the details of the receipt of the grant was updated in the Grant register;

Advance made to a contractor/supplier in respect of project/scheme against a Specific Grant was paid from the Designated Grant.

- Bank Account and not from the Main Bank Account;
- the details of expenditure were recorded in the Grant Register under the respective Specific Grant;
- on payment, the Accounts Department passed necessary entries;
- the bank reconciliation was carried out on a monthly basis or such other shorter time interval as the municipality/corporation decided;
- assessment of the MIS System in place and its use;
- whether budget and budget variance analysis is being used as a monitoring and financial management tool; and
- whether the opening balance sheet depicts all the assets comprehensively with valuation.

CHAPTER-VIII

Environment Audit

8.1 Introduction

Environmental audit is a highly skill-oriented task. It calls for not only a high level of professional audit skills, but also a deep understanding of environmental issues. The auditor will also have to periodically update himself with the latest developments on the subject.

Four Steps of Audit: According to the guidance issued by the INTOSAI on environmental audit, broadly there are four steps to be followed in environmental audits:

First step :	Understanding the problem of environment, its impact on society, economy and environment.
Second step :	Understanding the response of the ULB to the problem.
Third step :	Selection of the audit topic and determining the audit priorities, and establishing the audit objectives.
Fourth step :	Designing the audit.

8.2 Objectives of Environmental Audit

The main role of auditor in environmental audit is to respond to the expectations of the citizens by providing independent, credible and objective verification of the information provided by ULBs with respect to their activities and their impact on the environment. Objectives of each audit will depend on the type of the audit carried out, namely, financial audit, regulatory and compliance audit and performance audit.

Financial Audit

The objective of financial audit is to enable the auditor to express an opinion on whether the financial statements are prepared in all material respects in accordance with an identified financial reporting framework. Material respects can be directly linked to the environmental costs, obligations, impacts and outcomes. The audit of financial statements also requires the auditor to consider environmental matters as part of regularity audit. The International Auditing Practices Committee defines environmental matters in a financial audit as:

- Initiatives to prevent/abate/remedy damage to the environment or to deal with the conservation of non-renewable and renewable resources required by legal, contractual or voluntary commitments.
- Consequences of violating environmental laws and regulations, as also of vicarious liability.

- Consequences of environmental damage done to others or natural resources.

Compliance Audit

In compliance audit, the objective will be to provide an assurance that the activities of ULB are conducted in accordance with relevant environmental law, regulations, standards and policies, both at the national and local levels as well as international levels (where appropriate and relevant).

Performance Audit

The objectives of performance audit are manifold and may include ensuring that indicators of environmental related performance (where contained in accountability reports) fairly reflect the performance of the reported entity. Further, the audit verifies that the environmental programmes are conducted in an '*economical, efficient and effective*' manner. It also aims at improving the performance and accountability of ULBs '*by adding value*' through an effective examination of environment-related policies, strategies and programmes. Apart from verifying the extent to which the programme has achieved its objectives, the performance audit will also examine the intended and unintended, direct and indirect other impacts of programmes and activities subjected to audit as also the adequacy of data for evaluating such impacts. Identification of risks caused by pollution to health and environment would also form part of such exercise. Performance audit of environmental issues will also include the existence or adequacy of environmental policies and laws and strategies. Other objectives would include the compliance with commitments, if entered into or legally obligated, with international treaties and commitments, where applicable. Adequacy of infrastructure to achieve the environmental targets of the agency and adequacy of funding will also be the subject of performance audits.

INTOSAI guidance recommends the inclusion of the following areas within the scope of performance audit of environmental issues:

- Audit of government monitoring of compliance with laws;
- Audit of government's environment programmes;
- Impact of other programmes on environment;
- Audit of Environment Management systems; and,
- Evaluation of proposed environmental policies and programmes.

8.3 Importance of Environmental Audit

As observed by INTOSAI, the environmental problems of the world will not be solved overnight nor will they be solved by the actions of the SAI; but the trust reposed in the role and objectivity of the SAI would make environmental audit part of the solution. By establishing clear and precise objectives and by following

a skillful and professional approach in audit, SAI can contribute to the efforts of the government and its agencies through objective analyses and constructive recommendations. The evaluation of the performance of the entity with reference to established standards and indicators and against authentic criteria will enable the entities to improve upon their performance; it will also assist policymakers and legislators to rectify the omissions and shortfalls, if any, and contribute to good governance. Considering the growing concern over environmental degradation and climate change across the world, the findings and conclusions of the SAI, especially in respect of economy, efficiency and effectiveness, will have increasing acceptance and are sure to influence the process of decision making at national and regional levels.

8.4 Mandate for Environmental Audit

The audit by the SAI is undertaken to ensure the legality, regularity, economy, efficiency and effectiveness of '*financial management and public administration*' mainly through assessments of the financial statements, compliance with Constitution, applicable laws, rules and regulations, and the extent to which an activity, programme or organization operates economically, efficiently and effectively. In view of this, the mandate for environmental audit is inclusive. Read with the provisions of the Constitution and the Comptroller & Auditor General's (Duties and Powers) Act, 1971, the mandate of the SAI to undertake environmental audit in all its variations is evident.

According to the INTOSAI Guidelines, it is not necessary to have a separate performance audit mandate to conduct an audit with environmental focus. The costs to governments for developing and implementing environmental policies and obligations are increasingly significant. The environmental costs, liabilities and asset impairments affect the preparation of financial statements and would naturally invite their audit by SAIs.

8.5 Scope of Environmental Audit

Environmental audit is not significantly different from other audits practiced by the SAI. The scope and limitations of environmental audit are accordingly circumscribed by the Regulations on Audit and Accounts.

8.6 Financial Audit

The primary purpose of financial audit is to verify whether the accounts are properly prepared, are complete in all respects and presented with adequate disclosures. Apart from the examination of books of accounts and financial statements for compliance with standards and rules, completeness, accuracy and disclosures, the audit will also focus on items affected by environmental matters, particularly liabilities, contingencies, commitments, asset impairments provisions

etc. An environmental audit from a financial perspective is conducted to ensure that public funds were spent efficiently and for their intended purposes.

During an audit of financial statements related to environmental matters, the following issues will merit special attention:

- Initiatives to prevent, abate, or remedy damage to environment;
- Conservation of renewable and non-renewable resources;
- Consequences of violating environment laws, rules and regulations;
- Consequences of vicarious liability imposed by the government, courts etc.

Audit of financial statements and the establishment of its scope will find additional application in respect of the audit of Government Companies and Undertakings.

