

GOVERNMENT OF ODISHA  
FINANCE DEPARTMENT

\*\*\*

**NOTIFICATION**

Dated Bhubaneswar, the 24<sup>th</sup> July. 2014

No. FIN-LFA-ESTT-0015-2014 21876 /F, The "Odisha Local Fund Audit Manual, 2014" having been framed as guidance for the purpose of Audit under the provisions of the Odisha Local Fund Audit Act, 1948 (Act V of 1948) and approved on 11.6.2014 is published for general information and will come into force immediately.

By Order Of Governor

(Sri U.N.Behera)

Additional Chief Secretary to Government


Memo No. 21877 /F dated 24<sup>th</sup> July 2014

Copy forwarded to All Departments of Government/All Heads of Departments / All Collectors for information. Copy of the manual is available in PDF format in Finance Department website of Government of Odisha ([www.odisha.gov.in/finance/index.htm](http://www.odisha.gov.in/finance/index.htm))

  
Under Secretary to Government

Memo No. 21878 /F Dated 24<sup>th</sup> July 2014

Copy forwarded to the Director, Printing, Stationeries and Publications. Odisha, Cuttack with a request to publish the Notification in the next issue of Odisha Gazette.

  
Under Secretary to Government

Memo No. 21879 /F Dated 24<sup>th</sup> July 2014

Copy forwarded to the Portal Head, I.T Centre, Secretariat, Odisha for information and necessary action. Copy of the manual is provided in PDF format.

He/She is requested to launch this Manual in the Website ([www.orissagov.in/finance/index.htm](http://www.orissagov.in/finance/index.htm)) of Finance Department for general information.

  
Under Secretary to Government

Memo No. 21880 /F Dated 24<sup>th</sup> July 2014

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Under Secretary to Government

# **THE ODISHA LOCAL FUND AUDIT MANUAL 2014**


**DIRECTORATE OF LOCAL FUND AUDIT, ODISHA,  
TREASURY & ACCOUNTS BHAWAN, 2<sup>nd</sup> FLOOR,  
UNIT-III, KHARAVELANAGAR, BHUBANESWAR**

## **FOREWORD**

I am glad that the Directorate of Local Fund Audit has come out with a manual of its own, which will act as a guide to the audit personnel. It was a long felt need, finally got accomplished thanks to the sincere efforts of the team of officials of the LFA Directorate. It embodies different aspects of audit including new concepts and methodologies, ethics of audit and a host of other things, which the audit personnel will definitely find useful in discharging their responsibilities.

I am sure, this will go a long way in streamlining and strengthening the local fund audit system in the long run.

**Bhubaneswar,  
16<sup>th</sup> June, 2014**



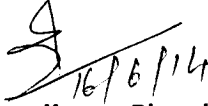
**Upendra Nath Behera  
Additional Chief Secretary to Government,  
Finance Department**

## **PREFACE**

The Directorate of Local Fund Audit became functional as a separate Heads of Department with effect from 1<sup>st</sup> October, 2012. The immediate task for the new Directorate was to identify the key areas, where improvement was needed to strengthen the system of local fund audit. Then, drafting of an audit manual for the audit personnel was felt barely necessary. Therefore, the task was included in the Work Plan for 2013-14 and some senior auditors and audit superintendents were pressed into service for this purpose under the guidance of one of the Deputy Directors of the Directorate. The draft was scrutinised and fine-tuned in several rounds of sittings and it was finally submitted for approval of Government.

It's my pleasure that the Audit Manual is now going to be published with the approval of Government. I am confident that this will be immensely helpful for the audit personnel of LFA Organisation and strengthen the audit system. I express my sincere thanks to the senior officers and the audit personnel in the Directorate, who have contributed significantly for bringing out this manual.

**Bhubaneswar,  
Date-16.06.2014**

  
**Pradeep Kumar Biswal**  
**Director, Local Fund Audit & Ex-officio**  
**Additional Secretary to Government,**  
**Finance Department**

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# THE ODISHA LOCAL FUND AUDIT MANUAL

## CHAPTER-1 INTRODUCTORY

### 1.1 AUTHORITY AND SHORT TITLE

This Manual is framed as guidance for the purpose of audit under the provisions of the Odisha Local Fund Audit Act, 1948 (Act V of 1948) and shall be called the “Odisha Local Fund Audit Manual”.

### 1.2 COMMENCEMENT AND EXTENT OF APPLICATION

It shall come into force **(on such date as the State Government may, by notification, appoint)** with immediate effect and shall apply to:-

- (i) the Odisha Local Fund Audit Organisation;
- (ii) the institutions (both Government and Non- Government) whose accounts are subject to audit under the provisions of the Odisha Local Fund Audit Act, 1948; and
- (iii) such other institutions or Organisations as will be determined and entrusted by the State Government from time to time for conducting audit or special audit by the Examiner of Local Accounts.

### 1.3 SUBJECT MATTER

The contents of this Manual are as follows:-

- (i) LFA Act & Rules
- (ii) The principles, procedures and instructions under which audit is to be conducted by the Examiner of Local Accounts of the State;
- (iii) Origin & Evolution of Local Fund Audit Organisation, Organisation structure, Roles & responsibilities of different functionaries etc.

### 1.4 DEFINITIONS

Unless anything repugnant to the subject or the context, the terms defined in this chapter are used in the Manual in the sense explained here under:

(i)	Act	“Act” means the Odisha Local Fund Audit Act, 1948.
(ii)	Auditor	“Auditor” means an Auditor appointed under the provisions of the Act and includes the Examiner of Local Accounts, Deputy Examiner of Local Accounts, Assistant Examiner of Local Accounts, District Audit Officers and Audit Superintendents for the purpose of audit.
(iii)	Audit Superintendent	“Audit Superintendent” is the promotional post of Auditor and shall be filled up as per Rule 12 of Odisha Subordinate Finance Service (Local Fund Audit) Rules, 1970.

(iv)	Audit Camp	“Audit Camp” means the temporary office of the Auditor where he conducts audit.
(v)	Audit Party	“Audit Party” means the party consisting of one Audit Superintendent and/or two or more Auditors engaged to conduct audit of an account.
(vi)	Audit Report	“Audit Report” means the Report on the findings of audit of an account conducted by the Auditor and duly signed by the Auditor and submitted by him as per sub-section (1) of Section ‘8’ of OLFA Act, 1948.
(vii)	District Audit Officer	“District Audit Officer” means an Officer appointed under the Act as the Head of the District Level Office of this Organisation.
(viii)	Assistant Examiner of Local Accounts	“Assistant Examiner of Local Accounts” means an officer of the State Government appointed as such under the Act.
(ix)	Deputy Examiner of Local Accounts	“Deputy Examiner of Local Accounts” means an Officer of the State Government appointed as such under the Act.
(x)	Examiner of Local Accounts	“Examiner of Local Accounts” means an officer of the State Government appointed as such under the Act as the Head of this Audit Organisation.
(xi)	Government	“Government” means the Government of Odisha.
(xii)	Local Accounts	“Local Accounts” means the accounts of the Local Authority other than a Cantonment Authority.
(xiii)	Local Authority	“Local Authority” means the Authority of the Local Body.
(xiv)	Local Body	“Local Body” means a body constituted under the provisions of any Act.
(xv)	Local Fund	“Local Fund” means any fund not being a cantonment fund to the control or management of which a Local Authority is legally entitled and any cess, rate, duty or tax which such Authority is legally entitled to impose and any property vested in such authority.
(xvi)	Rules	“Rules” means the Odisha Local Fund Audit Rules, 1951.
(xvii)	State Head Quarters	“State Head Quarters” means the office of the Examiner of Local Accounts.
(xviii)	Year	“Year” means a financial year beginning with 1 <sup>st</sup> day of April of a calendar year and ending with 31 <sup>st</sup> March of the next calendar year.

## **CHAPTER -2 ORIGIN AND EVOLUTION**

### **2.1 INTRODUCTION**

#### **(i) ORIGIN AND EVOLUTION OF THE LOCAL FUND AUDIT ORGANISATION**

The Origin of the Local Fund Audit Organisation dates back to the pre-independence era. It came into existence under the provisions of the Bihar and Odisha Local Fund Audit Act, 1925 and was attached to the then Accountant General's Office. The Audit Organisation continued to function under the provisions of the aforesaid Act until the Odisha Local Fund Audit Act, 1948 (Act V of 1948) was enacted and came into force with effect from the 1<sup>st</sup> day of June 1952 in the State.

At the outset of its functioning under the provisions of the Odisha Local Fund Audit Act, 1948, there were two separate Local Fund Audit Organisations functioning simultaneously viz. one for audit of the accounts of the Urban Local Bodies, Religious Endowments etc. under the Administrative control of Finance Department and the other for audit of the accounts of Panchayat Samities and Zilla Parishads under the Administrative Control of the Community Development and Rural Reconstruction Department. In order to unify both the Audit Organisations the unit functioning under the Community Development and Rural Reconstruction Department was transferred to the administrative control of Finance Department with effect from the 1<sup>st</sup> day of January 1966 vide Finance Department Notification No.-107/Aud. dated the 14<sup>th</sup> January, 1966 and subsequently the Local Fund Audit Organisation under Finance Department was reorganized for audit of accounts of Panchayat Samities, Zilla Parishads and Urban Local Bodies vide Finance Department Resolution No.-2489-Estt-37/66-Aud. dated the 17<sup>th</sup> September, 1966.

Further, the Gram Panchayat Audit Organisation which was functioning under the administrative control of the Panchayati Raj Department was transferred to the administrative control of Finance Department with effect from the 1<sup>st</sup> day of April 2003 consequent upon the decision of the State Government to implement the recommendations of the Eleventh Finance Commission vide Finance Department Notification No.-2261/F-XIV-AUD-18/2002 dated 31.03.2003.

### **2.2 JURISDICTION OF THE ORGANISATION**

Under the provisions of section 3 of the Odisha Local Fund Audit Act, 1948, the accounts of any Local Authority, whose accounts are declared by the Provincial Government, by notification, to be subject to audit under this Act comes under the Jurisdiction of the Local Fund Audit Organisation. As such, Auditor of this Audit Organisation has been declared as the "Statutory Auditor" for the following Local Bodies under the provisions of their respective Acts and Rules.



**(i) Statutory Institution**

<b>Sl. No</b>	<b>Category / Name of the Local Bodies</b>	<b>No of Auditee Institutions</b>	<b>Reference to their Statutory Provisions</b>
1	Zilla Parishads	30	Under Section -16 of O.Z.P.(Amendment) Act, 2000
2	Panchayat Samities	314	U/S-31(1) of O.P.S & Z.P. Act, 1959.
3	Gram Panchayats	6236	U/S-100(2) of O.G.P. Act-1964 and O.G.P. (Amendment) Act,2003
4	Urban Local Bodies (Municipalities/ NACs)	103	U/S-113 of O.M.Act,1950
5	Development Authorities	08	U/S-81(2) of O.D.A Act,1982
6	Improvement Trusts /Town Planning Authorities	13	U/S-122 of O.T.P. & I.T. Act 1956
7	Board of Secondary Education, Odisha	01	U/S-29 of O.S.E. Act,1979
8	Council of Higher Secondary Education, Odisha	01	U/S-30(2) of O.H.S.E Act
9	All Universities except O.U.A.T, University of Culture & B.P.U.T	07	U/S-23(1) of Orissa Universities Act,1989
10	O.U.A.T, Odisha	01	U/S-60 Of Statute and U/S-32 of OUAT Act 1965
11	University of Culture	01	U/S-31(2) of the Act
12	B. P. U. T., Odisha	01	U/S-28(2) of BPUT Act,2002
13	Aided Educational Institutions (Colleges, H. S., MEs, Madrasas & Sanskrit Tolls)	9000	U/S-12 of Odisha Aided Educational Institutions Act, 1969
14	O. K. & V. I. Board, Odisha	01	U/S-31 of O.K&V.I Act, 1955
15	Western Odisha Development Council	1	U/S-16(3) of W.O.D.C. Act,2000

**(ii) Non-Statutory Institutions**

Apart from the above statutory audit this organisation has also been entrusted with non-statutory audit of accounts of 203 Miscellaneous Institutions and 398 nos. of Religious Endowments.

### **2.3 OTHER ASSIGNMENTS**

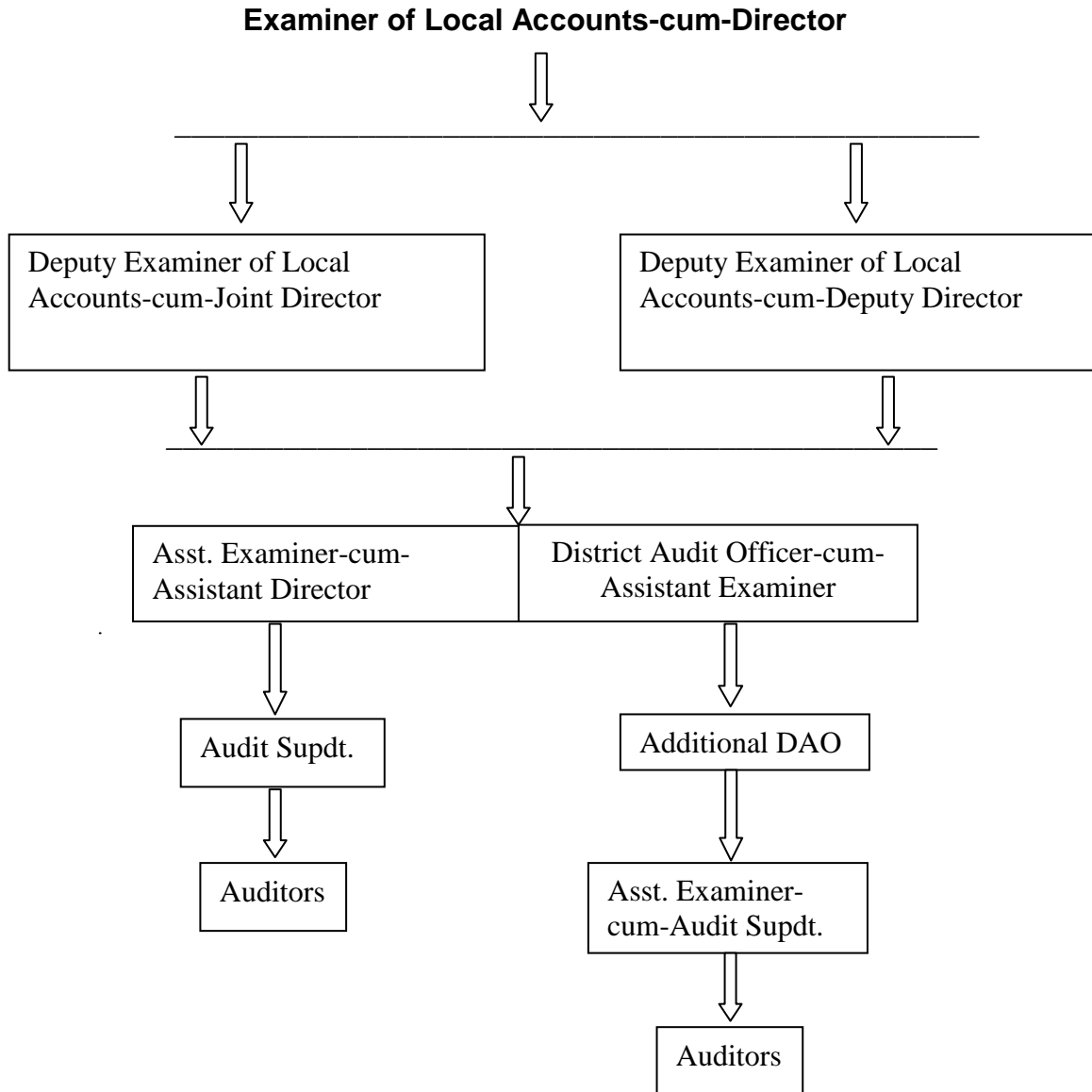
Besides conducting audit of the accounts of the Institutions specified above, the Local Fund Audit Organisation has also been entrusted with certain additional functions as detailed below:-

- (a) Checking of the fixation of pay of the Municipal Employees of the State under the provisions of the revised scales of pay Rules as and when the pay scales of the Employees are revised.
- (b) Checking of the pension of the retired and deceased Municipal employees of the Local Fund Service Cadre.