8.7 Compliance Audit

Compliance audit with respect to environmental issues will relate to providing assurance that governmental activities are conducted in accordance with the relevant laws, rules, notifications, regulations and standards as also policies and strategies. Compliance with commitments made under International Treaties and Conventions will also need verification, where applicable. Governmental agencies concerned with environmental matters are legally obliged to exercise stringent oversight and control on specified sectors and human activities and the scope of compliance audit will extend to verifying the process adopted by them in fulfilling their statutory role. For instance, environmental audit from compliance perspective can examine the enforcement of environmental regulations on toxic substances, the transportation of hazardous hospital waste, or the protection of endangered species. Auditors may also examine whether government activities are conducted according to relevant environment laws, standards and policies, both at the national and international levels.

8.8 Performance Audit

The most important aspect of the environmental performance audit is to ensure that the indicators of environment-related performance fairly reflect the performance of the entity and that the environment programmes do yield value for money. The performance audit will also provide credible assurance on the performance of the entity with regard to compliance with established law, rules, regulations and standards. The adequacy or absence of legal and other instruments to safeguard the environment will also be the subject matter of the examination. The strength and weakness of the government's policy framework to mitigate and adapt to global warming and environment degradation will also be analyzed, with the assistance of experts in the field, where called for.

The audit will also embrace a detailed examination of selected environmental programmes of the government and the agencies with a view to offer a fair and objective opinion on the level of their performance. The direct and indirect impacts of other governmental programmes on environment would also be subject to review. Availability and the level of efficiency of an Environment Management System (EMS) and its compatibility with national or international standards should be tested as part of the exercise. Finally, from performance perspective, environmental audits may embrace audits of environmental indicators, programmes, and policy decisions to see if those activities were completed economically, efficiently and effectively. In environmental audit, often, analysis of government policies and strategies in the context of their adequacy, completeness, and facility of implementation becomes unavoidable. However, adequate caution should be exercised not to trespass the borderline to the political territory (policy); but the correctness of the information or inputs that were considered in framing the policy and the unintended impacts of the policy, including the feasibility of its implementation by co-relating to the programmes under the policy, could be brought to notice. Further, it must be remembered that analysis of policies will require the expertise and skills of outside experts or panels of specialists including scientists, legal experts and environmental specialists. Further, SAI must not be seen as taking sides or being judgmental; a safer strategy would be to project the views of such experts and refer to credible and objective evaluations by widely respected outside experts and organizations.

Most of the ASOSAI member nations are at a nascent stage in the conduct of environment audits. To facilitate the conduct of environment audit on major environmental issues in the ASOSAI region, detailed checklists in the areas of waste management, prevention of air pollution, prevention of water pollution and audit of biodiversity have been devised.

According to the Basel Convention, wastes are substances or objects that are disposed or are intended to be disposed or are required to be disposed by the provisions of national laws. Waste includes all items that people no longer have any use for, which they either intend to get rid of or have already discarded. Additionally, wastes are such items which people are required to discard, for example by law because of their hazardous properties. Many items can be considered as waste e.g., household rubbish, sewage sludge, wastes from manufacturing activities, packaging items, discarded cars, old televisions, garden waste, old paint containers etc. Thus, all our daily activities give rise to a large variety of different wastes arising from different sources. The rising quality of life and high rates of resource consumption patterns have had an unintended and negative impact on the environment by generation of waste far beyond the handling capacities of governments and agencies. Cities are now grappling with the problems of high volumes of waste, the costs involved, the disposal

technologies and methodologies and the impact of waste on the local and global environment.

8.9 Kinds of waste

Modern urban living brings on the problem of waste, which is increasing in quantity and changing in composition with each passing day. The different kinds of waste are:

- **Municipal waste**: Waste generated by households consisting of paper, plastic, packaging, organic waste, metals etc.
- **Industrial and hazardous waste**: Consists of waste generated during the manufacturing process which turns raw materials into consumer products. Some of this waste can also be hazardous.
- **Biomedical waste**: Waste generated by hospitals and other health providers consisting of discarded drugs, waste sharps, microbiology and biotechnology waste, human anatomical waste, animal waste etc.
- **Construction and demolition waste**: Waste arising from activities such as the construction and demolition of buildings, creation of infrastructure such as road planning and maintenance etc.
- **Mining waste**: Waste arising from prospecting, extraction, treatment and storage of minerals.
- **E-waste**: This consists of end of life products and comprises of a range of electrical and electronic items such as information technology and telecommunication equipment like computers and printers, electrical and electronic tools, washing machines, medical equipment, refrigerators, televisions etc.
- **Radioactive waste**: Waste that contains a concentration of radio nuclides greater than those deemed safe by national authorities and for which no use is foreseen. Because of the wide variety of nuclear applications, the amounts, types and even physical forms of radioactive waste vary considerably. Some of these wastes remain radioactive for hundreds or thousands of years, while others may require storage for only a short period, while they decay, prior to conventional disposal.
- **Other waste**: These include end-of-life vehicles, packaging waste, tyres, batteries, agricultural waste, waste from forestry etc.

8.9.1 Impact of waste on health and environment

Waste represents a threat to the environment and human health if not handled or disposed properly. Surface water contamination takes place when waste reaches water bodies. Ground water contamination takes place when residues from waste

leach into the ground water. Residues from waste can change the water chemistry which can affect all levels of an ecosystem. Both surface and ground water contamination can impact the health of lower food chain organisms and consequently, the availability of food through the food chain. It can damage the health of wetlands and impair their ability to support healthy ecosystems, control flooding and filter pollutants from storm water runoff. The health of animals and humans are affected when they drink or bathe in contaminated water. In addition, aquatic organisms like fish and shellfish can accumulate and concentrate contaminants in their bodies. Water from these contaminated sources, when used for irrigation, can affect soil productivity as well as introduce contaminants into the food chain.

A specific environmental hazard caused by waste is leachate, which is the liquid that forms as water trickles through contaminated areas, leaching out chemicals. Movement of leachate from landfills, effluent treating plants and waste disposal sites may result in hazardous substances entering surface water, ground water or soil.

Soil contamination as a result of waste can harm plants when they take up contaminants from their roots. Ingesting, inhaling or touching soil contaminated by waste, as well as eating plants or animals that have accumulated soil contaminants can adversely impact the health of humans and animals. Emissions from incinerators or other waste burning devices and from landfills can also cause air contamination. Incinerators routinely emit dioxins, furans and polychlorinated by-phenyls (PCB), which are deadly toxins, causing cancer and endocrine system damage. Other conventional toxins such as mercury, heavy metals are also released.

Landfills are a big source of release of green house gases which are generated when organic waste decomposes in landfills. Thus, improper handling of waste has consequences both on the environment as well as on the health of the people. Risks to human health and environment are acute when electronic and electrical waste is not managed properly. E-waste contains a mix of toxic substances such as lead and cadmium in circuit boards, lead oxide and cadmium in monitor cathode ray tubes, mercury in switches and flat screen monitors, cadmium in computer batteries, PCBs in older capacitors and transformers and brominated flame retardants on printed circuit boards, plastic casings, cables and polyvinyl chloride cable insulation that release highly toxic dioxins and furans when burned to retrieve copper from the wires. Due to the hazards involved, disposing and recycling e-waste has serious health and environmental implications.

8.9.2 Waste Management

According to European Union Directive on waste, 'waste management' shall mean 'the collection, transport, recovery and disposal of waste, including the

supervision of such operations and after-care of disposal sites'. There are a number of newer concepts about waste management which vary in their usage between countries/regions. The most widely accepted concept is the waste hierarchy which classifies waste management strategies according to their desirability. According to this hierarchy, the priority of any country should be to extract the maximum practical benefits from products and prevent/minimize the waste that is generated. This hierarchy is a stepwise approach to waste management in the order of environmental priority for different waste management options.

The general principle of the waste hierarchy are prevention, minimization, reuse, recycling, energy recovery and disposal with prevention being the most favoured and disposal being the least favoured option. Thus, strategies should focus on waste prevention and minimization through the '3 Rs' - reduce, reuse and recycle. According to this hierarchy, waste disposal strategies are 'end of the pipe' solutions and should be the least favoured option. Emphasis on waste prevention and waste minimisation would ensure that less waste is produced which needs to be disposed.

8.9.3 Waste prevention

Waste prevention means measures aiming at the reduction of the quantity and harmfulness of diverse waste streams for the environment. Prevention is the most desirable waste management option as it eliminates the need for handling, transporting, recycling or disposal of waste. It provides the highest level of environmental protection by optimizing the use of resources and by removing a potential source of pollution. Some of the techniques of waste prevention are improvement of resource efficiency, reduction of hazardous substances in products, life cycle thinking etc.

- Reducing waste includes any process or activity that avoids, reduces or eliminates waste at its source or results in reuse or recycling.
- Reusing is using an article more than once. This includes conventional reuse where the item is used again for the same function and new-life reuse where it is used for a new function.
- Recycling involves the treatment or reprocessing of a discarded waste material to make it suitable for subsequent reuse either for its original form or for other purposes. It includes recycling of organic wastes but excludes energy recovery. Recycling benefits the environment by reducing the use of virgin materials. Recycling is beneficial in two ways: it reduces the inputs (energy and raw materials) to a production system and reduces the amount of waste produced for disposal.

Some of the reduction and reuse strategies are: promotion of clean technologies and products, establishment of technical standards to limit the presence of certain dangerous substances in products, eco-audit, reuse of scrap material,

waste exchanges of use, deposit refund schemes, promoting the use of refill packs, extended producer responsibility and product stewardship.

8.9.4 Major audit issues in management of waste.

Some of the major issues in the management of waste are:

- Existence of database regarding waste.
- Recognition of threats to health and environment posed by waste.
- Existence of waste policy/ laws/rules governing waste management.
- Strategies to reduce reuse and recycle waste.
- Collection and segregation of waste.
- Processing of waste/recovery of energy from waste.
- Proper waste disposal.
- Proper accountability mechanisms.
- Compliance to waste policies/laws/rules.
- Monitoring of compliance to waste policies/laws/rules.
- Adequacy of infrastructure for waste management.

8.9.5 Compliance Audit of waste issues

Compliance to environmental policies, rules and regulations relating to waste issues vary from country to country and are governed by specific legislations in vogue in that country. Compliance audit is a major part of any audit exercise and can form the first step in evaluating whether the acts/rules framed by the government relating to waste are being adequately complied with. The issues listed out under 'compliance and monitoring of rules governing waste management' could form the basis for compliance audit also. In addition, certain areas listed below could also be checked during compliance audit:

- Contracts, if any, awarded for waste management, could be examined with reference to the usual audit checks for contracts.
- Targets for inspection of waste management facilities as per law/rule and whether shortfalls in inspection exist.
- Gaps in requirement of manpower and men in position to implement waste laws.
- Regulations for the issuance of licenses to the various establishments, checklist of conditions to be satisfied before issue of these licenses and cases of omissions and lapses in compliance.
- Strategy for the funding of waste management programs, the sources, conditions, sanctions, releases, payments, expenditure, maintenance of accounts etc.

- Role played by the pollution control boards, local bodies, state Governments, Non Governmental Organizations (NGOs) in dealing with waste management as defined in the laws/acts.
- System of imposing punishments for the failures and non-adherence to the rules/regulations. Imposition, collection, crediting and adequacy of penalties.
- Extent of dues pending recovery, efficiency of the system of imposition and recovery of penalty.
- Inspection/checking of established infrastructure for waste management, facilities established for prevention of pollution.

8.9.6 Performance Audit of waste issues

A checklist comprising of major audit themes, audit objectives and audit questions have been listed in **Appendix**-VI. Such a list would act as guidance for the audit of waste management issues.

CHAPTER-IX
Inspection Report/ Audit Report

9.1 Introduction

As soon as the order directing a Field audit party to start audit of one institution the Supervising Officer/ Assistant Audit Officer would contact the institution requesting the Executive of the institution to keep records ready. It would be helpful if the audit requisitions are sent to the institution by e-mail or fax.

9.2 Work at the first working day

The Supervising Officer, Assistant Audit Officer would meet the Executive of the institution(Mayor/ Commissioner/ Chief Municipal Finance and Accounts Officer and other important officers in case of Corporation and Chairman, Executive Officer, Finance Officer in case of ULBs). The issues discussed in the meeting would be incorporated into one minute under signature of both side officials. This may be termed as entry conference.

Then the Supervising Officer shall allocate the duties to the team members. It is also his duty to identify the risk areas among the high risk, medium risk and low risk areas and record this.

9.3 Work at the last day

Similarly the Supervising Officer, Assistant Audit Officers would hold a meeting at the last working day of the audit and discuss the paras before the officials of the corporations/ Municipalities. The discussion together with views of the ULB Department Heads should be incorporated in the minute prepared for this purpose. This may be termed as exit conference.

9.4 Components of the Report

There are eight parts in the report. These are given below:

1. Check list,
2. Title sheet,
3. Duty allocation list by Supervising Officer and identification of risk areas,
4. Copy of entry conference,
5. Original audit report,
6. Copy of exit conference,
7. Settlement of outstanding audit paragraphs, and
8. All key documents in support of each audit observation.