### **2.4 STRUCTURE OF LOCAL FUND AUDIT ORGANISATION**

The Local Fund Audit Organisation is headed by the Examiner of Local Accounts-cum-Director who is assisted by two Deputy Examiner-cum-Joint Directors, three Deputy Examiner-cum-Deputy Directors and four Assistant Examiner-cum-Assistant Directors. Besides, this Audit Organisation is having 23 District Audit Offices headed by District Audit Officers covering 30 nos. of Revenue Districts. Apart from these Departmental Authorities, there are 9 Additional District Audit Officers, 103 Audit Superintendents and 647 Auditors placed at the State Headquarters and District Offices to carry on the business under the Act. The Organisational structure of the Audit Organisation is as follows:-

# ORGANISATION STRUCTURE



## 2.5 SANCTIONED POSITIONS

The existing sanctioned position of the Local Fund Audit Organisation in respect of both the State Head Quarters and District level is as follows.

Sl. No.	Name of the Post	Sanctioned Strength	
		Head Quarter	District Audit Offices
1	Director	1	-
2	Joint Director	2	-
3	Deputy Director	3	-
4	Assistant Director	4	-
5	District Audit Officer	-	23
6	Additional District Audit Officer	-	9
7	Establishment Officer	1	-
8	Audit Superintendent	08	95
9	Auditor	45	602
10	Section Officer	2	-
11	Jr. Programmer	1	-
12	Personal Assistant	1	-
13	Sr. Assistant	2	-
14	Jr. Assistant	4	-
15	Head Clerk	-	23
16	Senior Clerk	-	33
17	Junior Clerk	-	51
18	Diarist-cum-Despatcher	-	19
19	Sr. Stenographer	3	-
20	Jr. Stenographer	5	19
21	Senior Grade Typist	-	07
22	Junior Grade Typist	-	23
23	Data Entry Operator	4	30
24	Driver	1	04
25	Treasury Sarkar	-	13
26	Peon	12	201
27	Chowkidar	1	11

## **2.6 ROLE OF AUDIT IN FINANCIAL ADMINISTRATION**

In view of the present socio-economic condition of the state and utilisation of huge amounts of money for various developmental programmes / schemes in both Rural and Urban Sectors, the role of audit has become very important. In such a stage, the responsibility of audit is not only to verify the accuracy and completeness of accounts maintained, but also to disclose in a clear and firm language, the defalcation, misappropriation, fraud or misuse of public fund, if any, by the authority concerned that come to the notice of the auditor. Such disclosure will act as a deterrent to the tendency of the unscrupulous officials to commit irregularities in the sphere of financial administration. On the other hand, the recommendations/suggestions of audit will help the executives / local authorities to be prudent while spending public money, to remain cautious, to maintain integrity and uprightness in financial transactions. Besides, the comments of audit on the financial administration of a local body will also develop awareness among the public regarding management of tax payers' money by the Government or by the local authorities. Therefore, the audit functions as a guide in the matter of financial administration of Local Authorities instead of being a fault finding machinery.

## CHAPTER-3

### THE ORISSA LOCAL FUND AUDIT ACT, RULES AND NOTIFICATIONS

#### The 13th May 1952

No.534 -L.S.G.-In exercise of the powers conferred by sub-section(3) of section 1 of the Odisha Local Fund Audit Act, 1948 (Odisha Act V of 1948), the Governor of Odisha is pleased to appoint the 1<sup>st</sup> day of June, 1952 as the date with effect from which the said Act shall come into force in the State of Odisha.

#### THE ORISSA LOCAL FUND AUDIT ACT (Act V of 1948)

Whereas, it is expedient to consolidate and unify the law relating to the audit of local funds in the Province of Odisha and to provide for a uniform procedure for the audit of local funds therein;

It is hereby enacted as follows:-

#### 1. Short title, extent and commencement

- (1) This Act may be called the Odisha Local Fund Audit Act, 1948.
- (2) It extends to the whole of the Province of Odisha.
- (3) It shall come into force on such date as the Provincial Government may, by notification, appoint.

#### 2. Definition

In this Act, unless there is anything repugnant in the subject or context;

- (a) "auditor" means an auditor appointed under this Act ;
- (b) ["Examiner of Local Accounts" means the Examiner of Local Accounts appointed under section 4 and includes any officer for the time being performing the duties of the Examiner of Local Accounts; and] ----- substituted by Amendment Act,1976.
- (c) "Local fund" means any fund not being a Cantonment fund to the control or management of which a Local authority is legally entitled and any cess, rate, duty, or tax which such authority is legally entitled to impose and any property vested in such authority.

#### 3. Liability of Local Authority to submit its accounts to audit

(1) Notwithstanding anything contained in any enactment by which a Local authority is constituted, the accounts of any Local authority whose accounts are declared by the Provincial Government by notification to be subject to audit under this Act, shall be subject to audit in all respects in the manner provided by or under this Act and any provision in any such enactment or in any bye-law or rules made under such enactment inconsistent with or repugnant to the provision of this Act or of any rule made there under shall, to the extent of such inconsistency or repugnancy, be deemed to have been repealed by this Act.

[(2) Save as otherwise provided in section 8, where the audit of accounts of any Urban Local Body and Panchayati Raj Institution is undertaken by the Comptroller and Auditor-General under section 20 of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, he shall have the right to comment on and supplement to the report of the Examiner of Local Accounts, and the report of such audited accounts shall be laid by the State Government, as soon as may be after it is received, before the Legislature of the State.

*Explanation-* For the purpose of this section, the expression "Urban Local Body" and "Panchayati Raj Institution" shall respectively mean a "Municipality" as defined in clause (e) of article 243-P of the Constitution of India and a "Panchayat" as defined in clause (d) of article 243 thereof.] ----- inserted by Amendment Act, 2011.

**4. [Appointment of Examiner, Deputy Examiner and Assistant Examiner of Local Accounts and Auditors-**

- (1) The State Government may, by notification, appoint an officer of the State Government to be the Examiner of Local Accounts and they may also appoint such number of Deputy Examiner of Local Accounts and Assistant Examiner of Local Accounts as they deem necessary.
- (2) The Deputy Examiner of Local Accounts and the Assistant Examiner of Local Accounts shall exercise such powers and perform such functions of the Examiner of Local Accounts as the State Government may, by notification, assign.
- (3) The Examiner of Local Accounts may, with the approval of the State Government, appoint such number of Auditors of Local Fund as he considers necessary." ] ----- inserted by Amendment Act, 1976.

**5. Auditor to be deemed to be public servant**

An auditor shall, for the purpose of the powers and duties conferred and imposed on him by or under this Act be deemed to be a public servant within the meaning of section 21 of the Indian Penal Code.

**6. Power of auditor to require production of documents and attendance of persons concerned, etc.**

For the purpose of any, an auditor may-

- (a) by summons in writing or by letter require the production before him of any document which he may deem necessary for the proper conduct of the audit;
- (b) by summons in writing require a whole-time paid servant of the Local Authority accountable for, or having the custody or control of any such document to appear in person before him at any such audit; and

- (c) require any such person to make and sign a declaration with respect to such document or to answer any question or prepare and submit any statement relating thereto.

**7. Penalty for disobeying direction of auditor**

Any person who wilfully neglects or refuses to comply with any direction of the auditor under section 6 shall be liable on conviction before a Magistrate to a fine not exceeding one hundred rupees:

Provided that no proceedings under this section shall be instituted except with the previous written sanction of the Examiner of Local Accounts.

**8. Audit Report**

(1) As soon as possible after the completion of the audit the auditor shall prepare a report on the accounts audited and examined and shall deliver such report to the Examiner of Local Accounts who shall forward a copy thereof to the Local authority concerned.

[(2) After receipt of the audit reports from the auditors under subsection(1) in respect of different Local Authorities, the Examiner of Local Accounts shall prepare and submit to the State Government in each financial year a consolidated report containing such particulars and on or before such date as may be prescribed by the rules.

(3) The State Government shall cause every report received by it under sub section(2) to be laid , as soon as may be after it is received, before the Legislature of the State.] ----- inserted by Amendment Act, 2011.

**9. Power of Examiner of Local Accounts to surcharge or charge illegal payment or loss incurred by negligence**

(1) The auditor shall include in his report a statement of:-

- (a) every payment which appears to him to be contrary to law;
- (b) the amount of any deficiency or loss which appears to have been incurred by the negligence or misconduct of any person; and
- (c) the amount of any sum which ought to have been but is not brought into account by any person.

(2) After considering such report the Examiner of Local Accounts may:-

- (a) order that any payment referred to in clause (a) of sub-section (1) shall be allowed or that no further action shall be taken as regards any amount referred to in clause(b) or clause(c) of the said sub-section, or .
- (b) serve a notice on the person making or authorizing any such payment or the person responsible for or failing to account for such amount, requiring him to show cause



within one month why such payment should not be surcharged or such amount should not be charged against him.

- (3) After considering such cause as may be shown by any such person, the Examiner of Local Accounts may surcharge such payment on the person making or authorizing such payment or charge the amount of any loss or deficiency against the person responsible therefore or any amount which ought to have been but is not brought into account against the person failing to account for such amount and shall in every such case certify the amount due from such person.

**10. Recovery of surcharge and charges-**

- (1) Any amount certified under section 9 as due from any person shall, if not paid by such person within one month next after the date of the certification thereof, be recoverable from him as an arrear of land revenue under the provisions of the law for the time being in force for the recovery of arrears of land revenue.
- (2) For the purposes of this Act, the Collector shall be deemed to be the person to whom the amount recoverable under sub-section (1) shall be payable,
- (3) The Collector shall pay all certified amounts received by him under sub-section (2) to the local authority concerned.

**11. Appeal from order of surcharge or charge-**

- (1) Any person aggrieved by any surcharge or charge made, may, within fourteen days from the date of communication of such order, appeal to such authority as the Provincial Government may appoint in this behalf to set aside such surcharge or charge and the authority so appointed after making such enquiries as it considers necessary, may pass such orders as it thinks fit.
- (2) Pending the disposal of such appeal all proceedings for recovery of the certified amount shall be stayed.

**12. Payment of expenses incurred in civil suit-**

- (1) All expenses incurred by the Collector in any suit that may be brought in a Civil Court under the provisions of the law for the time being in force for the recovery of arrears of land revenue shall, in the first instance, be borne by the Provincial Government.
- (2) The Provincial Government may recover from the local authority concerned such amount as may be decreed as costs in favour of the local authority and any amount so recoverable shall be paid to the Provincial Government by such local authority.

**13. Charges in respect of audit to be payable out of local funds**

All expenses incurred by a local authority in complying with any requisition of the auditor under clause (b) of section 6 shall be payable out of its local funds.

**14. Powers to make rules**

- (1) The Provincial Government may, subject to the condition of the previous publication, make rules to carry out the purposes of this Act.
- (2) In particular and without prejudice to the generality of the foregoing power such rules may provide for -
  - (a) the manner in which a local authority shall keep accounts in cases in which no such provision or, in the opinion of the Provincial Government, insufficient provision is made by the enactment under which such authority is constituted ;
  - (b) the powers and duties of auditors and the procedure to be followed by them for conducting an audit and the times and places at which such audit may be conducted;
  - (c) for the recovery by the Provincial Government from a local authority of expenses incurred by the Collector under section 10 or the Provincial Government under section 12; and
  - (d) the powers and duties of the Examiner of Local Accounts.

**15. Repeals and Savings**

- (1) The enactments specified in the Schedule are hereby repealed to the extent mentioned in the fourth column thereof.
- (2) The provisions of this Act shall not apply to any case, suit, appeal, revision petition or any other proceedings that may be pending at the commencement of this Act before an auditor, or the Civil Court, or the Provincial Government and the law in force immediately before the commencement of this Act shall, notwithstanding any repeal effected by this Act, continue to apply to such cases suits, appeals, revision petitions and other proceedings.

**SCHEDULE**  
**(See Section 15)**  
**Enactments Repealed**

<b>Year</b>	<b>Number</b>	<b>Short title</b>	<b>Extent of repeal</b>	
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	
1952	II	The Bihar and Odisha Local Fund Audit Act, 1925	The Whole	
1936	I	The Odisha Laws Regulations, 1936	The following entry in part-II of the Fourth Schedule, namely:-	
			1925.II The Bihar and Odisha Local Fund Audit Act, 1925	The arrears transferred to Odisha, the Central Provinces”

**THE ODISHA LOCAL FUND AUDIT RULES, 1951**  
**DEVELOPMENT DEPARTMENT NOTIFICATION**  
**The 5th February 1952**

No. 991-L.S.-G.-In exercise of the powers conferred by section 14 of the Odisha Local Fund Audit Act, 1948 (Odisha Act V of 1948), the Governor of Odisha is pleased to make the same having been previously published as required under sub-section (1) of the said section after the said Act:

**THE ODISHA LOCAL FUND AUDIT RULES, 1951**

**1. Short title**

These rules may be called "The Odisha Local Fund Audit Rules, 1951."

**2. Interpretation**

In these rules, unless there is anything repugnant in the subject or context all words and phrases shall have the same meanings as assigned to them by the Odisha Local Fund Audit. Act, 1948 (Odisha Act V of 1948), hereinafter referred to as "the Act."

**3. Information of audit**

The auditor shall send notice to the local authority concerned of his intention to audit the accounts of such authority at least two weeks before the date on which he intends to commence such audit and shall, as far as possible, send with such notice a list of all documents or records which he may require for the purpose of such audit. The notice shall be sent by registered post with a pre-paid acknowledgement or when the auditor is at the same station by a messenger who shall obtain an acknowledgement of receipt. He shall, if necessary, call for any other documents required during the course of audit on a separate requisition which should be acknowledged by the Executive Officer or by the head of the ministerial establishment.

**4. Attendance**

For the purpose of conducting an audit the auditor shall attend during the regular office hours, at the office of the local authority concerned except in cases where the Examiner of Local Accounts shall decide otherwise.

**5. Removal of office records**

The auditor shall not, except with the written permission of the head of the office of the local authority whose accounts are being audited, remove from such office any books, vouchers or documents of any kind whatsoever.

**6. Communication with heads of offices**

The auditor shall not, except to the extent specially authorized by the Examiner of Local Accounts, correspond direct with the Chairman, Vice-Chairman or other managing authority of a local authority whose accounts are being audited other than for the purposes of reporting an embezzlement

or any case which may result in surcharge or making any inquiry in connection with the audit or any delays in the return of objection statements or as provided under the Act and rules framed thereunder.

#### **7. Duties of auditors in checking accounts**

In auditing the accounts the auditor shall see that they have been kept and are presented in proper forms; that the particular items of receipts and expenditure are stated in sufficient detail, that the payments are supported by adequate vouchers and authority. He shall examine whether all sums received or which ought to have been received, have been brought into account, whether the expenditure is in all cases such as might lawfully be made and whether any loss has been incurred by the negligence or misconduct of any person.

He shall verify the authority under which trading, e. g., printing presses, have been sanctioned and ascertain that a separate account is maintained properly for every such undertaking.

#### **8. Audit marks**

In auditing the accounts the auditor shall tick or cross tick all entries checked by him and initial all vouchers with the special audit pencil.

#### **9. Change of auditor during an audit**

Where an auditor is relieved by another auditor during the currency of an audit, he shall deliver to him an exact statement of the audit completed up-to-date. This statement shall be filed in the office of the Examiner of Local Accounts. The officer relieved shall also draft the paragraphs for the audit report regarding the audit done by him before he makes over charge, and deliver him to the relieving officer, taking his acknowledgment, therefor. Both auditors will sign the report, a note being made to show the responsibility of each.

#### **10. Audit requisitions**

When any document is not produced after a summon issued by the auditor under clause (a) of sections 6 of the Act the auditor shall send a written report of the failure to produce such document to the Chairman, Vice-Chairman or other managing authority of the local body concerned. If the required document is not produced in spite of this written report the whole case shall be submitted to the Examiner of Local Accounts. No document shall be left un-audited without the expressed orders of the Examiner of Local Accounts in each case.