9.5 Preparation & Submission of the Report to HQ

Supervising Officer will compile the report. The report should be compiled as and when paragraphs are finalized during the course of audit to facilitate submission of the audit report at the ULB HQ within seven working days after completion of the audit without fail. The paragraphs in the report should be linked efficiently with the key documents.

9.6 Format of the Report

Format of the report is as given in the appendix-III or as and when the LAD HQ changes it to suite the current necessity.

9.7 Laying the report to the Legislature

Currently, Audit Report on ULB is prepared annually for submission to the State Legislature. The report is captioned "Report of the Examiner of Local Accounts on Urban Local Bodies for the year ended XXXX".

9.7.1 Preparatory work

The Audit Report is prepared and submitted to the State Legislature financial year wise. For that purpose, preparatory work should start at least 9 months before. For example, work for the Audit Report ending March 2014, which is supposed to be submitted to the State Legislature in 2015, should start from February/March 2014. The Branch Officer (Report) should start processing the draft paras from February/March and all the draft paras, as per target, should be submitted to the Principal Accountant General by July. The Performance Audit Reports should also be submitted to the Principal Accountant General as per work plan of the individual performance audit approved by the Principal Accountant General. It should be the utmost endeavour to send the draft Audit Report in complete form to Headquarters by September or in the month as approved by the Headquarters.

9.7.2 Content of the Report

The Audit Report should incorporate serious financial irregularities pointed out in the field Inspection Reports by field Audit Parties. In this regard, there are separate instructions available, which are issued time to time by Headquarters regarding the nature of audit observations to be incorporated in the Annual Audit Report for submission to the State Legislature and an all-out effort should be made to represent the most important audit observations and where the desired action is awaited from the Executives.

The lay-out of the Audit Report (ULB) generally incorporates following:-

- Preface
- Overview

- Chapter – I – Introduction
- Chapter – II – Accounting Procedures and Financial Management
- Chapter – III – Receipts
- Chapter – IV – Establishment
- Chapter – V – Material Management and Execution of Works
- Chapter – VI – Implementation of Schemes
- Chapter – VII – Performance Audit
- Chapter – VIII – Other Important Cases

9.7.3 Printing of the Audit Report

Upon receipt of the approved draft Audit Report from the Headquarters it should be duty of the Report Section to arrange for printing the Audit Report both in English and in Bengali. For that matter Bengali translation has to be started immediately on receipt of the approved draft report from Headquarters. Selection of vendors for printing job, however, is the duty of the Administration and Establishment Sections. Once the approved draft Audit Report is received from the Headquarters, a weekly report has to be submitted to the Headquarters stating the progress of printing and other associated issues till the report is submitted in the State Legislature.

9.7.4 Submission of the Audit Report to the State Legislature

Upon completion of printing jobs, necessary arrangement as per standard practice in vogue has to be done for submission of the Report to the Legislature. Headquarters instruction in this regard has to be complied with scrupulously.

List of Appendices

Appendix-I

74th Amendment of the Constitution and Twelfth Schedule
Vide para no.-1.3

"TWELFTH SCHEDULE

(Article 243W)

1. Urban planning including town planning.
2. Regulation of land-use and construction of buildings.
3. Planning for economic and social development.
4. Roads and bridges.
5. Water supply for domestic, industrial and commercial purposes.
6. Public health, sanitation conservancy and solid waste management.
7. Fire services. (Not entrusted to ULBs)
8. Urban forestry, protection of the environment and promotion of ecological aspects.
9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
10. Slum improvement and upgradation.
11. Urban poverty alleviation.
12. Provision of urban amenities and facilities such as parks, gardens, playgrounds.
13. Promotion of cultural, educational and aesthetic aspects.
14. Burials and burial grounds; cremations, cremation grounds and electric crematoriums.
15. Cattle pounds; prevention of cruelty to animals.
16. Vital statistics including registration of births and deaths.
17. Public amenities including street lighting, parking lots, bus stops and public conveniences.
18. Regulation of slaughter houses and tanneries.".

Appendix-II

List of 128 ULBs (Vide Para no-1.5)

Sl no	Name	Sl no	Name
1	Alipurduar	33	Cooper's Camp NAA
2	Arambagh	34	Dainhat
3	Asansol MC	35	Dalkhola
4	Ashokenagar-Kalyangarh	36	Dankuni
5	Baduria	37	Darjeeling
6	Baidyabati	38	Dhulian
7	Bally	39	Dhupguri
8	Balurghat	40	Diamond Harbour
9	Bankura	41	Dinhata
10	Bansberia	42	Dubrajpur
11	Baranagar	43	Dum Dum
12	Barasat	44	Durgapur MC
13	Barrackpore	45	Egra
14	Baruipur	46	English Bazar
15	Basirhat	47	Gangarampur
16	Beldanga	48	Garulia
17	Berhampore	49	Gayespur
18	Bhadreswar	50	Ghatal
19	Bhatpara	51	Gobardanga
20	Bidhannagar	52	Gushkara
21	Bishnupur	53	Habra
22	Bolpur	54	Haldia
23	Bongaon	55	Howrah MC
24	Birnagar	56	Haldibari
25	Budge Budge	57	Halisahar
26	Burdwan	58	Hooghly–Chinsurah
27	Chakdah	59	Islampore
28	Champdani	60	Jalpaiguri
29	Chandernagore MC	61	Jamuria
30	Chandrakona	62	Jangipur
31	Contai	63	Jhalda
32	Coochbihar	64	Jhargram

65	Jiaganj-Azimaganj
66	Joynagar-Mazilpur
67	Kaliaganj
68	Kalimpong
69	Kalna
70	Kalyani
71	Kamarhati
72	Kanchrapara
73	Kandi
74	Katwa
75	Kharagpur
76	Kharar
77	Khardah
78	Khirpai
79	Kolkata MC
80	Konnagar
81	Krishnagar
82	Kulti
83	Kurseong
84	Madhyamgram
85	Maheshtala
86	Mal
87	Mathabhanga
88	Mekhliganj
89	Memari
90	Midnapore
91	Mirik NAA
92	Murshidabad
93	Nabadiganta Industrial Township
94	Nabadwip
95	Naihati
96	Nalhati
97	New Barrackpore
98	North Barrackpore
99	North Dum Dum
100	Old Malda
101	Panihati
102	Panskura
103	Pujali
104	Purulia
105	Raghunathpur
106	Raiganj
107	Rajarhat-Gopalpur
108	Rajpur-Sonarpur
109	Ramjibanpur
110	Rampurhat
111	Ranaghat
112	Raniganj
113	Rishra
114	Sainthia
115	Santipur
116	Serampore
117	Siliguri MC
118	Sonamukhi
119	South Dum Dum
120	Suri
121	Taherpur
122	Taki
123	Tamluk
124	Tarakeswar
125	Titagarh
126	Tufanganj
127	Uluberia
128	Uttarpara-Kotrung

Appendix-III

Prescribed format of Inspection Report (Vide para no.-5.2)

Inspection report on the Financial Transaction of the_____ Municipality for the Years for the period _____ to_____

PART – IA

1.1 Introductory

1.2 Administration:

Sl. No.	*Name*	*Period*
Chairman		
1.		
Vice-Chairman		
1.		
Executive Officer		
1.		
2.		