#### **11. Period of audit**

The auditor shall audit all accounts up to the end of the financial year for which complete accounts have been prepared notwithstanding that such account may not have been audited by the Finance Committee, if such a committee has been appointed. The revenue side or the account shall be checked by the auditor up-to-date.

## **12. Period of audit of municipal accounts**

In auditing municipal taxation accounts, the auditor shall include the current quarter's or half year's account as the case may be if collections for that quarter or half year as the case may be have started, and shall include in his verification of the outstanding taxes those of the current quarter or half year as the case may be. If owing to delay in starting collection or the incompleteness of the register of that quarter or half year as the case may be the auditor is unable to audit the taxation accounts beyond the close of the last completed quarter or half year as the case may be, he shall audit the accounts of other receipts up to the latest month for which they have been completed without regard to the state of the taxation accounts .

## **13. Embezzlements**

When any embezzlement is detected or may reasonably be inferred from any suspicious circumstances or irregularity in the accounts, the auditor shall report the circumstances immediately in writing to the Chairman or the managing authority of the local body concerned and also to the Examiner of Local Accounts. When the fraud or embezzlement has been fully investigated by the auditor he shall submit a complete report of the case to the Examiner of Local Accounts who may, if he considers it necessary order, for a detailed up-to-date audit and inform the State Government of the circumstances rendering such audit necessary.

## **14. Form of the report**

The result of each audit shall be recorded in two parts viz., (i) the schedules and (ii) the report prescribed by section 8 of the Act. The schedules shall deal with technical irregularities, defects and omissions in accounts and registers. They shall be in **Forms A and B**. **Form A** shall contain technical irregularities in payment and adjustment vouchers and **Form B** (technical irregularities, defects and commissions in accounts, and registers.) The schedules shall be left in the local office till the next audit, when the next auditor shall examine them to see that every item has been disposed of. The adequacy of action taken on them by the local authority shall be seen at the next audit.

## **15. Check of recovery of sums surcharged**

Immediately before taking up an audit, the auditor shall call for all papers from the office of the Examiner of Local Accounts in connection with the surcharge cases pertaining to the local authority whose accounts are about to be audited and shall check with the Local records all items of money noted in the statement appended to the previous audit reports under sub-section (1) of section 9 of the Act and satisfy himself that they have been duly credited to the local fund and that all cases in which no action has been taken or no refunds made are covered by the orders of competent authority.

## **16. Objection settlement**

Any enquiry which it is necessary for the auditor to make either on the subject of accounts, registers or, other matters, shall be made through objection statement in **Form-C**. The auditor shall issue statements day by day as the audit proceeds and shall obtain the dated initials of the Executive Officer, or of the head of the ministerial establishment both on the statements and in a memo of objection statements in **Form-D**. These statements shall be returned with the least possible delay over the dated initials of the head of the office and shall show the action which has been taken or which it is proposed to take to settle the objections raised or the replies to the enquiries made. On receipt of replies to the points raised, the auditor shall re-issue for further action or reply any items on which final or sufficient action has not in his opinion been taken on which the enquiries made have not been satisfied. Such re-issues shall be prominently indicated in the memo in **Form-D**. He shall bring any items of previous reports which have not been disposed of when he leaves the office, the accounts of which he is auditing to the personal notice of the head of the office. A list of such items shall be attached to the report **Form E**.

## **17. Time allowed for replies to objection**

All objection statements shall be returned to the auditor from one to three clear working days before the close of the audit, according as he shall direct whether the objections have all been replied to or not. The auditor shall have his report and schedules completely written up by the close of the audit.

**18.** The objection statements shall include not only objections raised on payment vouchers but every sort of objection and remarks which the auditor raises or makes.

## **19. Matter to be included in the note**

Objections admitted or questions settled during the course of an audit shall be noted in the report only if the irregularity is a serious one, or if a defect of system or error in principle has been brought to light and has not been permanently removed. Apart from any matter required to be included under sub-section (l) or section 9 of the Act, the audit report shall be confined to matters of a general nature which cannot be disposed of by the auditor. All un-rectified objections relating to a previous audit shall be specially brought to notice.

## **20. Powers and duties of auditors**

The auditor shall-

- (a) Before commencement of audit, verify the cash balances, the securities held by a local authority, the postage stamps and also the stock of saleable forms unspent balance of permanent advance undischarged pay, statements of Revenue Court Fee Stamps and printed Forms kept for issue of receipts for payments received. The

result of verification shall be recorded in the relevant book so that the audit reaches that stage of check he can see if the actual balance agrees with the book balance;

*[(a) inserted by notification No- 2862-L.S.G., dated the 2<sup>nd</sup> August 1957]*

- (b) append to his reports a statement of assets and liabilities, indicating the financial position of the local authority concerned. Such fixed assets as land, buildings, plant machinery, tools etc. shall therefore, be excluded from the statement and only liquid assets such as cash (in hand or in the treasury, bank or post office), investments, loans, advances and outstanding rents and rates and such liabilities as unspent balances of earmarked grants, contributions payable, deposits, unpaid bills, etc. shall be included in it;
- (c) report whether money borrowed on the security of allocated revenues or received as a grant from Government or other source for a specific purpose has been expended on such purpose;
- (d) whether a sinking fund has been prescribed, report whether it is being properly kept up;
- (e) report whether all advances, loans and investments by the local authority are fully secured;
- (f) detail in his report all loans contracted by the local authority and state if the prescribed provision has been made for the repayment of the principal and interest out of the revenues of the local authority concerned;
- (g) where separate accounts for any trading or undertaking are maintained certify whether in his opinion the accounts present a true and correct view of the results of the trading or undertaking for the period under investigation;
- (h) certify in his report the correctness of the annual account (unless none has been prescribed for which the accounts have been completely audited);

## **21. Further instructions regarding report**

The auditor shall-

- (a) state in the first paragraph of the report when the audit was taken up, when it was completed and how many working days were actually occupied in the audit.
- (b) state the date up to which the accounts have been passed by the Finance Committee, if any, and examine and report on the system of check exercised by it ;
- (c) state in his report if in his opinion any reserve fund should be opened e. g. a depreciation reserve fund;
- (d) attach to his audit report a statement showing
  - (i) cash recoveries on audit objections;
  - (ii) money saved by the detection of embezzlements in audit; and
  - (iii) saving due to miscellaneous causes;

- (e) at the end of his report give a very brief resume of the matters dealt with in the report and conclude with an opinion on the state of the accounts as a whole.

### **22. Embezzlement, etc, detected by the Local Bodies**

Whenever any loss of money or stores by embezzlement, theft, fire or otherwise is discovered the fact shall be promptly reported by the Chairman to the Examiner of Local Accounts who will consider whether he shall direct that an audit be made with a view to taking action under section 9 of the Act.

### **23. Powers and duties of Examiner of local Accounts**

The Examiner of Local Accounts shall exercise general supervision and control over the discharge by the auditors of their duties under the Act.

**24. (1)** The Examiner of Local Accounts may condone a payment made from a Local Fund or a short realization of revenue which appears to him to be contrary to law and rules, provided that-

- (i) in his opinion there was no negligence or misconduct on the part of the person making or authorising such payment or short realization of revenue;
- (ii) such payment or failure to realize the revenue was bonafide and a similar payment from the same local fund or short realization or revenue had not been condoned before ; and
- (iii) such payment or short realisation does not exceed Rs 50/-

(2) The Examiner of Local Accounts shall submit to the State Government a report of all such condonations with the reasons for each such condonation annually by the 25th of May.

### **FORM 'A'**

Irregularities in payment and adjustment voucher to be disposed of finally before the next audit.

Serial No	Voucher			Particular of charges	Nature of objection and instruction
	No	Date	Amount		
1	2	3	4	5	6

### **FORM 'B'**

Irregularities and omissions in accounts and registers (other than those detailed in Form-A) with instructions and suggestions for future guidance.

Serial No	Particulars	Instructions or suggestion



**FORM 'C'**

Audit objection on the accounts of ..... for.....

Date of transaction and number of voucher	Particulars of transaction	Objection or suggestion	Reply of Local Authority	Notes of admission or further remarks by auditor	Further explanation by local authority	Final remarks of auditor
1	2	3	4	5	6	7

Received on Initials  
Designation

Returned on Initials  
Designation

Re-issued on Initials  
Designation

Returned on Initials  
Designation

**FORM 'D'**

**Daily objection statement issued and received  
back..... Office Report No.....of 20....**

Page of objection statement	Dated initials of Secretary or Head of Ministerial establishment	Date	Page of objection statement	Dated initials of Auditor	Remarks
1	2	3	4	5	6

**FORM 'E'**

**Unrectified objection of previous audit reports**

1. Date of transaction and number of voucher.....
2. Reference to previous audit reports.....
3. Particulars of transaction.....
4. Objection or suggestions.....
5. Reply of Local Authority.....
6. Notes of admission or remarks by Auditor.....

**By order of the Governor**

**V. S. TILAK  
Secretary to Government**

## CHAPTER-4

### GENERAL PRINCIPLES, OBJECTIVES, MANDATE, METHODOLOGY, STANDARDS & ETHICS

#### 4.1 PRINCIPLES OF AUDIT

The basic principles of audit as defined in “An introduction to Indian Government Accounts and Audit” (paragraph-19) is that Audit should be conducted by an agency independent of the authority charged with the duty of carrying on the business and of maintaining accounts of transactions, which pass through his hands. The intention behind such independence is to give free hand to the Auditors to point out, without fear or favour, any irregularity or impropriety in financial transactions, if detected in audit. The audit must see the following:-

- (i) That all amount receivable are duly received, credited to the proper head of accounts and lodged in the nearest Government Treasury, so far as audit of receipts are concerned.
- (ii) As regards expenditure, its main duty is to see :
  - (a) that it is warranted by the Act, and that no amount is disbursed without proper authority and provision of funds in the budget;
  - (b) that the expenditure is necessary for the public service and not prima facie extravagant;
  - (c) that the payment is, as a fact, made to the proper person and that has been so acknowledged and recorded that a second claim on the same account is impossible; and
  - (d) that the vouchers are in the prescribed form and that they are otherwise in order.

Besides, the Auditor, in auditing the accounts shall also examine:-

- (i) that the accounts of the Local Body have been kept and presented in proper forms;
- (ii) that the particular items of receipt and expenditure are stated in sufficient detail;
- (iii) that the payments are supported by adequate vouchers and authority;
- (iv) whether all sums received or which ought to have been received, have been brought to the accounts;
- (v) whether the expenditure has been incurred lawfully;
- (vi) whether any loss has been sustained by the negligence or misconduct of any person;
- (vii) whether a separate account has been maintained by the authority where the trading activities are undertaken; and
- (viii) that the revenue of the Local Authority is not utilised for the benefit of a particular person or a section of the community unless:-

- (a) the amount of expenditure involved is insignificant, or
- (b) a claim for the amount could be enforced in court of law, or
- (c) the expenditure is in pursuance of a recognised policy or custom.

Further-

- (i) The auditor should regard himself not only as an examiner of Local Accounts but also as a financial advisor of the Local Authorities, whose accounts are audited.
- (ii) Auditor shall be careful not to infringe on the questions of administration which have nothing to do with accounts or which are other wise outside the province of legitimate enquiry.
- (iii) The Auditors must be careful to avoid friction with any official with whom they come in contact. They are also forbidden to place themselves under any obligation however trivial to persons connected in any manner with the offices, the accounts of which are subject to their audit.
- (iv) The Auditors must be polite in their behaviour, remarks and language while dealing with the Local Authorities during audit.

#### **4.2 OBJECTIVES**

Audit is an indispensable instrument of financial control. In other words Audit performs, in the financial field, the same functions as the police in the maintenance of Law and order. As such, its main objective is to safeguard the interest of tax payers against any extravagance, carelessness, embezzlement or fraud on the part of the officials dealing with the financial management and to ensure that utilisation of public money has been made with due regularity and propriety and that the rules and orders framed by the Government in regard to the financial matters have been observed in true spirit.

An Auditor, while conducting audit of an Institution, should see that the prescribed rules and regulations with regard to financial matters are strictly observed by the Executives. The main object is to secure value for the tax payers' money by seeing that expenditure is not irregularly and wastefully incurred.

#### **4.3 MANDATE**

- (i) Under the provision of Section-3 of the Odisha Local Fund Audit Act, 1948, the accounts of any Local Authority whose accounts are declared by the Provincial Government by notification to be subject to audit under this Act, shall be audited in the manner provided by or under this Act.
- (ii) Apart from the provisions of the Odisha Local Fund Audit Act, 1948 as mentioned above, the Acts and Rules relating to different Local Bodies, as listed out in para-2 of chapter-2 of this Manual, also provides that the accounts of the respective Local Bodies shall be subject to audit under the provisions of the Orissa Local Fund Audit Act, 1948.

- (iii) Besides, the audit of accounts of some Government, semi Government and Non-Government Organisation has been entrusted to the Local Fund Audit Organisation by orders of the State Government from time to time.
- (iv) Audit of accounts of the Religious Endowments has also been entrusted to this Audit Organisation as per the orders of the State Government. But, conduct of audit of such Religious Endowments except Sri Jagannath Temple, Puri is subject to realisation of "Audit fee" as provided in para-6 of Chapter-13 of this Manual.
- (v) Under the provisions of Rule-13 of the Odisha Local Fund Audit Rules, 1951, the Examiner of Local Accounts, considering the report of the Auditor on misappropriation of cash / embezzlement / fraud or loss of stock & stores or any grave financial irregularities, may order for a special / detailed up-to-date audit on the accounts of such Local Body.
- (vi) If an accounting authority, whether a private institution or a Government undertaking makes a request to the Examiner of Local Accounts to conduct audit of his accounts for a particular period, the Examiner of Local Accounts, if he thinks fit, may take up audit of such institution subject to realization of audit fee.
- (vii) The State Government may also order to undertake special audit of the accounts of any Government or Public undertakings of the Govt of Odisha or Non Government Institutions.
- (viii) Audit should be taken up and completed in all respect within the allotted time and under no circumstance, arrear in audit should be encouraged. However, if any arrear accrues, audit should be taken up for the current as well as arrear years simultaneously.
- (ix) Under the provisions of Rule-11 of the Odisha Local Fund Audit Rules, 1951, the Examiner of Local Accounts can take up audit of accounts for any particular period or any set of financial transactions of any accounting year/years.

## **4.4 METHODOLOGY**

### **4.4.1 AUDIT INTIMATION**

As required under Rule-3 of the Odisha Local Fund Audit Rules 1951, the Auditor shall send notice to the Local Authority concerned in the prescribed form of his intention to audit the accounts of such authority at least two weeks before the date on which he intends to commence such audit and shall, as far as possible, send with such notice a list of all documents or records, which he may require for the purpose of such audit. The notice shall be sent by registered post with a pre-paid acknowledgement or when the Auditor is at the same station, by a messenger, who shall obtain an acknowledgement of receipt.

Apart from the notice to the Local Authority concerned, a copy of the notice shall also be forwarded to the District Collector.

#### **4.4.2 ENTRY CONFERENCE**

In a paradigm shift from the traditional method, to make audit more effective and transparent a new modality has been introduced w. e. f. 01.07.2013 in the process of audit while chalking out plan and programme for audit of Zilla Parishad, Urban Local Bodies, Panchayat Samities, Universities, Boards and other bigger institutions. Entry Conference shall be conducted for smooth conduct of audit and preparation of audit report in a transparent manner.

(a) Entry Conference shall always be held prior to commencement of the audit. It is a meeting between the audit team and auditee institution which is to be held on a date mutually agreed upon through prior consultation. It would be a face to face interaction between the Head of the auditee institution and the audit party.

During the entry conference, the auditor shall make the Institution aware of the purpose of the audit & seek co-operation of the auditee organisation for production of records and supply of information. In the conference an impression shall be given that audit will be fair & transparent to serve the interest of the institution. It is not only a fault finding exercise, rather an endeavour to assist the auditee entity in preparation of error-free accounts and bringing out the systemic deficiencies.

##### **(b) Participants in the Entry Conference**

As the Entry Conference is the foundation of a good audit work & sets the tone of the audit, the following members from both sides shall remain present in the Conference.

- (i) DAO/any Audit Superintendent, as the case may be, to lead the audit team.
- (ii) All members of audit team.
- (iii) Head of the auditee institution or his authorised representative and heads of various branches/sections.

##### **Topics to be discussed**

Following points shall be discussed in the Entry Conference (EC).

- (i) Purpose of the audit – to ensure compliance with rules and provisions and status of accounts.
- (ii) Audit period and audit plan.
- (ii) Scope and coverage of audit.
- (iv) Audit objective and criteria.
- (v) Audit procedure and Technique.
- (vi) Activity of the organisation.
- (vii) Accounting system and reporting activity of the organisation.
- (viii) Internal Control System in the organisation.

- (ix) Co-operation of Local Authority by way of providing unhindered access to documents & information.

After conclusion of E. C., a proceeding of the conference would be prepared and duly signed by both parties and kept in record for future reference.

#### **Preparation of Work Plan**

Each audit team shall be supervised by the DAO/AS, who shall evaluate the workload and distribute the same among the auditors in a reasonable and rational manner for satisfactory conduct of audit. He shall also devise the method and procedure for verification of records and documents and a timeframe for checking of records of different branches by the individual auditors of the team.

All audit staff/officers shall be individually and collectively responsible for quality and quantity of record verification. Senior Auditor would be responsible for analysis of data of audit findings, finalisation of the drafted report with conclusions and recommendations. Audit Superintendent/DAO shall supervise and monitor the performance of audit team on day to day basis and ensure progress of audit work as per the audit plan. He should also identify important issues in course of audit and ensure that no significant issues remain unresolved. Above all, he should ensure that the objectives of audit are fully met.

#### **4.4.3 ATTENDANCE OF AUDITOR AT OFFICE OF LOCAL AUTHORITY**

As provided under Rule 4 of the Odisha Local Fund Audit Rules, 1951, for the purpose of conducting an audit, the Auditor shall attend during the regular office hours, at the office of the Local Authority concerned except in cases, where the Examiner of Local Accounts decides otherwise.

The Local Authority shall provide suitable accommodation and furniture in his office to enable the Auditor / Auditors to discharge his/ their duties without undue interruption and shall render him / them all possible co-operation for smooth conduct and timely completion of audit.

#### **4.4.4 PRODUCTION OF RECORDS, ISSUE OF SUMMONS etc.**

As required under the provisions of section 6 of the Act, an Auditor, for the purpose of audit, may issue summons in writing or intimate by issue of letter requiring the production before him of any document, which he may deem necessary for the proper conduct of audit. Furthermore, it is the statutory obligation of the Local Authorities under the provisions of the Acts and Rules of the respective Local Bodies, as detailed in para-6 of this Manual, to produce the books of accounts before the Auditor or to such other officer of this Audit Organisation, who issues such intimation or requisition.

**Explanation:-** There must be due diligence and circumspection in issuing summons under section-6 of the Act. This power shall not be exercised by any officer not below the rank of District Audit Officer.

#### **4.4.5 OBJECTION STATEMENT**

Apart from the statutory provisions regarding the objection statement, the following executive instructions have also been issued there-on from time to time for necessary guidance of the Auditors.

- (i) In order to assist the Local Officers in the prompt disposal of the objections, Auditors shall as far as practicable list their objection from day to day. For each Department, the Auditor shall as far as practicable issue separate objection statements so that each Department can proceed to take immediate action on its own objections as soon as they are received.
- (ii) All accounts objections which can be removed on the rules being complied with shall be so removed during the audit. Every effort shall be made to reduce to a minimum the audit objections to be dealt with after the conclusion of the audit, and it is a part of the Auditor's duty to render every assistance to the Local Office in attaining this objective.  
The efficiency of an Auditor will largely be judged by his success in having the objections cleared before he/she leaves.
- (iii) The Auditor shall prepare each objection statement in duplicate and issue the first copy of the same to the Local Authority. The duplicate copy of the same shall be with him for reference in case of non return/missing of the original copy at the level of the Local Authority.
- (iv) The objection statements shall include not only objections raised on payment vouchers, but every sort of objection and remarks which the Auditor raises or makes.

#### **4.4.6 REMOVAL OF OFFICE RECORDS**

The Auditors shall not, except with the written permission of the head of the office of the Local Authority whose accounts are being audited, remove from such office any books, vouchers or documents of any kind whatsoever as per the provisions of Rule-5 of the Orissa Local Fund Audit Rules, 1951.

Besides, the Auditor, during the course of audit, should not leave the various accounts records, registers, cheque books, etc as produced before him for the purpose of audit, unguarded, if, for any reason, he goes out of office as by this there is every likelihood of missing of records, cheques etc.

#### **4.4.7 COMMUNICATION WITH HEADS OF AUDITEE INSTITUTIONS**

The Auditor shall correspond with the Accounting Authority / Head of the Office, whose accounts are being audited for the purpose of:-

- (i) production of books of accounts / any document which he may deem necessary for the proper conduct of audit;
- (ii) reporting the misappropriation of cash / embezzlement / fraud, loss of stock & stores or any loss of funds, which may invite surcharge action;

- (iii) making any inquiry in connection with the audit;
- (iv) any delay in the return of audit objection statements issued earlier;
- (v) any other matter relating to audit as provided under the Act and Rules framed there-under.

The Auditor shall not, except to the extent specially authorised by the Examiner of Local Accounts, correspond direct with the Chairman, Vice Chairman or other Managing Authority of Local Body, whose accounts are being audited other than for the purpose mentioned above.

#### **4.4.8 AUDIT MARKS**

- (i) In auditing the accounts, the Auditor shall tick or cross-tick all entries checked by him and initial all vouchers with the special audit pencil.
- (ii) the auditor shall not make notes, corrections or remarks in any of the books of accounts or in any of the documents of the Local Authority, whose accounts are being audited, except the ticks, and cross-ticks of the entries checked by him
- (iii) tick marks, cross-tick marks, question marks, circle marks, initials of auditors on vouchers or other records, remarks such as "Seen", "Checked", "Verified", "verified and found correct", and recording of the results of physical verification of cash and the saleable items in the stock, if any, made in the books of accounts in audit pencil, shall not be treated as defacing of official records.

#### **4.4.9 NON-PRODUCTION OF RECORDS**

When any document is not produced after a summon is issued by the Auditor under clause (a) of section-6 of the Act, the Auditor shall send a written report of the failure to produce such documents to the Chairman, Vice Chairman or other Managing Authority of the Local Body concerned. If the required documents are not produced in spite of this written report, the whole case shall be submitted to the Examiner of Local Accounts through the District Audit Officer for further action in the matter. No document shall be left un-audited without the expressed orders of the Examiner of Local Accounts in each case.

Further, on receipt of the report from the Auditor regarding non-production of accounts records / any such documents, which he deems necessary for the proper conduct of audit in spite of repeated requests to the Local Authority, the District Audit Officer may take the following steps to settle the problems faced by audit.

- (a) He shall proceed or depute an Audit Superintendent to the Local Body concerned to conduct review on the progress of audit going on there and to hold discussion with the Local Authority regarding the non production of records as reported by the Auditor and to settle the problems on the spot for smooth production of records and timely completion of audit.



- (b) If the required records / documents are not produced, the District Audit Officer shall send a detailed report thereon to the Examiner of Local Accounts for necessary action at his level.
- (c) The District Audit Officer may also take up the matter with the Collector / Sub-Collector of the concerned district / sub division under whose administrative control the Local Body comes for necessary administrative action in the matter, if he considers necessary for smooth conduct and timely completion of audit, before reporting the matter to the Examiner of Local Accounts.

Explanation:

- (i) Though the Auditor has been empowered to issue summons, under section-6 of the Act, requiring the production of any record / document necessary for proper conduct of audit there must be due circumspection in issuing the summons. This power shall be exercised by an officer not below the rank of District Audit Officer.
- (ii) For the purpose of section-6(a), the summons may be served not necessarily on the Head of the Offices, but on any whole time paid servant of the Local Authority having the actual custody of the accounts of the Institutions. The details of such records required to be produced before the audit should be stated in the summons. A date with time and place should be fixed for production of these records.
- (iii) Similarly, in case of section-6(b) of the Act, the summons may be issued on the persons actually required to appear before the Auditor in view of his position in the Local Authority as accountable for or having the custody or control of any such document.
- (iv) Summons should not be issued as a matter of routine and in any case not before at least two requisitions issued under due acknowledgement of the Local Authority, have proved infructuous. Proper service and return of the summons should be kept on the appointed date, at the specified place; the summoning officer shall be present at the appropriate time. If the accounts / documents are not produced, a declaration to that effect duly attested by two witnesses viz. any official of the Local Authority or other respectable person should be obtained.
- (v) In case of audit of any institution under the statutory responsibility of the Examiner, where it is necessary to issue summons under Section 6 of the Local Fund Audit Act, 1948, the Auditor should bring such matter to the notice of the Audit Superintendent/District Audit Officer for taking recourse to Section 6 of the Act. In turn, the

Audit Superintendent/District Audit Officer should himself visit the spot to enforce production of records.

In case of bigger institutions like Municipality/Universities, Municipal Corporation etc. if it becomes necessary to issue summons, the Audit Superintendent should report the matter to the District Audit Officer either on the basis of reports received from the Auditor or on his own findings in course of visit to such institution. On such reports or from own supervision, the District Audit Officer, if satisfied that the occasion demands issue of summons, should issue summons and visit the institution for verification of records.

- (vi) In case the documents are not produced in spite of summons, a written report should be submitted to the Chairman, Vice Chairman or any other Managing Authority of the Local Body concerned. If the required documents are not produced, the case should be reported to the Examiner of Local Accounts along with the connected papers for further action in the matter.

#### **4.4.10 MISAPPROPRIATION/EMBEZZLEMENT**

In case of misappropriation/embezzlement, the Auditor shall bring this matter to the notice of the Examiner of Local Accounts through District Audit Officer as provided under Rule 13 of OLFA Rules, 1951.

On receipt of such report from the auditor on embezzlement / fraud/ misappropriation of cash or loss of stock & stores or grave financial irregularities detected in course of audit of the accounts of any Local Body/Auditee institution, the District Audit Officer shall immediately take the following steps before reporting the matter to the Examiner of Local Accounts for further action thereon.

(i) The District Audit Officer himself shall proceed or depute an Audit Superintendent of his office to the Local Body concerned to examine the report of the Auditor on such embezzlement, loss of stock & stores or grave financial irregularities on the spot with reference to the relevant accounts records and registers of the Local Body and submit a detailed verification report thereon.

(ii) In case of embezzlement, loss of stock & stores or grave financial irregularities as reported by the auditor are found to be genuine by the verifying authority, the District Audit Officer, after receiving such verification report from the verifying authority, shall examine such report with reference to the original report of the auditor concerned and send a detailed report on such cases indicating the modus operandi thereof to the Examiner of Local Accounts enclosing the copies of the reports of the auditor and the verifying authority thereon for further action in the matter at his level. He shall send a copy of such report to the concerned

Administrative Department as well as GA (Vigilance) Department for necessary action at their level.

Further, if the Examiner of Local Accounts deems fit he may order for a detailed up-to-date audit on the accounts of the Local Body concerned informing the State Government of the circumstances rendering such audit necessary as per Rule-13 of the Odisha Local Fund Audit Rules-1951.

#### **4.4.11 TIME ALLOWED FOR REPLIES TO OBJECTION**

All objection statements shall be returned to the Auditor from one to three clear working days before the close of the audit, according as he shall direct whether the objections have all been replied to or not. The Auditor shall have his report and schedules completely written up by the close of the audit.

The Local Officer shall settle the objections finally before returning the objection statement to the Auditor but a whole statement may not be held back simply because of inevitable delay in settling one or two objections in it.

#### **4.4.12 DEFERMENT OF AUDIT BY LOCAL AUTHORITY**

It is the statutory obligation of the local bodies, whose accounts are declared by the State Government to be subject to audit under the provisions of this Act, to keep the accounts and registers ready for audit in time and avoid making requests for postponement of audit after receipt of notice (audit intimation) from the auditor. If the prescribed accounts and registers are properly maintained and they are periodically examined and closely supervised there will be no necessity to ask for postponement of audit. Since the accounts of the local authorities subject to this Act shall be audited by the Auditor not less often than once in twelve months unless the State Government or the Examiner of Local Accounts direct other wise and the Auditor proceeds to take up such audit after the close of a financial year, (accounting year) there is less scope for the local authority to ask for postponement of audit on the ground of non-maintenance of accounts .

If any local authority requires to postpone the audit on some valid ground other than that of non-maintenance of accounts, he shall make a written request to the District Audit Officer immediately after receiving the intimation for audit, mentioning the reasons for such postponement under intimation to the auditor concerned.

#### **4.4.13 SUPERVISION OF AUDIT WORK**

It shall be the responsibility of the supervisory staff in charge of the audit parties to ensure smooth and timely completion conduct of audit. For this purpose, the supervisory Staff, particularly the Audit Superintendents, should visit each institution at least twice during the course of audit (in respect of bigger institutions only). Audit of small institutions requiring four to five man-days for completion of audit need not ordinarily be supervised.

While conducting supervision or review on the progress of audit, the supervisory staff shall, not only review the progress of audit and ensure

smooth and timely completion of audit but also solve the problems faced by the Auditors as regards non-production of accounts records and registers or non-cooperation of the local authority to audit, if any, by personal contact with the local authority concerned. No supervision of audit or review on the progress of audit should ordinarily be taken up in case of Gram Panchayats, and aided High Schools etc.

#### **4.4.14 PREPARATION OF DRAFT AUDIT REPORTS**

As provided under section 8 of the Act, after completion of audit the auditor shall, as soon as possible, prepare a report on the accounts audited and examined and shall deliver such report to the District Audit Officer (appointed under the provisions of the Act to discharge the functions of the Examiner of Local Accounts at District office level), who shall forward a copy thereof to the local authority, administrative authorities of the local body concerned and Examiner of Local Accounts as prescribed by the Government.

Rules - 14, 20 & 21 of the Odisha Local Fund Audit Rules 1951 and Section 9 of the Act also prescribe the components and contents of the Audit Report. As such, the report shall contain the following:-

- (i) The result of each audit shall be recorded in two parts, namely (i) the schedules, and (ii) the report and statement prescribed vide section 8 & 9 of the Act. The schedules shall deal with the technical irregularities, defects and omissions in accounts and registers. They shall be in Forms 'A & B' (as provided under Rule-14). Form 'A' shall contain technical irregularities in payment and adjustment vouchers and form 'B' shall contain the technical irregularities, defects and omissions in accounts and registers. The schedules shall be left in the local office till the next audit, when the next auditor shall examine them to see that every item has been disposed of.
- (ii) A statement of
  - (a) every payment which appears to the Auditor to be contrary to law;
  - (b) The amount of any deficiency or loss, which appears to have been incurred by the negligence or misconduct of any person; and
  - (c) The amount of any sum, which ought to have been but is not brought into account by any person;
- (iii) The result of physical verification of cash, securities held by the Local Authority, postage stamps, the stock of saleable forms, unspent balance of permanent advance, Revenue court fee stamps and printed forms kept for issue of receipts for payments received.
- (iv) A statement of assets and liabilities is to be appended. Fixed assets such as land, buildings, plants & machineries, tools etc. shall be excluded from the statement and only liquid assets such as cash in hand or in the treasury, bank or post office,

investments, loans & advances, outstanding rents and liabilities such as unspent balances of earmarked grants, contributions payable, deposits, unpaid bills etc. shall be included in it.