1.3 Status of Annual Accounts:

1.4 Status of Banks and Treasury Balance for three years:

Sl. No.	Name of Fund	Name of Bank	Bank A/c No.	Balance as on…		
				31.03.20	31.03.20	31.03.20
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
Status of Treasury Balance						
9.	Local Fund	Treasury				
10.	GPF	Treasury				
Total Fund						

1.5 Receipt and Expenditure Budget:

A. Expenditure Budget and Actuals

YEAR	HEAD OF ACCOUNTS	Budget Provision	Actual Expenditure	Difference	Percentage of utilisation
		(Rupees in lakh)			
2006-07					
2007-08					
2008-09					

B. Receipt Budget and Actuals:

YEAR	HEAD OF ACCOUNTS	Budget Provision	Actual Receipt	Difference
		(Rupees in lakh)		

C. Details of tied and untied funds for the last three years

Year	First year		Second year		Third year	
	Budget estimates	Actual	Budget estimates	Actual	Budget estimates	Actual

D. Details of own source for the year

Category	Year	Demand			Actual Realisation			Closing Balance		
		Arrear	Current	Total	Arrear	Current	Total	Arrear	Current	Total

1.6 Advance and Adjustment:

Year			
Opening Balance			
Addition			
Adjustment			
Closing Balance			

1.7 Debt Service / Loan Position as on 31.03.20

Year	Opening Balance		Addition		Repayment		Closing Balance	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest

1.8 P.W Deposits received and paid as on31.03.20

Year	Opening Balance	Addition	Repayment	Closing Balance
	Principal	Principal	Principal	Principal

1.9 On Going Works

Not furnished but schemes are running under SFC, 13 FC, IHSDP, EGS, BRGF, IDSMT

1.10 Thirteenth Finance Commission grants

a) Year wise receipts and utilization of TFC grants from the year 200

Year	Opening Balance	No. & date of Sanction Orders	Amount	Date of credit into Municipal Fund	Expenditure	Closing Balance

1.11 Internal Audit not conducted:

1.12 Investment as on 31.03.20

Year wise receipts and utilization of TFC grants from the year 200

Year	Opening Balance	Particulars of fresh investment made during the year by transfer to Banker's cheque, DCR, Draft or otherwise			Amount	Total	Dis-investment during the year	Closing Balance	Amount certified by the bank	Amount certified in the accounts of the ULB
		Draft no	Drawn on	Date						

1.13 Theft, fraud, loss and embezzlement cases

PART-I B

1. Review of outstanding audit paras

PART-IC

1. Schedule of persistent irregularities

PART-IIA

1. Paragraphs on defalcations, frauds etc. and serious financial irregularities in utilisation of the grant and municipal funds
2. Accumulation of unspent fund of Rs. _____ and irregularities thereof (involving 40 lakhs and above continuously for three years)
3. Poor utilization of fund received under 13Th Finance Commission for the reason:
4. Blockade of fund to the extent of Rs 40 lakh and above for the reason
5. Loss of municipal revenue of Rs40 lakh and above by way of remission of property tax, collection of advertisement tax in hoarding:

PART – IIB

1. Function of Municipal Accounts Committee:
2. Irregular maintenance of cash book
3. Irregular cash handling:
4. Verification of store:
5. Entertainment Casual workers:
6. Poor utilization of fund received under NSAP,EGS, Mid day meal, JNNURM, :
7. Solid waste management was not developed:
- *Implementation, Performance, Collection , Segregation, Storage, Transportation*
- *Disposal*
- *Disposal of Biomedical waste:*

9. Unrealistic Budget:
10. Volume of Transaction:
11. Bank Reconciliation:
12. Collection of tax revenue (property tax) and other receipt:

PART – III

1. Cash Management and irregularities thereof:

2. Unadjusted advance to the extent of Rs 109.9 lakh:

3. Provident fund:

4. Government Grants :

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Appendix-IV
Title sheet (Vide Para no-5.4)

TITLE SHEET OF THE INSPECTION REPORT (TRANSACTION)

<table>
<tr><td>1 (a)</td><td>Office and period of Audit Category:</td><td colspan="3"></td></tr>
<tr><td>(b)</td><td>Address and Telephone Number</td><td colspan="3"></td></tr>
<tr><td rowspan="4">(c)</td><td rowspan="4">Duration of Audit</td><td colspan="2">Actual Date of Commencement</td><td>Actual Date of Completion</td></tr>
<tr><td colspan="2"></td><td></td></tr>
<tr><td colspan="3">No. of Working Days</td></tr>
<tr><td>Allotted</td><td>Utilised</td><td>Saved / Excess</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>(d)</td><td>Is the duration sufficient?</td><td colspan="3"></td></tr>
<tr><td>(e)</td><td>Inspection Report discussed on</td><td colspan="3"></td></tr>
<tr><td rowspan="2">(f)</td><td rowspan="2">Submission of draft Inspection Report to Headquarters with reasons for delay, if any</td><td>Due Date</td><td>Actual Date</td><td>Delay</td></tr>
<tr><td></td><td></td><td></td></tr>
</table>

2. *Constituent Members & Contribution of Audit Party including IO:*

Name & Designation	Para No.	Money Value	Classification (Loss, Wasteful, Avoidable, Infructuous, Recoverable)	State if the Para is fit for PDP and/or Communication to Govt.*

[*Advance copy of proposed PDP along with KDs should be sent to Sr. AO (Report/SS-III) by hand/ Registered Post]