- (v) Comments as to whether money borrowed on the security of allocated revenues, or received as a grant from Government or other source for a specific purpose has been expended for such purpose.
- (vi) Where a sinking fund has been prescribed, comments whether it is being properly kept.
- (vii) Comments whether all advances, loans and investments by the Local Authority are fully secured.
- (viii) Details of all loans contracted by the Local Authority and state if the prescribed provision has been made for the repayment of the principal and interest out of the revenues of the Local Authority concerned.
- (ix) Where separate accounts for any trading or undertaking are maintained, it has to be certified whether the accounts present a true and correct view of the results of the trading or undertaking.
- (x) Certify in his report the correctness of the annual accounts.
- (xi) State in the first paragraphs of the report when the audit is taken up, when it is completed and how many working days are actually consumed in audit.
- (xii) State, if in the opinion of auditor any reserve fund should be opened, e. g. a depreciation reserve fund.
- (xiii) The audit report should contain a statement showing:-
  - (a) cash recoveries on audit objection;
  - (b) money saved by detection of embezzlement in audit; and
  - (c) savings due to miscellaneous causes;
- (xiv) at the end of the report, a very brief resume may be given on the matters dealt in the report and concluding remark on the State of the accounts be furnished.
- (xv) objections admitted or settled during the course of an audit shall be noted in the report.

Apart from the instructions mentioned above, the following guidelines issued by the Government from time to time shall also be followed by the auditor while drafting the audit report.

- (a) As far as possible auditors shall draft their reports and schedules on day to day basis in order to complete drafting of the report in time.
- (b) Auditor shall not make any suggestions or finally embody any criticisms in the audit reports without giving the officers of the local authorities full opportunity for explanation and considering as far as possible their views and arguments.
- (c) The audit report shall be as concise as possible.
- (d) The Audit Report on the accounts of Gram Panchayats shall be drafted in Odia.

- (e) The audit reports on the accounts of all other institutions under the jurisdiction of LFA Organisation shall be drafted in English.
- (f) The paragraphs of the Audit Report should be self-explanatory and self contained with detail information.
- (g) The para dealing with losses and wastages etc should, invariably indicate:-
  - i. the modus operandi;
  - ii. the value of such losses and wastage;
  - iii. name and designation of the person / persons responsible for such losses and wastage;
  - iv. suggestions for remedy.

Where value of any commodity is not available from the records kept by the institution, approximate market value may be ascertained and indicated in the audit report
- (h) In case of misappropriation of funds , the reasons leading to such misappropriation and suggestions for prevention should be indicated in the report
- (i) In respect of time-barred amounts of taxes and fees in Municipalities and Notified Area Council, the names of the Executive Officers, who fail to take timely action in realising the same before such taxes and fees become barred by limitation, should be noted in the relevant para in order to facilitate initiation of surcharge action.
- (j) A "Title Sheet" is to be attached to every Draft Audit Report in the prescribed pro-forma.
- (k) The full name of the person held responsible for any loss with his present address & designation should be mentioned in the audit report.

A common audit format is prescribed for all institutions other than GP for e-reporting vide F. D. letter No.-3995/F dt.02.05.12. This format can be modified by the Examiner, if he feels it necessary for better reporting.

The auditor shall prepare his audit report including all schedules and statements during the allotted time and in all cases shall complete his report in all respect immediately after close of audit. No extra time for writing reports shall be allowed.

After completion of audit, a Draft Audit Report should be prepared by the audit team, under the supervision and guidance of the Team Leader. The same should be submitted within a week to the District Audit Officer. On receipt of the Draft Audit Report, the DAO should verify the same and transmit it to the auditee organisation preferably on line through e-despatch wherever possible as well as a soft copy in form of a CD within three days from the date of receipt. While transmitting the Draft Audit Report the DAO shall communicate to the local authority to submit their comments on audit observations within one

month, which shall be discussed in the Exit Conference for finalisation of the report. Further, the DAO shall also communicate to the local authority a mutually agreed date for the Exit Conference, where detailed discussion of audit paras shall take place.

#### **4.4.15 SUBMISSION OF DRAFT AUDIT REPORTS**

As per Executive Instruction issued under Rule-17 of the Orissa Local Fund Audit Rules, 1951, the auditor shall have his report and schedules completely drafted by the close of the audit. On the day following the close of audit, the Draft Audit Report must be forwarded to the Asst. Examiner-cum-District Audit Officer.

#### **4.4.16 Conduct of Exit Conference**

As per communication of District Audit Officer, the Exit Conference shall be held on a stipulated date with the Head of the auditee organisation for finalisation of the Draft Audit Report in the same manner as in case of Entry Conference. The objectives of exit conference are as follows:-

- (i) To inform the auditee organisation about the audit findings.
- (ii) To obtain the acceptance or rejection of audit observations with reasons thereof.
- (iii) To educate the organisation as to the proper procedures to be followed.
- (iv) Explain about their rights and available remedies.
- (v) Correct the deficiencies and inform them about the follow up actions.

#### **Points to be discussed in Exit Conference**

- (i) Observations and findings of audit on each issue, matter, segment and comments of the local authority thereon.
- (ii) Reasons for acceptance or rejection of those comments.
- (iii) Shortcomings/Lapses in accounts and suggestion of audit thereon.
- (iv) Future follow-up action to be taken up by audit on the Draft Paras.
- (v) Remedial action/follow-up action to be taken by the auditee organisation.
- (vi) Suggestion for improvement of the standard of accounting, financial management and general performance of the organisation.

The minutes of Exit Conference would be prepared, duly signed by both parties and kept in record.

#### **4.4.17 FINALISATION & APPROVAL OF AUDIT REPORT**

After completion of audit, the lead Auditor will have to submit the Draft Audit Report(DAR) through online which will be displayed on the site of District audit Officer as well as concerned Reviewing Officer. The Reviewing Officer may modify and rectify the DAR as required or may make no changes to the DAR, if no modification is necessary and after that it will be

transmitted to the Local Authority concerned by the District Audit Officer either in soft copy or in hard copy with a request to submit his comments on audit observations within one month and to draw a schedule for Exit Conference immediately after submission of such comments.

After conclusion of the Exit Conference, the minutes of the meeting is to be uploaded in the ALFA website by the District Audit Officer. The necessary addition, alteration and deletion as required as per the minutes of the Exit Conference are to be up dated in the Draft Audit Report by the concerned Reviewing Officer. After verifying the printable form of the DAR, the reviewing officer will submit it to the District Audit Officer, if found correct in all respect, for approval and issue to the Local Authority concerned as well as to all stake holders with a request to the Local Authority to submit para wise compliance, in triplicate, in broad sheet with resolution of the managing body in support of approval of the compliance by the managing body within two months of the receipt of the Audit Report. After expiry of two months time, surcharge action u/s 9(2) b of OLFA Act 1948 can be initiated after duly considering the compliance submitted by the Local Authority, if any.

#### **4.5 AUDITING STANDARD AND ETHICS**

Auditing standards contain basic principles and essential procedures together with related guidance in glossarial form and other specific conclusion. It covers the integrity, objectivity and independence for auditors and applies in the audit of financial statement.

Auditor's "public watch dog" function demands that he should maintain total independence from the local authority/management of the entity at all times and requires complete fidelity and public trust. But, there are several problems responsible for curtailing the independence of auditor. The most important are

- (a) Structural shortcomings in audit organisation.
- (b) Absence of adequate legislative/statutory powers to audit.
- (c) Indifference in taking action on audit findings. In order to overcome such laxities, both legislative and executive support are essential. Auditing of accounts in general and Govt. Auditing in particular should take note of these guiding postulates so as to maintain sanctity.
  - i. Correctness of financial statements.
  - ii. Detection of fraud and error.
  - iii. Plugging in the leakage of revenue.
  - iv. Generation and maintenance of assets.
  - v. Removal of error of principle and error of commission.

Apart from these technical segments, audit should go ahead with independent and inherent criticism over the data of transactions with the motive to settle the irregularities and ensure good Financial Governance.



Although, auditing is distinct from book keeping and accountancy, still the auditor oversees the procedural lapses in the accounts and acts as a super-Accountant.

#### **4.5.1 GENERAL STANDARD**

General Standard includes the following standards which are common both to auditor and audit organisation

- i. Auditor & audit institution must be independent.
- ii. Auditor & audit institution must possess required statutory competence (Qualification and training).
- iii. Auditor and audit institution both should exercise concern in complying with the audit functions.
- iv. Audit organisation should recruit personnel with suitable qualification and
  - (a) Develop/train employees to enable them to perform their tasks effectively.
  - (b) Prepare manual and supply guidance/notes concerning conduct of audit.
  - (c) Should have proper planning and supervision to achieve goal at all levels.
- v. Auditor and audit organisation should be independent from audited entity.
- vi. Audit organisation should adopt the standard practice in maintaining the quality of audit by means of circulars, guidelines, modules etc.
- vii. Audit organisation should update knowledge and skill associated with audit work and relating to the structural arrangement of audited institutions.

#### **4.5.2 FIELD STANDARD**

- i. The auditor should make proper planning before audit to ensure quality in an economic, efficient and timely manner.
- ii. The work of auditor should be properly supervised by a senior member of the audit organisation.
- iii. The auditor should study and evaluate the reliability of internal control mechanism.
- iv. The auditor should design audit steps and procedures for detecting error, irregularities and illegal transactions.
- v. Auditor should collect relevant and reasonable evidence to support his judgement and derive conclusion regarding programmes and activities of audited institutions.
- vi. Auditor should collect information about the entity in order to assess the risk factors.
- vii. Auditor should be careful in choosing materials/points for audit and determine audit samples properly so as to ensure integrity and completeness of data and also to avoid risk factor.

#### **4.5.3 REPORTING STANDARD**

1. Audit reporting depends upon veracity of replies, clarifications received, materiality of the objection in the audit report.
2. Auditors' observations and conclusions should be in an appropriate form, easy to understand, free from ambiguity and supported by sufficient and relevant evidence and overall it should be independent, objective, fair, complete accurate and constructive.
3. Auditor should issue report in time to the concerned auditee organization.
4. Proper, adequate & prompt follow up actions should be taken by the audited entity in the light of audit conclusion so as to bring effectiveness of audit and promote public accountability.
5. Auditor's report should contain within it the remedial suggestions for improvement in the standard of book keeping, ways and means for creation of assets and side by side avoidance of loss, leakage of revenue of the auditee organisation.
6. Reasonable opportunity should be provided to the auditee entity (whose accounts are audited) to furnish compliance and produce records.
7. Due regard is to be given to the compliance of Local Authority, and conclusions to be drawn up in most judicious manner while finalising the Audit Report. Reasons for rejection or acceptance should be recorded in writing by the auditor.
8. Before reporting on the accounts and other financial records of the entity, the auditor should write the preamble and hint upon the introductory remarks showing the year of establishment, jurisdiction and objective of the audited institution.
9. Gross negligence on the part of auditor in reporting may tarnish the image of Audit Organisation.

#### **4.5.4 AUDIT ETHICS**

1. The auditor should be independent and avoid conflict with the officials of auditee organisation.
2. He should not question the legality and rationality of any rule/ regulation and executive instructions by administrative department or other competent Authority.
3. Auditor should not question the policy matter of the organisation.
4. Auditor should not be biased or prejudiced by the statement of remark of any third party against/ relating to the organisation.
5. He should confine his scrutiny and form his objection/opinion on the basis of document and records.
6. He should not disclose or release information obtained in course of audit process to any third party.
7. Auditor should not tear away either in original or copy of any document of audited organization and take away any record without knowledge of auditee organization.

8. Auditor should not point out, in his report, any frivolous or very minor irregularity or error in principle. He should try to settle such minor irregularities on the spot as far as possible.
9. Auditor should always suggest for improvement in the standard of accounts and augmentation of financial efficacy/ resources of the organisation.
10. Auditor should not interfere with the administrative matters of the organisation.
11. He should be limited to financial analysis & critical remarks on the basis of actual transactions of account books.
12. He should not avail of any sort of hospitality/material gain from the auditee organisation.
13. He should not pass any irrational/ unethical remarks regarding functioning of the organisation.
14. Auditor should maintain absolute integrity and devotion to duty.
15. Auditor should refrain from furnishing any illegal and absurd suggestion.

## **CHAPTER-5**

### **PLAN & PROGRAMME**

#### **5.1 AUDIT PLANNING**

Planning is inevitable for attainment of a particular goal. A sound audit planning should fit into the long term and short term goals of audit. These goals need to be identified and framed in consonance with the overall 'vision and mission' of the organisation. Quality at the stage of audit planning can be enhanced by regular interaction between top management and other team members / officers involved in the audit process to ensure that all critical areas have been adequately addressed, proper planning made for selection of projects, basic formalities observed and operational guidelines adhered to.

Audit planning is an annual exercise for forthcoming audit year comprising a detail plan and broad frame work of audit. All District Audit Officers are required to prepare Annual Audit plan prior to the commencement of Audit year. It has to be prepared keeping in view the pending years of accounts of the auditee institutions, the availability of manpower, priorities of audit, risk areas of audit, vulnerable areas and sensitivity of the field.

The main objective of annual audit plan is to see:-

- that all significant and deserving auditable institutions have been covered under priority basis;
- that a framework has been made to identify the institutions, programmes etc which are significant and vulnerable to risks and serious financial irregularities;
- that available resources and manpower can be utilised optimally for achieving the short term and long term goal of audit objectives;
- that redundant audits are minimised.

In order to achieve the audit objective, planning should be made to cover as many audit institutions/units as feasible with regard to the availability of human resources. However, the less-vulnerable and less or non-sensitive areas should not be left unaudited for prolonged periods and they should be covered in a cycle of three to four years. The periodicity and duration of audit should also be reviewed from time to time to ensure optimum utilization of available resources.

The district level audit plan shall be communicated to the Directorate much ahead of the audit year for review and preparation of annual audit plan for the state as a whole.

The programme section/cell of the Directorate shall guide the Districts for preparation of the annual plan in a systematic manner.

#### **5.2 ANNUAL PROGRAMME**

Under the provisions of the Act, the audit of accounts of Local Bodies has been entrusted to the Examiner of Local Accounts under whose direction audit shall be conducted. Considering the work load of audit at the

beginning of each audit year (equivalent to the financial year) and man power available in the audit organization, the Examiner of Local Accounts shall finalise the plan and strategy of audit for the ensuing year and issue guidelines to the District Audit Officers for chalking out the annual audit programmes of their respective districts. The District Audit Officers shall prepare their annual audit programmes for each audit party accordingly and send a copy of the programme to the Examiner of Local Accounts for approval. Generally, audit as per the approved programme of a year will commence from the 16<sup>th</sup> of April and will continue till 31<sup>st</sup> March of the succeeding year unless the Examiner of Local Accounts directs otherwise. As such, the whole exercise of audit planning, programming, approval of audit programmes and formation of audit parties for deployment in the field for audit work shall be completed by the 15<sup>th</sup> of April of the year.

The following general principles are to be observed during preparation of annual audit programmes and their execution.

- (i) No auditor shall ordinarily be allowed to conduct audit on the accounts of the same institution for the third time consecutively.
- (ii) If any modification is required in the audit programme of any audit party subsequently, the same shall be made with due approval of the Examiner of Local Accounts.
- (iii) Generally an audit party consists of two auditors. The senior most auditor of the party shall be designated as the Lead Auditor. In case of audit of bigger institutions, more than two auditors may be taken in the audit party, as would be considered necessary for timely completion of audit.
- (iv) No extension of time for audit of any institution shall be allowed over and above the allotted man days without prior approval of the Examiner of Local Accounts.
- (v) No deviation shall be made in the audit programme without having sufficient valid reasons.
- (vi) In no case the auditors deployed in an audit party shall be changed without prior permission of the Examiner of Local Accounts.
- (vii) All programmes for special audit shall be taken up with the approval of Examiner of Local Accounts.
- (viii) The coverage of audit shall be reviewed by the District Audit Officer quarterly and a report thereof shall be sent to the Examiner of Local Accounts with the reasons of shortfall, if any.

### **5.2.1 AUDIT WORKLOAD**

A "Register of Audit Work Load (Watch Register)" showing the category-wise list of Institutions, both statutory and non-statutory, subject to audit by the Local Fund Audit Organisation, with their postal address, within the jurisdiction of each District Audit Office shall be maintained by the District Audit Officers indicating the years of accounts due for audit against each institution. This register shall be renewed each year so as to indicate the exact workload of audit at the beginning of a programme year.

Similar register shall also be maintained at the State Head quarters of the LFA Organisation indicating the District Audit office-wise and category-wise details of the Institutions under its audit jurisdiction. An abstract of institutions (category wise) is given below:-

<b>Category of Institutions</b>	<b>Numbers</b>
<b>A. STATUTORY</b>	
<b>1. Panchayat Samiti</b>	<b>314</b>
<b>2. Urban Local Body</b>	<b>103</b>
<b>3. Development Authorities, Imp. Trust, Spl. Planning Authority</b>	<b>23</b>
<b>4. Universities</b>	<b>11</b>
<b>5. Aided Colleges</b>	<b>453</b>
<b>6. Aided High Schools</b>	<b>2,199</b>
<b>7. Aided M.E Schools/ Sanskrit Tol/Madrassa</b>	<b>6,348</b>
<b>8. Miscellaneous(BSE, CHSE, OKVI, WODC)</b>	<b>04</b>
<b>9. Gram Panchayats</b>	<b>6,236</b>
<b>10. Zilla Parisad</b>	<b>30</b>
<b>TOTAL</b>	<b>15,721</b>
<b>B. NON- STATUTORY</b>	
<b>1. Miscellaneous</b>	<b>202</b>
<b>2. Religious Endowments</b>	<b>398</b>
<b>TOTAL</b>	<b>600</b>
<b>GRAND TOTAL</b>	<b>16,321</b>

#### **5.2.2 INCLUSION OF NEW INSTITUTIONS IN THE WORKLOAD**

No new institution shall be included in the Register of audit workload without the order of the Examiner of Local Accounts. As soon as the Examiner of Local Accounts receives a request letter from any competent authority sanctioning grant-in-aid to an institution, whose accounts are subject to audit by this audit organisation statutorily but has not been included in the list of such institutions previously, the Examiner of Local Accounts may, after considering all aspects, pass order for inclusion of the name of such institution in the Register of Audit Workload.

#### **5.2.3 EXCLUSION OF INSTITUTIONS FROM THE WORKLOAD**

No institution shall be excluded from the Register of Audit workload without specific order of the Examiner of Local Accounts.

#### **5.2.4 TIME ALLOWED FOR AUDIT**

Time (audit man days) is allowed for conducting audit of different categories of institutions for one year of accounts. The man days allotted for auditing are in terms of party. If the audit of one institution is entrusted to single Auditor, then he will take double the man days allotted in terms of

party for auditing the same. Presently, the audit mandays allowed for different categories of institutions are as follows:-

<b>Sl. No.</b>	<b>Category of Institutions</b>	<b>Man-Days allotted for audit of one year accounts in terms of party</b>
<b>1</b>	<b>2</b>	<b>3</b>
1	Universities:-	
	(a) Utkal University, BBSR	750 days
	(b) OUAT, BBSR	750 days
	(c) Sambalpur University, Burla	490 days
	(d) Berhampur University	360 days
	(e) North Odisha University, Baripada	60 days
	(f) Fakir Mohan University, Balasore	100 days
	(g) Ravenshaw University, Cuttack	160 days
	(h) B.P.U.T, Rourkela	36 days
	(i) Sri Jagannath Sanskrit University, Puri	50 days
	(j) Utkal University of Culture, BBSR	22 days
2.	Panchayat Raj Institutions	
	(a) Zilla Parishada	7.5 days
	(b) Panchayat Samities	25 days
	(c) Gram Panchayats	2 days
3	Urban Local Bodies	
	(a) Municipal Corporations	Average of days consumed for last 3 years audit or the days consumed during last audit whichever is less
	(b) Municipalities	
	(c) Notified Area Councils	
4	Board of Secondary Education, Orissa, Cuttack.	As in case of Urban Local Bodies.
5	Council of Higher Secondary Education, Orissa, BBSR	
6	Orissa Khadi and Village Industries Board, BBSR	
7	Development Authorities, Improvement Trusts & Special Planning Authorities	
8	Western Orissa Development Council, BBSR	
9	Aided Educational Institutions	
	(a) Aided Colleges	5 days (small colleges) (In case of bigger colleges days to be provided as in case of U.L.Bs)
	(b) Aided High Schools	3 days (including transit)
	(c) Aided M.E Schools, Madrasas, Sanskrit Tolls	1 day

10	Religious Endowments	As in case of Urban Local Bodies. As regards Endowments, the calculation of days shall be made basing upon the audit fee charged and the rate of audit fee per day per party fixed by the Government from time to time
11	Miscellaneous Institutions	

**NOTE:-** The time allotted for audit in the audit programmes includes time required for drafting of Audit Reports but excludes the time taken for journey and Sundays and public holidays. The audit man days may undergo change as per assessment and direction of the Examiner.

### 5.2.5 EXTENSION OF TIME FOR AUDIT

Ordinarily no extension of time for audit of accounts of any Local Body over and above the man-days allotted in the approved Annual Audit Programme shall be granted. However, in exceptional cases, where grant of extra days is essentially required for completion of audit in all respect, the following procedures shall be followed strictly for allocation of extra man days over and above the normal days allotted in the approved programme for the purpose.

- (i) While making any proposal for grant of extra-days for audit of any local body/auditee institution, the volume and variety of transactions like number of vouchers, nature of transactions and the manner of accounting system should be the guidelines and not the quantum of receipts and expenditure incurred during the year.
- (ii) Proposal for extension of time should be submitted by the lead auditor of the party within a week of the commencement of audit along with a comparative statement showing the volume of work load on the points mentioned in sub-para (i) of this para for the last two years to the District Audit Officer concerned.
- (iii) On receipt of such proposal the District Audit Officer or the Audit Superintendent shall conduct a review on the progress of audit on the spot and examine the admissibility of extension of time as required by the lead auditor concerned and recommend the exact days (extra) with sufficient justification to the Examiner of Local Accounts for approval.

Proposals submitted to the Directorate without observing the instructions as above shall not be taken into consideration.

### 5.2.6 CHECK REGISTER OF AUDIT REPORTS

A "Check Register of Audit Reports" shall be maintained in each District Audit Office, which will indicate the detailed position of the Draft Audit Report generated during the year. The position of the Draft Audit Report should be recorded in the prescribed columns of the Register at each and



every stage it passes. The District Audit Officer shall review the position of the Draft Audit Reports with reference to the Check Register of Audit reports quarterly.

#### **5.2.7 MONTHLY PROGRESS & PERFORMANCE REPORT**

A consolidated monthly progress & performance report on all the activities of audit such as audit, review, issue of audit report, compliance and surcharge actions etc. shall be submitted to the Examiner of Local Accounts every month in the prescribed pro-forma dealing with different aspects for his review on the monthly performance of each District Audit Office.

Such report shall reach the Examiner of Local Accounts on or before the 10<sup>th</sup> of the succeeding month positively.

#### **5.2.8 MONTHLY AUDIT DEVIATION STATEMENT**

A monthly statement on audit deviation showing the institutions actually under audit during a month and reasons of deviation at the District Audit Office level shall be submitted to the Examiner of Local Accounts in the prescribed pro-forma by the District Audit Officers every month. The monthly deviation statement shall reach the Examiner of Local Accounts on or before the 10<sup>th</sup> of the succeeding month positively.

#### **5.2.9 MONTHLY STATEMENT ON MISAPPROPRIATION OF CASH AND LOSS OF STOCK AND STORES**

A monthly statement on misappropriation of cash and loss of stock & stores etc shall be submitted to the Examiner of Local Accounts every month by the District Audit Officers in the prescribed proforma. The statement on misappropriation of cash and loss of stock and store etc. shall reach the Examiner of Local Accounts on or before the 10<sup>th</sup> of the succeeding month positively. On receipt of such statements, the state level figures relating to misappropriation of cash, loss of stock & stores etc shall be compiled at the State Headquarters.

## CHAPTER-6

### CONCEPTS OF FINANCIAL & THEMATIC AUDIT

#### 6.1 Financial Audit

##### 6.1.1 Origin and Definition

The word 'audit' has been derived from the Latin word 'audire' which means 'to hear'. In old days, a person was appointed to check the accounts of the parties responsible for financial transactions. He used to call them and hear the explanations needed. The person, who heard the accounts, came to be known as auditor.

Originally, the object of an audit was limited. It included only the ascertainment of the fact whether the accounting party has properly recorded the receipts and payments of cash on behalf of his boss. Hence, it was merely a cash audit, but the scope of audit today has much widened. The most commonly accepted definition of audit is given by Montgomery, a leading American accountant, "Auditing is a systematic examination of the books and records of a business or other organization, in order to ascertain or verify, and to report upon, the facts regarding its financial operations and the results thereof."

The auditing of books of accounts of a concern is carried on in a scientific and systematic manner. The technique of auditing is based on scientific principles. It is not carried on haphazardly and is conducted by persons who are technically qualified and fully experienced in the job of examining the books of account of various types of concerns. It is not simply a mechanical comparison of accounting records with evidences or statement and checking of correctness only. It also does not simply mean ticking of entries with related vouchers. It, however, contemplates verification of accounting records with certain pre-determined objectives, testing their reliability and competency vis-à-vis acts, rules, bye-laws framed for the purpose and finding out adequacy of evidences for those records. It involves critical assessment of whole affairs of a concern. It involves thorough examination, which is essentially retrospective and analytical. The record which has to be examined is not prepared by the auditor himself. If he does it, he acts as an accountant. Then the audit is carried on regularly or periodically. Generally it is done after the final accounts have already been prepared and thus it may be monthly, quarterly, half-yearly or annually. Big concerns may even get it done throughout the year.

The auditor has to satisfy himself as to the truth and fairness of the statement of financial affairs of the business of transactions. He has to give his report honestly to the owner of the concern as well as to the authority by which audit is undertaken. His integrity, honesty and independence are essential otherwise the very purpose of audit may be defeated. He examines the books of accounts and checks their arithmetic accuracy. He has also to ascertain the various policies as regards the operation and control of the concern and how far they have been carried out by management and to what extent the accounts reflect them. He has to form an opinion as to the ability of financial statements to convey clearly the meaning of what they purport to stand for.

### **6.1.2 Auditing and Accountancy**

Auditing is analytical and essentially retrospective whereas Accountancy is primarily constructive and concerned with correct recording of business facts. The existing records are subjected to critical analysis for proving or disproving their accuracy. Auditing really begins where accountancy ends. An auditor commences his work when all the accounts and statements have already been prepared. An accountant is primarily a constructionist; an auditor is primarily an analyst. Auditing is generally carried on at the end of the financial year or periodically and is governed by the code of conduct and standards laid down by its profession. An auditor must submit the report to the proprietor/chief of auditee organization as well as to the audit authority after the completion of his audit work.

### **6.1.3 Advantages of financial audit**

- (i) It ensures the correctness of the account to a great extent. The truth and fairness of the financial statements are certified which helps a lot to the auditee institution, proprietors, management or anybody who deals with a particular concern. The reliability of the accounts and financial statements, thus, is increased.
- (ii) It enables the detection and prevention of frauds and errors and thus it serves not only as a corrective measure but exercises a great moral influence on the whole staff putting a check upon the dishonest employees.
- (iii) A regular audit makes the staff so alert and vigilant that the books of account and all other records are kept up-to-date. Thus, it prevents the application of wrong principles and methods in accountancy, as well as carelessness and irregularity on the part of the members of the staff.
- (iv) The audited accounts enable the comparison of accounts from year to year and thus the fluctuations, if any, may be accounted for. Moreover, through such comparison and analysis, the

management /auditee institution possesses the facts upon which it may reasonably base its decision for framing future policy for the benefit or welfare aspect of the concern.

- (v) In case of loss by fire/theft or other natural calamities, the compensation may be claimed from the insurance company or aid from Government can be availed in case of Government institution on the basis of the previous audited accounts. The estimates for the claim must be scientific and based on reliable past records.
- (vi) The audited accounts are taken to be more reliable by the Government authorities or any other authorities for the purposes of tax-assessment, insurance coverage, availing of grant-in-aid from any institution or Government etc.
- (vii) Audited accounts are more reliable as evidence in the court of law.

#### **6.1.4 Objects and scope of financial audit**

The principal objective of audit has been changing with the advancement in the principles and conduct of business. Earlier the main objective was to ensure the correctness of accounting for all the receipts and payments .Now a days the main object of auditing is not only to ensure the correctness of accounting and detection of errors and frauds but also to form an independent judgement, opinion about the regularity and reliability of accounting records and truth and fairness of financial state of affairs and working result. Detection of errors and frauds is simply an incidental object. Thus the subsidiary objects of audit are as follows:

- (1)Detection of errors
- (2) Detection of frauds
- (3) Prevention of errors and frauds

#### **6.1.5 Detection of errors**

Errors may arise at various stages in book keeping records. Generally, such errors occur in the accounts innocently but sometimes they are deliberately committed to cover some dishonest transaction. They may occur while preparing documents such as invoices, credit notes or statements etc., or while casting, carrying forward, posting and balancing. Some of the errors may be easily detected if the same affect the trial balance, while others may necessitate detailed checking for their detection. The errors may occur because of the carelessness of the staff or their ignorance of the principles of accounts. The former are called clerical errors and latter are called errors of principles. These errors, in general, may be of following types:

### **(A) Clerical or technical errors**

- (i) Errors of omission.
- (ii) Errors of commission.
- (iii) Errors of duplication.
- (iv) Compensating errors.

### **(B) Errors of principles**

#### **(A) Clerical or technical errors**

(i) The errors of **omission** arise when any transaction is omitted wholly or partially from being recorded in the books of account. The omission can be honest or deliberate. Such error may occur if, for example, purchases worth Rs.5000/- were made but no record was kept in the books of account. Similarly, if the insurance premium has been paid for the whole year but the books of account show the payment for three quarters only and no entry appears in the account for the outstanding quarter. The auditor may find it out by checking the receipt or making comparison with that of last year or by examining the accounts. But it is not so easy to trace them in many instances. Sometimes, such omissions are deliberately made by the employees with an intention of committing some fraud or manipulating accounts. These errors affect the accounts and profit or loss materially. They may even affect the financial statement. It requires great care to detect such omissions. These errors, in general, do not affect the trial balance. However, if there is partial omission it would affect the trial balance and may be traced out easily.

(ii) The errors of **commission** occur because of incorrect records made in the books of account. They may consist of wrong entries, posting, casting, calculation and carry forwards. For instance, the purchases worth Rs.5100/- may be entered in the books of account for Rs.1500/-, or the rent paid to be posted to the debit side of the cash book may be posted to the credit side, or the same amount may be posted twice to the same account or posted by wrong amount or a wrong calculation of the amount may be made. The agreement of the trial balance would depend upon the nature of the mistake committed by the staff. If, for example, wrong calculation are made of the value of goods it would not affect the trial balance; but if balance of an account has been taken wrongly or casting or carrying forwards are made wrongly, they would affect the trial balance. Such errors are common but it is comparatively simple to discover them by a cautious routine checking of books of account.

(iii) The errors of **duplication** are also clerical errors and occur if the same transaction has been recorded twice in the books of original entry and also posted twice in the ledger. For instance, purchases worth Rs.2000/- may be recorded twice in the accounts. As these errors would not affect the agreement of the trial balance, it is not so easy to trace them. But with a little care, it may be traced out by an auditor while checking the vouchers and other records.

(iv) A **compensating error** may arise when errors counteract each other. If an error is committed for Rs.500/- on the debit side and per chance, another error of the same amount is committed on the credit side, they would compensate each other. They may be dissimilar in nature, but counteract each other by the same amount. They would not affect the trial balance and thus may be difficult to be traced by the auditor. Such errors may have far reaching consequences as it considerably change the figures of the head of account.

### **B. Errors of principle**

They arise when the transactions are not recorded in the books of account according to the fundamental and accepted principles of accounts and not according to act, rules and provisions framed for the purpose of the accounting procedure of the auditee organization concerned. These errors may consist of, for instance, wrong allocation of assets on a wrong basis, or making incorrect provision of expenditures by not following the guidelines, act, rules or circulars etc. These errors are important as they affect the profit or loss and the financial statement materially. They may be deliberate also. In that case it would be a matter of deep concern for the auditor. He must always be on the lookout for such errors. Mere routine checking of the books of account may not help in detecting such errors and only intelligent, careful and thorough checking may disclose them. The auditor has to be very careful about such types of errors.