3 (a)	Whether instructions in the documents viz. Group Officer's Guidelines, Manuals and Orders relating to improving quality of audit etc. were followed	
(b)	Whether all the points marked as 'Next audit to examine' have been reviewed	
4.	Whether outstanding paras checked for settlement	
5.	Risk area identified – mention	
6 (a)	No. of BOC meeting held during the period of audit with date	
(b)	Whether BOC resolution contained discussion/approval of purchase/works proposals	
(c)	Whether important resolutions checked with implementation	
(d)	Whether ward/borough committee meeting held and minutes with dates; mention important issues discussed	
(e)	Whether Municipal Accounts Committee meeting held and discussed issues on audit observations	
7 (a)	Detailed vouching conducted for the months	
(b)	Whether daily cash holding (two consecutive months) is ascertained and any observation on safe custody made	
(c)	Whether subsidiary Cash Book for self cheque is maintained and holding of cash without being accounted for undisbursed amount drawn	
8 (a)	Whether any fraud /embezzlement were detected in Audit? If so, reference of para and amount involved	
(b)	Whether any recovery at the instance of Audit was made (amount and receipt reference)	
(c)	Whether detailed audit was conducted on any of the mandatory services (viz. water supply, SWM, sewerage etc.) with reference to need, provision and actual delivery. Give name(s)	
(d)	Whether the ULB forward property tax bill in advance to assessee? Has any record of delivery to the assessee?	
9 (a)	Coverage of piped water supply with no. of wards, frequency, quantity etc.	
(b)	Production and supply of water- own or through PHED/ KMWSA etc.	
(c)	Door to door collection of MSW – ward-wise coverage with frequency	
10 (a)	Non-maintenance of important records (such as Cash Book, Security Deposit Register, Stock Register etc.) due to which what checks could not be done	
(b)	Whether Grant Appropriation records with reference to	

	cash voucher no. are maintained	
(c)	Have the Stock Accounts been maintained and checked periodically against stock held?	
11 (a)	Total no. and value of agreement/ contracts executed during the period covered under audit (year-wise)	
(b)	Whether BOC has approved in their resolution to the work orders as per delegation/provision of Municipal Act	
(c)	Whether there is any case of non-acceptance of lowest tender without assigning reasons thereof	
(d)	Number and value of contracts/ agreements checked (not less than 25%)	
(e)	How many CDS are operating? Whether the works were allotted to them as per Scheme guideline? Mention no. of work and value thereof	
12 (a)	Whether Security Deposits (receipts and refund) record-keeping satisfactory. Check for three years	
(b)	Whether refunds were checked with reference to original credit?	
13 (a)	Number of major schemes (with names) implemented	
(b)	Number of major schemes implemented verified in audit	
14.	Important paras fit for inclusion in the Register of serious financial irregularities	
15.	Whether paras floated on the above issues – give reference	

Certified that the audit of accounts of the unit was conducted satisfactorily/ could not be conducted satisfactorily due to .....

Inspection Officer/
Supervising Officer

Approved.

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Appendix-V

Comments on Accounts (Vide para 7.6.11)

Annexure

Audit Report on the Annual Financial Statements of .....(Name of the Urban Local Body).....for the year ended .....

We have audited the attached Balance Sheet of the ...(name of LB).....as at 31st March.....(year) and Income & Expenditure Account, Receipts and Payments Account (to strike out which is not applicable) for the year ended on that date under Section ..... of the .....(provision of the Act of the body). Preparation of these financial statements is the responsibility of the .....(Name of the body) Management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. This Audit Report contains the comments of the Examiner of Local Accounts (ELA) on the accounting treatment with regard to classification, conformity with the best accounting treatment, accounting practices, accounting standards and disclosure norms, etc. Audit observation on financial transactions with regard to compliance with the Laws, Rules and Regulations (Propriety and Regularity Audit) and efficiency-cum-performance aspects, etc., are reported through Inspection Reports/Audit Reports separately.

3. We have conducted our audit in accordance with the auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion

4. Based on our audit, we report that:

i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

ii) The Balance Sheet and Income and Expenditure Account and Receipts and Payments Account dealt with by this report have been / have not been drawn up in the format prescribed under

iii)In our opinion, proper books of accounts and other relevant records have been maintained by the .....(Name of the LB).....as required under (Provision of the Acts/Rules etc.) in so far as it appears from our examination of such books.

Management adhered to appropriate internal controls. **(Internal Control to be commented upon for ULBs as per sub-rule (2) (1) (d) of Rule 22 of WB Municipal (Finance and Accounting) Rules, 1999 (Amends)).**
(If any of these requirements have not been met, it should be stated so. The certificate should also state whether or not all the information and explanations required for the purposes of audit were obtained or not. Para 7.17 of FAAM)

iv) We further report that –

A Balance Sheet

A.1 Liabilities

A.1.1

A.1.2

A.2 Assets

A.2.1

A.2.2

B Income & Expenditure Account

B.1 Income

B.1.1

B.1.2

B.2 Expenditure

B.2.1

B.2.2

C Receipts & payments Account

C.1 Receipts

C.1.1

C.1.2

C.2 Payments

C.2.1

C.2.2

D General

All comments of general nature may be included in this paragraph.

E Accounting Policies & Notes to Accounts

Brief comments about deficiencies noticed in adoption of accounting principles and policies, matters in notes to accounts, non-disclosure / inadequate disclosure of significant matters concerning accounts etc. may be included in this para.

F Effect of Audit Comments on Accounts

The net impact of the comments given in preceding paras is that the assets as on .....were understated / overstated by ₹.....lakh / crore, the liabilities understated / overstated by ₹.....lakh / crore, and the Excess

of Income over Expenditure / Expenditure over Income for the year was understated / overstated by ₹.....lakh / crore. **(Impact on accounts to be supported with working sheet)**

v) Subject to our observations in the preceding paragraphs, we report that the Balance Sheet and Income and Expenditure Account and Receipts and Payments Account (strike out which is not applicable) dealt with by this report are in agreement with the books of accounts.

vi) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with the Accounting Policies and Notes on Accounts, and subject to the significant matters stated above and other matters mentioned in **Annexure** to this Audit Report, give/do not give (Strike out which is not applicable) a true and fair view in conformity with accounting principles generally accepted in India:

(a) In so far as it relates to the Balance Sheet of the state of affairs of the LB (Name of LB) as at 31 March.....(year); and

(b) In so far as it relates to the Income and Expenditure for the year ended on that date (Strike out if not applicable).