The detection of errors is an important part of an auditor's duties since it involves the accuracy of the accounts and the statements. He has always to be very careful about these errors, particularly for those errors which might have been deliberately made by the trusted officers of the concern. Although the auditor's duty is confined to careful and intelligent enquiry only, yet he must exercise reasonable care and skill in connection with the detection of errors. It is supposed that an audited account is free from errors.

#### **6.1.6 Detection of frauds**

The detection of frauds by the auditor is also considerably important and is more difficult than the detection of errors. He has to take pains to unearth it. While doing so, he should always avoid any hostility and mistrust towards the staff of the auditee organization and should always be polite and tactful. At the same time he should be bold enough to carry on thorough investigation the moment his suspicion is aroused. The discovery of fraud is not the principal object of the annual audit but it does not mean that the auditor should be negligent in detection of fraud. Frauds connected with the account take place either (1) by the misappropriation of cash or loss of stock and stores or (2) by the falsification of account without any misappropriation.

The misappropriation of cash may take place in two ways (i) by omission of receipts or acknowledging a lesser amount than actually received and (ii) by inclusion of fictitious payments or recording more

payments than actually made. It is more difficult to detect the former than the later. Some of the examples of misappropriation of cash are as follows:

- (i) Cash sales may not be recorded at all and money received on that account may be misappropriated.
- (ii) Record of credit sales may be omitted and money received from payer/ customers later may be pocketed.
- (iii) Money received from a payer/customer may be pocketed and when received from the other payer/customer, that may be shown as received from the former customer. This process may be continued for a long time and it may involve cash received from many customers.
- (iv) Cash received from sale or returns may be pocketed.
- (v) Payment on account of fictitious purchases of 'dummy' workers may be recorded and cash on those accounts may be pocketed.
- (vi) Payments through Cheques not showing in the bank column of cash book but showing in the cash column thus resulting in misappropriation of cash.
- (vii) Self-cheque encashed not showing in the receipt side of the cash book.

To detect the fraud, the auditor should be careful enough in comparison of records in the cash book with other subsidiary books and the original vouchers. To detect the fictitious payment made, they examine carefully all the original vouchers, invoices and wage-sheets etc and other available direct evidences.

The chances of misappropriation of goods/ loss of stocks and stores are greater in case of valuable goods. Its detection is not easy. Much will depend upon proper arrangement of issue of items from stock and accuracy of stock records. A continuous vigilance has to be maintained over the issue of materials, records of sales, purchases and stocks. The more efficiently the stock is maintained and periodically checked, lesser the chances of misappropriation of goods/loss of stocks and stores.

The falsification of accounts, without any actual misappropriation of cash or goods, involves greater intricacy and is more difficult to discover. It is undertaken to conceal the true position of the concerned institution/organization. The object of such manipulation may be with a view to showing their successful management by paying more diligence or to disposing of their shares in the concern at high profits or to avoid taxes by showing less profit. Such manipulation may be carried on in many ways; some of the method of manipulating account is as follows:

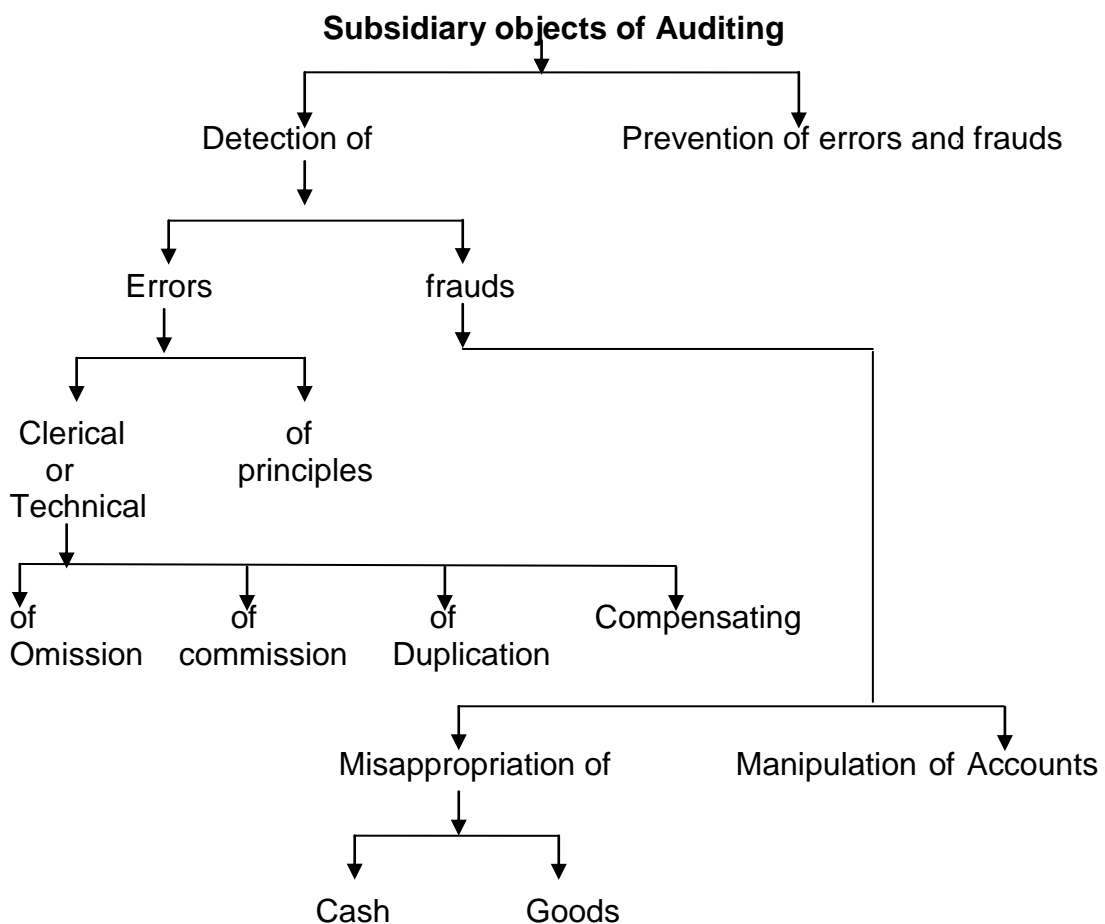
- (i) Recording fictitious sales or purchases.
- (ii) Recording or omitting in book of accounts various expenses.
- (iii) Charging revenue expenses as capital expenses or vice versa.

- (iv) Overvaluation or undervaluation of the stock, or other assets or liabilities.
- (v) Charging more or less amount to depreciation or provisions.
- (vi) Window-dressing

**6.1.7 Prevention of errors and frauds**

Besides the detection of various types of errors and frauds, an auditor also tries to prevent them. An auditor simply puts a moral check upon the staff by detecting them. Such moral check is imposed on the employees of the auditee organization. This would automatically make them alert and they would not carry any dishonest transaction as they will be afraid of being detected by the audit sooner or later.

**6.1.8 The subsidiary objects of Audit is explained below in a tree diagram**





## **6.2 THEMATIC AUDIT**

### **6.2.1 General assumptions on audit**

As per the General Guidelines issued by ICAI, “auditing is defined as a systematic and independent examination of data, statements, records, operations and performances (financial or otherwise) of an enterprise for a stated purpose. In any auditing situation, the auditor perceives and recognises the propositions before him for examination, collects evidence, evaluates the same and on this basis formulates his judgement which is communicated through his audit report.”

The aforesaid definition brings out the following features of an audit:

- i. An audit is a systematic and independent examination of the relevant records and documents.
- ii. The audit is not confined to financial audit only. It may be extended to other areas also, such as management audit.
- iii. Audit is conducted for a stated purpose, for example, the financial audit is conducted to ascertain whether they present a true and fair view of the financial position.
- iv. Every audit has to be based on evidence.
- v. The audit findings have to be communicated to the end-users.

### **6.2.2 Need for Thematic Audit**

The need for thematic audit was felt because the financial audit including propriety audit could not display in full details the picture of performance and efficiency of an entity or scheme. The performance appraisal of an activity can be done in the light of given objectives to fulfil, as the objectives spell out the results expected from an activity. While conducting such audit, the socio-economic context has also to be kept in mind, particularly in case of public sector enterprises or government undertakings where the focus is on serving the people rather than mere profit making.

### **6.2.3 Meaning, significance and planning for Thematic Audit**

Theme means a particular subject that is being discussed or described in a piece of writing. Thematic is understood as “of relating to or constructing a theme.” The purpose of thematic audit is to provide a mechanism which enables the entity to confirm that Government rules and regulations, implementation strategy and Quality Framework are being applied consistently state wide.

Thematic audit is evidence based and reliant on information gathered after examination of key-documents and joint physical verification. Each thematic audit is developmental in nature and encourages self-critical reflection. Where appropriate, it identifies good practice and makes recommendations to address areas where improvement would be of benefit. The Subjects selected for thematic audit may be a programme

(revenue/receipt of expenditure), system, an entity itself or part thereof. The subjects may also be financial, nonfinancial and governance issues.

#### **6.2.3.1 Formulation of Audit Plan**

There should be annual or biennial plan for such audit after assessment of risk factors and taking into account the importance of theme.

An Audit plan should be prepared indicating scope/coverage of audit, objective of audit, allocation of resources and the time frame for completion. This will also include the formulation of a detailed Audit Programme. Necessary formats and questionnaires should be devised for collection of important data relating to various aspects of the Theme; not only from the auditee institution proposed to be visited but also from other units for consolidation and processing.

#### **6.2.4 Thematic approach in LFA Organisation**

Subjects of thematic audit are usually communicated by the Accountant General, Odisha under TGS arrangement after taking into account the criteria of materiality, coverage and the impact on the life of the people. Normally, major schemes involving substantial outlays with activities spread throughout the state should be selected. Further, schemes that are of interest to the public would merit consideration.

#### **6.2.5 Audit Procedure & Approach for reviews**

Obviously, it will not be practicable to prescribe a uniform pre-determined procedure/approach or guidelines for comprehensive review and scrutiny because “Themes” vastly differ in their concepts, scope and content, methodologies etc. Information available for analysis will also be diverse in nature. Audit methodologies include review of systems and structures, examinations of files, interviews/discussions with officials, analysis on Departmental data bases etc.

The procedure for thematic audit differs from theme to theme. If it is a program of revenue/receipt, it is necessary to examine whether appropriate and adequate systems and procedures are in place for:

- i. Proper assessment of receipts.
- ii. Prompt accounting.
- iii. Monitoring of unrealized revenues.
- iv. Safe custody of cash and secured parking.
- v. Organizational arrangements for the discharge of accounting functions.

If the theme relates to an agenda of expenditure Viz. I.A.Y. etc., audit is to look into eligibility of beneficiaries and implementations, methods adopted in selecting executants, review of viability of the project and management system to ensure that the work is properly and effectively supervised and executed and that there is accountability throughout various stages.

In judging performance, Audit should further be guided by the performance parameters prescribed by the Government, in case these have not been prescribed; Audit will be well within its rights to point out omission.

#### **6.2.6 Audit Criteria and Evidence**

Audit criteria are standards against which actual performance (adequacy of systems and practices and the economy, efficiency and effectiveness of activities) is compared or evaluated. They are required to assess existing conditions and produce audit findings (*what is* compared to *what should be*). It is important that audit criteria are as objective as possible, so that room for subjective interpretation is minimised. Audit criteria are based on the Acts, Rules & Regulations in force including guidelines on the schemes and programmes.

An audit is fundamentally a comparison of audit evidence to audit criteria to determine findings. The evidence is the information collected through various methods. Choosing the appropriate set of techniques for gathering evidence is crucial to audit process. The subject of audit, audit objective and audit criteria determine the choice of methods. Often, more than one method is necessary. Documents of the auditee such as files, accounts, registers, evaluation reports, progress report etc. provide the prime source of evidence in any performance audit. The other methods can supplement or provide reliability of the evidence from the auditee's documents. Questionnaires, Surveys and Interviews help in identifying deficiencies in implementation of social welfare and service delivery programmes. For choosing the most appropriate methods auditors should consider the audit environment, the resources available, the time-frame of the review, the competence and skills of audit team etc. Auditors should also pay attention to integrate different approaches so as to apply multiple approaches for collecting evidence on the same issues from different perspective. Audit evidence should be sufficient and appropriate. Whereas sufficiency refers to quantum, appropriateness relates to relevance and reliability of audit evidence.

#### **6.2.7 Reliability of Audit Evidence**

The reliability of audit evidence depends upon its source – internal or external and on its nature – visual, documentary or oral. It is also dependant on the circumstances under which obtained. Following points are useful in assessing the reliability of audit evidence.

- (a) External evidence (e. g. confirmation received from 3<sup>rd</sup> party) is generally more reliable than internal evidence.
- (b) Internal evidence is more reliable when related internal control functions satisfactorily.
- (c) Evidence in the form of documents and written representation is more reliable than oral representation.
- (d) Evidence obtained by auditor himself or herself is more reliable than that obtained through the entity.

### **6.2.7.1 Aspects to be covered and source documents**

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

- (i) Physical observation
- (ii) Collection of key documents, circulars, notifications, guidelines issued by Government
- (iii) Evaluation of the quality of internal control mechanism
- (iv) Discussion with concerned executives
- (v) Interview with concerned beneficiaries

Some of the aspects to be looked into in the course of Thematic Audit are as follows:-

- (i) Adequacy of investigations, surveys & feasibility studies
- (ii) Schedule of implementation
- (iii) Systems and procedures in force for implementation, monitoring, progress etc.
- (iv) Co-relation of physical and financial targets
- (v) Outcome of mid-term appraisals
- (vi) Impact of change in scope, if any
- (vii) Procedure of norms adopted for identification of eligible beneficiaries in the case of schemes meant to benefit certain specified sections of the population, such as families below the poverty line, tribal, scheduled castes, un-employed youth, women and children etc.
- (viii) Adherence to programme schedules and time & cost overruns, if any
- (ix) Assessment of projected/anticipated revenues in the case of Themes to generate revenue

These are, however only illustrative and not exhaustive.

Some of the documents or records that would need to be examined for the purpose of comprehensive review are project reports, investigation reports, plan & budget documents, guidelines framed for the "Theme", administrative and technical clearances, reports of inspection undertaken by personnel at various levels, reports of assessments by Departmental and external agencies, revenue records etc.

### **6.2.8 Sampling**

The audit findings should be based on sampling and sampling techniques should be disclosed, as far as possible. Normally, statistical sampling techniques should be used and adequate sample size should be selected for enabling generalization of audit findings and also meeting the standard of sufficiency. Audit findings should be developed on the basis of audit tests carried out on the sample.

### **6.2.9 Field studies/Joint physical Verification**

The next stage after sampling is carrying out studies and collection of information from field units. The examination and audit scrutiny of selected samples of transactions should be thorough and complete. For eliciting the maximum information, it will be useful to discuss details of the project/scheme with the concerned local authority.

There should be joint physical verification always. The Audit party and officer/officers of the Local body should constitute the Inspection Team. The joint verification report should be signed by both the parties.

During physical verification of projects, reasons for delay in execution should be analysed and bottlenecks, if any, identified.

### **6.2.10 Study Design Matrix & Issue Analysis**

Auditor has to prepare a Study Design Matrix involving all type of issues associated with the theme and seek compliance from the local authority. By analysing different issues an independent and complete opinion can be formed. For example, while conducting Thematic Audit on IAY Scheme following issues are to be examined and commented upon.

- (i) Whether the funds released under the scheme has been utilised for the purpose for which it is released and up to the desired level.
- (ii) Whether the corresponding utilisation certificate is submitted within the timeframe.
- (iii) Whether due care has been taken to identify the eligible beneficiary under the scheme.
- (iv) Whether criteria for allocation of resources have been adhered to.
- (v) Whether adequate safeguards have been taken to extend the resources to the beneficiary targeted.
- (vi) Whether payment has been made to the beneficiary on a staggered basis depending upon the progress of work.
- (vii) Whether the funds under IAY are transferred directly into the beneficiaries' accounts.
- (viii) Whether supplementary assistance has been extended to the beneficiaries.
- (ix) Whether loans under Differential Rate of Interest (DRI) Scheme have been extended to the beneficiaries.