Place:
Dated:

Examiner of Local Accounts
West Bengal

ANNEXURE-VI

(vide Para 8.9.6)

Checklist comprising of major audit themes of Environment audit

Objective	Main questions
Theme 1: Assessment of the quantum of waste and risks associated with it	
1. Whether the quantum of waste being generated in the ULBs has been accurately assessed and whether risks to environment and health posed by waste have been identified.	1.1 Has an assessment of quantum of each kind of waste been made at the macro as well as micro level according to waste sources (like industries, households, hospitals etc.) amounts and types (municipal solid waste, bio-medical waste, hazardous waste, e-waste etc.) to get an accurate picture of the waste being generated in the ULBs.
	1.2 Has an identification and analysis of the expected parameters of significance for waste generation like increase in waste due to increase in population, greater economic growth, increase in demand for consumer goods, changes in manufacturing methods etc., and the composition of waste been done at ULB level.
	1.3 Has an assessment been made about the current capacity to handle waste and whether more capacity needs to be created based on the quantity of waste being generated.
	1.4 Has any entity/government identified the risks to environment as a result of improper management of waste and waste accumulation?
	1.5 Has the government identified risks to human health as a result of improper management of waste?
Theme 2: Recognition of waste as a cause of environmental degradation	
2. Whether waste has been adequately recognized as a cause of environmental degradation by environmental legislations and country's planning authorities.	2.1 Does the legislation on protection of environment recognize waste as one of the threats to the environment in the country?
	2.2 Do planning documents recognize the management of waste as a priority area for sustainable development of the country?
Theme 3: Government policies on waste minimization and waste reduction	
3. Whether policies on waste management reflect the priority of waste reduction and waste minimization in preference to waste disposal.	3.1 Has the government enacted a separate policy for waste management and does the waste policy define the hierarchy governing waste management?
	3.2 Has the government prepared an action plan for the reduction of each kind of waste?
	3.3 Has the government put in place waste prevention, reduction, reuse and recycle strategies which will reduce the waste being generated in the country?
	3.4 Has the government taken any action on consumer information and education to promote waste minimization, specifically reduction, reuse and

Objective	Main questions
	recycling?
	3.5 Does an environment labelling program exist and has it succeeded in its objective of promoting the use of environmental friendly products?
Theme 4: Existence of legislations for disposal of all kinds of waste	
4. Whether environmental legislations dealing with disposal of each kind of waste exists and whether clear responsibility and penalty for violation has been incorporated in the legislations already enacted.	4.1 Do legislations /rules exist in the country for the disposal of all types of waste?
	4.2 Do all the legislation/rules for the management of waste exist in a framework in one place for easy understanding and implementation?
	4.3 Whether the laws/rules incorporate responsibility and penalty for violation (polluter pays principle) of waste laws?
Theme 5: Allocation of responsibility for the management of waste	
5. Whether the various agencies involved in the process have been identified and allocated clear responsibility and accountability for waste management and whether a mismatch/gap/overlap exists among the responsibility centres.	5.1 Has a nodal agency regarding waste management issues been identified at central and state level?
	5.2 Have policy making bodies for each kind of waste been created?
	5.3 Have bodies for implementation of waste laws and rules been created?
	5.4 Have bodies been created and entrusted responsibility for monitoring the implementation of laws/ rules on waste?
	5.5 Have regulatory bodies been set up to fix standards for emissions and effluents generated by waste?
	5.6 Is there a body to assess the pollution being caused by the different types of wastes?
Theme 6: Compliance to and monitoring of rules governing waste management	
6. Whether compliance	6.1 Are the municipal authorities managing to laws relating to waste is taking place and whether the monitoring mechanism is effective in checking non-compliance and handling solid waste in accordance with the compliance criteria and procedure laid down in law?
	6.2 Is municipal solid waste being collected as envisaged under law?
	6.3 Is segregation of municipal waste taking place as envisaged under law?
	6.4 Have municipal authorities established and maintained storage facilities in such a manner so that they do not create unhygienic and unsanitary conditions around it?
	6.5 Is the transportation of municipal solid waste taking place as envisaged under the law?
	6.6 Is the processing of municipal solid waste done as envisaged under the law?
	6.7 Is the disposal of municipal solid waste being done

Objective	Main questions
	as envisaged in the law?
	6.8 Is the management of bio-medical waste being done in accordance with the law?
	6.9 Has the segregation and labelling of bio-medical waste prior to storage, transportation, treatment and disposal been done as per the law?
	6.10 Is the disposal of plastic waste being done as per the law?
	6.11 Is the disposal of industrial waste being done as per the law?
	6.12 Is the disposal of hazardous waste being done as per the law?
	6.13 Is the disposal of any other kind of waste for which laws have been enacted, disposed as per the laws?
	6.14 Whether monitoring mechanism was effective in checking non-compliance with the provisions of laws governing waste management?
Theme 7: Evaluation and feedback mechanism	
7. Whether a sound system for taking effective action on the collected feedback has been evolved?	7.1 Have any evaluation studies been carried out regarding implementation of these laws?
	7.2 Have the recommendations made by the independent evaluation agencies been incorporated in the Acts/Rules?
Theme 8: Adequacy of funding and infrastructure	
8. Whether funding and infrastructure was adequate for the implementation of rules on waste management and whether the funds/infrastructure have been used economically, efficiently and effectively.	8.1 Are funds being provided for implementation of waste management laws/rules?
	8.2 Is the funding adequate for waste management activities?
	8.3 Whether need assessment for technically qualified manpower to implement and monitor waste management has been made and have these been deployed effectively?
	8.4 Whether facilities to monitor pollution and environmental degradation as a result of waste exists with the pollution monitoring agency?

Appendix VII

Vide para (7.5)
Process of Audit of PPP Projects

Collection of data and information

Setting Audit Objectives

Audit Planning

Team Selection and Deployment

Study by the Audit Team

Entry Conference

Audit of documents relating to
Project Formulation and approval

Audit of PPP Contracts/
Concession, Concession
Period/VGF/Tariff/Toll/
State support/Risk sharing etc.

Audit of Construction phase
(Including monitoring system)

Engagement of Experts/
Arrangements for quality check

Audit of O&M arrangements,
Revenue generation and Sharing
Tariff/Toll, Customer satisfaction

Exit Conference
Findings and Conclusions and Reporting

Draft Audit Report Process and approval

Management letters/ Draft Audit
Report to Department/Entity

Appendix-VIII
Terminology

- BOT (Build Operate and Transfer)
- LOT (Lease, Operate and Transfer)
- BOO (Build, Own, Operate)
- BOOT (Build, Own, Operate and Transfer)
- DBFO (Design, Build, Finance and Operate)
- DBFOM (Design, Build, Finance, Operate and Maintain)

Build, Operate and Transfer (BOT)

Under this category, the private partner is responsible to design, build, operate (during the contracted period) and transfer back the facility to the public sector. The private sector partner is expected to bring the finance for the project and take the responsibility to construct and maintain it. The public sector will either pay a rent for using the facility or allow it to collect revenue from the users. The national highway projects contracted out by NHAI under PPP mode is an example.

Lease, Operate and Transfer (LOT)

As the name indicates, under this type of PPPs, a facility which already exists and is under operation, is entrusted to the private sector partner for efficient operation, subject to the terms and conditions decided by mutual agreement. The contract will be for a given but sufficiently long period and the asset will be transferred back to the government at the end of the contract. Leasing a school building or a hospital to the private sector along with the staff and all facilities by entrusting the management and control, subject to pre-determined conditions could come under this category.

Build, Own, Operate (BOO) or Build, Own, Operate and Transfer (BOOT)

This is a variation of the BOT model, except that the ownership of the newly built facility will rest with the private party during the period of contract. This will result in the transfer of most of the risks related to planning, design, construction and operation of the project to the private partner. The public sector partner will however contract to 'purchase' the goods and services produced by the project on mutually agreed terms and conditions. In the latter case (BOOT), however, the facility / project built under PPP will be transferred back to the government department or agency at the end of the contract period, generally at the residual value and after the private partner recovers its investment and reasonable return agreed to as per the contract.

Design, Build, Finance and Operate (DBFO)

These are other variations of PPP and as the nomenclatures highlight, the private party assumes the entire responsibility for the design, construct, finance, and operate or operate and or Design, Build, maintain the project for the period of concession. These are Finance, Operate also referred to as "Concessions"11. The private participant to and Maintain the project will recover its investment and return on investments (DBFOM) (ROI) through the concessions granted or through annuity payments etc. It may be noted that most of the project risks related to the design, financing and construction would stand transferred to the private partner. The public sector may provide guarantees to financing agencies, help with the acquisition of land and assist to obtain statutory and environmental clearances and approvals and also assure a reasonable return as per established norms or industry practice etc., throughout the period of concession.

Operations Concession

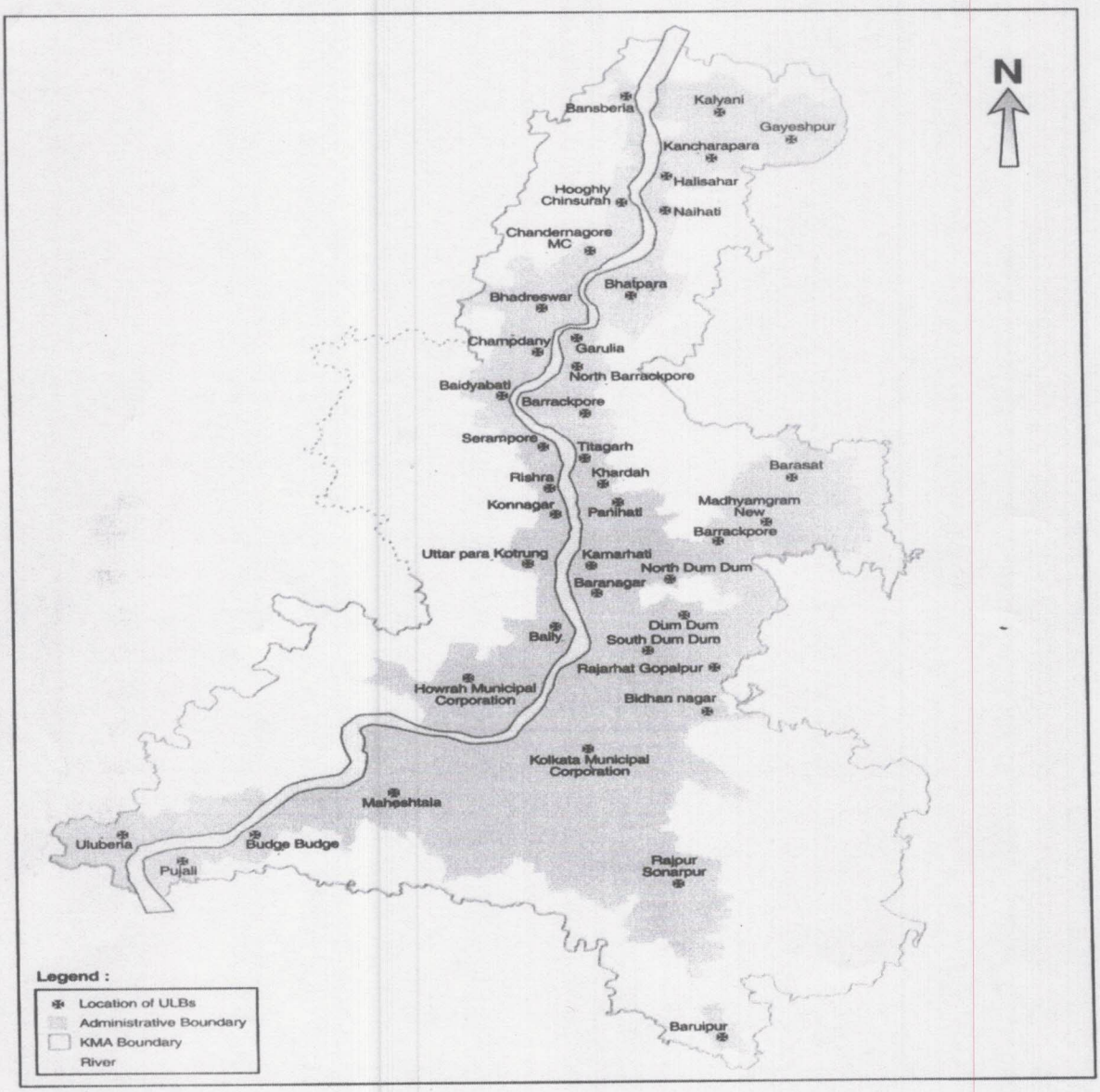
This is a generic term, used to clarify the essential features of PPP arrangements. The PPP agreements which authorize the private partner to recover its investments and expected returns on investments through concessions granted for a certain period, computed on the basis of demand projections and growth, and are called operations concession (OC). In these cases, the public sector (department or agency) which is responsible to provide the service to the public and collect revenue by way of user charges, toll, tariff etc., assigns its legal or statutory right to the private partner in return for the latter undertaking the responsibility to implement the project and maintain the required quality. The concession may be by collecting tolls and user charges or by the public sector making periodical payments of annuities or monthly / quarterly/ half-yearly charges on certain assumed basis, like shadow tolls etc.

Joint Venture

In a PPP arrangement commonly followed in our country (such as for airport development), the private sector body is encouraged to form a joint venture company (JVC) along with the participating public sector agency with the latter holding only minority shares. The private sector body will be responsible for the design; construction and management of the operations targeted for the PPP and will also bring in most of the investment requirements. The public sector partner's contribution will be by way of fixed assets at a pre-determined value, whether it is land, buildings or facilities and /or it may contribute to the shareholding capital. It may also provide assurances and guarantees required by the private partner to raise funds and to ensure smooth construction and operation. The public service for which the joint venture is established will be provided by the entity on certain pre-set conditions and subject to the required quality parameters and specifications. Examples are international airports (Hyderabad and Bangalore)

ANNEXURE-IX

Map of West Bengal showing KMA ULBs :



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Office of the Principal Accountant General (General & Social Sector Audit),
West Bengal
2014