### **6.2.11 Over all macro assessment and reporting**

Thematic audit should not be understood as a narration of instances of aberrations/shortcomings in implementation of the programme. It is an 'appraisal' intended for expressing an 'opinion' on the quality of internal controls and information systems, achievement of targets, quality of execution and realisation of value for money. It offers comments on relationship between physical and financial performance.

Thematic audit report must contain recommendations arising out of audit findings and cause of audit findings. The causes of underperformance should be determined so as to enable recommending remedial measures.

Besides the above, following points are to be taken into account while finalizing thematic audit report:

- i. Audit Report should be clear and easy to read and understand.
- ii. It should contain the instances of good performances.
- iii. Cases involving transgression of statutory provisions leading to substantial loss of public money are to be reported separately.
- iv. Series of less important irregularities indicative of common defect may be commented upon collectively.
- v. In drafting the reports, it is essential that a detached, dispassionate attitude is maintained and expressions suggestive of any political or biased opinion is avoided.
- vi. Graphs, diagrams, photographs with due attestation of the local authority may be placed in the report, so as to corroborate the audit findings.

Accuracy, brevity, clarity and purposeful focus should be hallmarks of the thematic audit report.

## **CHAPTER-7**

### **POWERS & FUNCTIONS OF AUDITORS**

#### **7.1 GENERAL DUTIES**

Under the provisions of Section-4 of the Odisha Local Fund Audit Act, 1948, the State Government, by notification, appoint an officer of the State Government to be the Examiner of Local Accounts and also such number of Deputy Examiners of Local Accounts and Assistant Examiners of Local Accounts as they deem necessary. Similarly the Examiner of Local Accounts with the approval of the State Government appoints such number of Auditors as he considers necessary. All the officials of the Local Fund Audit Organisation, as mentioned above are to discharge such duties and perform such functions as assigned to them under the provisions of the Odisha Local Fund Audit Act, 1948 and the Odisha Local Fund Audit Rules, 1951.

Their main duties and functions are to conduct audit on the accounts of the Local Bodies, whose accounts are declared by the State Government to be subject to audit under the provisions of this Act and to submit the reports thereon. Apart from the statutory duties the officials are to perform such other duties as would be assigned to them by the Government from time to time.

#### **7.2 DUTIES AND RESPONSIBILITIES**

##### **7.2.1 EXAMINER OF LOCAL ACCOUNTS**

The main duties and responsibilities of the Examiner of Local Accounts are as follows:-

- (i) to exercise general supervision and control over the discharge of duties by the Auditors under the Act.
- (ii) General Administration of the Audit Organisation.
- (iii) To chalk out annual plan and programme for audit of accounts of Local Bodies under his jurisdiction.
- (iv) Inspection of District Audit Offices.
- (v) Inspection and Supervision of audit work in field
- (vi) To approve and issue the audit reports to the local authority concerned and other Departmental Authorities of the concerned body as may be prescribed.
- (vii) To prescribe and modify the audit procedures as and when felt necessary.
- (viii) To issue instructions and guidelines to the audit personnel as well as to the local authorities in the matter of audit and maintenance of accounts respectively.
- (ix) To settle the audit objections within the ambit of law.
- (x) To bring to the notice of the respective Administrative Departments / Departmental Authorities of the local bodies concerned; all cases, in which loss of money, stock & stores and serious nature of financial irregularities have been

- detected and reported in course of audit for immediate Departmental action thereon.
- (xi) To condone a payment made from a Local Fund or a short realisation of revenue which appears to him to be contrary to law and rules, provided that:-
    - (a) In his opinion there was no negligence or misconduct on the part of the person making or authorising such payment or short realisation of revenue.
    - (b) Such payment or failure to realise the revenue was bonafide and a similar payment from the same local fund or short realisation of revenue had not been conducted before and
    - (c) Such payment or short realisation does not exceed Rs.50.00.
  - (xii) To verify the compliance to the audit reports submitted by the local authorities and to forward a copy of the compliance report to the Government offering his comments thereon para wise for further action in the matter of settlement of audit objections.
  - (xiii) To order for a detailed up to date audit / special audit on the accounts of any local body considering the report of the auditor or any case of misappropriation of cash / embezzlement / fraud / loss of stock & stores / grave nature of financial irregularities detected or reasonably be inferred from any suspicious circumstances or irregularity in the accounts informing the Government of the circumstances rendering such audit necessary.
  - (xiv) To order for an enquiry into / re-audit of expenditure or any item of work / special audit on any accounts of any local body on the allegation of any public organisation or on the request of any Departmental Authority of any local body for the purpose, if he considers it necessary.
  - (xv) May direct, considering the report of the Chairman/Head of office of any local body on the misappropriation of cash or loss of stock & stores by embezzlement, theft, fire or otherwise discovered, that an audit be conducted with a view to taking action under section-9 of the Act.
  - (xvi) To initiate and dispose of the surcharge proceedings under the provisions of the Odisha Local Fund Audit Act, 1948
  - (xvii) To hear, as Appellate Authority, the appeals preferred by the appellants against the surcharge or charge order passed in respect of the surcharge proceedings relating to the Panchayati Raj Institutions, Urban Local Bodies, Aided Educational Institutions, other institutions to give his final decision in the matter after making such enquiries, as he considers necessary.



## **7.2.2 DEPUTY EXAMINER-CUM-JOINT DIRECTOR/DEPUTY DIRECTOR**

Under the provisions of Section-4(2) of the Odisha Local Fund Audit Act, 1948, the Deputy Examiner of Local Accounts, appointed by the State Government, shall exercise such powers and functions of the Examiner of Local Accounts, as the State Government may assign.

### **(a) Deputy Examiner of Local Accounts (Establishment)**

The powers and functions of the Deputy Examiner of Local Accounts in charge of Establishment are as follows:-

- (i) to assist the Examiner of Local Accounts in discharge of his duties;
- (ii) to look to the personal claims of the staff of this audit organisation as regards their salary, GPF, Travelling Expenses, Medical Expenses and other claims, if any, and to settle their entitlement there to;
- (iii) to make transfer and posting of audit personnel and other ministerial staff of the organisation;
- (iv) to look to the departmental promotion of the auditors and other ministerial staff of the organisation;
- (v) to look to the retirement claims of the staff;
- (vi) to initiate and dispose of the Disciplinary / Departmental proceedings against the staff, if any, under the provisions of law;
- (vii) to make inspection of the District Audit Offices as well as the audit work in the field;
- (viii) to see any other work, as would be assigned by the Examiner of Local Accounts from time to time;
- (ix) to initiate and dispose of the surcharge proceedings under the provisions of the Odisha Local Fund Audit Act, 1948 as follow up action on the audit reports; and
- (x) to hear the appeals preferred by the appellant against the charge / surcharge orders passed by the Asst. Examiner of Local Accounts in respect of the surcharge proceedings relating to Panchayati Raj Institutions, Urban Local Bodies, Aided Educational Institutions and other Institutions, whose accounts have been or are declared liable to audit under the provisions of the Odisha Local Fund Audit Act 1948 and deliver his final decision in the matter after making necessary enquiries into it.

**N.B:-** All powers and functions excepting those related to the surcharge proceedings and appeals preferred thereon, are subject to the approval of the Examiner of Local Accounts.

### **(b) Deputy Examiner of Local Accounts (Audit)**

The powers and functions of the Deputy Examiner of Local Accounts in charge of Audit are:-

- (i) to assist the Examiner of Local Accounts in discharge of his duties;

- (ii) to finalise the strategy and annual planning of audit convening a meeting of the District Audit Officers before commencement of the audit programme year;
- (iii) to check and approve the Annual Audit Programmes of each District Audit Office drawn up in accordance with the strategy and planning of audit finalised in the District Audit Officers' meeting;
- (iv) to monitor the audit work at the district office level and review the progress thereon through monthly reports and returns regarding the audit activities, submitted by the District Audit Officers and give necessary instructions in the matter, if required;
- (v) to inspect the District Audit Offices and supervise the audit work in the field;
- (vi) to pay surprise visit to any audit camp to check the attendance of the Audit party and progress of audit work, if he considers it necessary;
- (vii) to examine the special reports on misappropriation of cash / embezzlement / fraud, loss of stock & stores and grave financial irregularities detected in audit, submitted by the District Audit officers and to bring the fact to the notice of Departmental Authorities of the concerned Local Body for immediate departmental action thereon and also to the Vigilance Department of the State for necessary action at their level;
- (viii) to scrutinise the copies of the audit reports received from the District Audit Officers and draw the attention of the Administrative / Departmental Authorities of the concerned local body to the misappropriation of cash / embezzlement / fraud, loss of stock & stores and grave financial irregularities pointed out by audit, for necessary action in the matter, if it is considered necessary. Besides, he is to point out the defects and omissions, if any, noticed in the audit reports, to the District Audit Officer concerned for necessary rectification there-in and issue of corrigendum thereon to all concerned whenever necessary;
- (ix) to examine the comments of the District Audit Officers on the compliances to the audit reports submitted by the local authorities, with reference to the audit objections and to offer his final comments thereon;
- (x) to examine the requisition for special audit / re-audit on the accounts of any local body and to decide on behalf of the Examiner as to whether such audit is required or not;
- (xi) to look into the verification of pension papers of the retired Municipal Employees (Local Fund Service Cadres only) under the provisions of the Orissa Local Fund Service (Pension) Rules 1980;

- (xii) to look to any other work as would be assigned by the Examiner of Local Accounts from time to time;
- (xiii) to initiate and dispose of the surcharge proceedings under the provisions of the Odisha Local Fund Audit Act,1948 as follow up action on the audit reports;
- (xiv) to hear the appeals preferred by the appellants against the charge / surcharge orders passed by the Assistant Examiner of Local Accounts in respect of the surcharge proceedings relating to Panchayati Raj Institutions, Urban Local Bodies, Aided Educational Institutions and other institutions, whose accounts have been or are declared liable to audit under the provisions of the Odisha Local Fund Audit Act,1948 and deliver his final decision in the matter, after making necessary enquires into it;

**N.B:-** All duties and responsibilities excepting those related to the surcharge proceedings and appeals preferred thereon, are subject to approval of the Examiner of Local Accounts-cum-Director, LFA.

### **7.2.3 ASSISTANT DIRECTOR**

The duties and responsibilities of the Assistant Director in charge of the Establishment are as follows:-

- (i) to assist the Director/Deputy Director in discharge of their functions;
- (ii) to look to the personal claims of the staff of the Organisation as regards their salary, GPF, travelling expenses, medical expenses and other claims, if any and settle their entitlement thereto;
- (iii) to look to the transfer and postings of audit personnel and other ministerial staff of the organisation;
- (iv) to look to the departmental promotions of the auditors and other ministerial staff of the organisation;
- (v) to look to the retirement claims of the staff;
- (vi) to look to the initiation and disposal of the departmental proceedings against the staff, if any, under the provisions of the law.
- (vii) to make inspection of the District Audit Offices as well as the audit work in the field;
- (viii) to look to any other work as would be assigned by the Director from time to time;
- (ix) to look to the processing of the appeals preferred by the appellant against the charge / surcharge orders passed under section-9(3) of the Act, to be heard and finally disposed of by the Appellate Authority appointed by the State Government for the purpose;
- (x) to finalise the strategy for annual audit planning and convening meeting of the District Audit Officers before commencement of the audit programme year;

- (xi) to monitor the audit work taken up at District Audit Office level and review the progress thereon through monthly reports and returns regarding the audit activities, submitted by the District Audit Officers and gives necessary instructions in the matter, if required;
- (xii) to pay surprise visit to any audit camp to check the attendance of the audit party and the progress of audit work;
- (xiii) to examine the special reports on misappropriation of cash / embezzlement / fraud, loss of stock & stores and grave financial irregularities detected in audit, submitted by the District Audit Officers and to bring the fact to the Examiner of Local Accounts for further action in the matter;
- (xiv) to scrutinise the audit reports received from the District Audit Officers and draw attention of the Administrative / Departmental Authorities of the concerned local body to the loss of fund and grave financial irregularities, pointed out by audit for further action;
- (xv) to point out the defects and omissions, if noticed during scrutiny of the audit reports;
- (xvi) to examine the comments of the District Audit Officers on the compliance to audit reports submitted by the local authority concerned and offer his views thereon for final comments of the competent authority;
- (xvii) to look to the follow up actions on the surcharge proceedings initiated under the provisions of the Act to their logical end;
- (xviii) to look to any other work as would be assigned by the Examiner of Local Accounts from time to time;

**N. B.** - All functions are subject to approval of the Examiner-cum-Director.

#### **7.2.4 DISTRICT AUDIT OFFICER-CUM-ASSISTANT EXAMINER OF LOCAL ACCOUNTS**

The powers and functions of the District Audit Officer-cum-Assistant Examiner of Local Accounts are:-

- (i) to attend to general administration of the District Audit Office and the field staff;
- (ii) to prepare programme for the audit work of the district / districts under his jurisdiction in accordance with the strategy and planning for audit finalised by the Examiner of Local Accounts and other guidelines issued by the department in the matter and submit the same to the Examiner of Local Accounts for approval;
- (iii) to make posting / deployment of auditors available in his office in the audit party for audit work in the field and in the office to manage the office work as per the instructions of the Government issued from time to time;
- (iv) to inspect and supervise the audit work in the field;

- (v) to allot review / supervision / other works to the Audit Superintendents under his control;
- (vi) to review Draft Audit Reports on the spot as per the guidelines issued by the Government from time to time;
- (vii) to scrutinise, approve and issue Audit Reports to the proper quarters;
- (viii) to monitor the audit work in the field through the weekly diaries of the audit party;
- (ix) to pay surprise visit to any audit camp, if he considers it necessary and to submit the report thereof to the Directorate for necessary action in the matter;
- (x) to submit monthly reports and returns on the activities of audit as well as on the establishment matters, to the Examiner of Local Accounts for his review and further action in the matters;
- (xi) to submit special reports on misappropriation of cash / embezzlement / fraud, loss of stock & stores and grave financial irregularities, if any, detected and reported by audit and duly verified on the spot by the Reviewing Officer, to the Examiner of Local Accounts for further action in the matter;
- (xii) to verify the compliance to the audit reports, submitted by the local authorities, in course of exit conference and to settle the audit objections citing the reasons thereof and return the compliance with his comments for further compliance in the matter by the local authorities.
- (xiii) to convene and attend the "District Monitoring & Settlement Committee" under the Chairmanship of the Collector concerned for settlement of the outstanding audit paras in respect of the local bodies under his jurisdiction;
- (xiv) to make discussions with the Local Authorities or the Collectors of the concerned districts in the event of non-cooperation/non-production of books of accounts for timely completion of audit;
- (xv) to initiate and dispose of the surcharge proceedings under the provisions of the OLFA Act, 1948;
- (xvi) to verify the fixation of pay of the Municipal Employees under the provisions of the ORSP Rules;
- (xvii) to verify the pension papers of the retired Municipal Employees coming under the Local Fund Service Cadre, as per the provisions of the Odisha Local Fund Service (Pension) Rules, 1980 and issue certificate of admissibility for payment of pension, family pension and gratuity (D.C.R.G) etc.; and
- (xviii) to attend any other work as would be assigned by the Examiner-cum-Director from time to time.

### **7.2.5 ADDITIONAL DISTRICT AUDIT OFFICER**

The duties and responsibilities of the Additional District Audit Officers are:-

- (i) to assist the District Audit Officer-cum-Assistant Examiner of Local Accounts in discharge of his/her duties;
- (ii) to scrutinise the Audit Reports with regard to audit objections relating to recovery of loss through surcharge action;
- (iii) to bring to the notice of the District Audit Officer the defects and omissions, if any, noticed in the audit reports during scrutiny, for necessary rectification of the same and also to point out the audit objections, in which necessary corrigendum is required to be issued to all concerned by the District Audit Officer after due rectification of the defects therein;
- (iv) to make sure that the surcharge proceedings on the audit reports are properly and correctly processed for initiation / further follow up action;
- (v) to attend to any other work as would be assigned by the District Audit Officer from time to time; and
- (vi) to discharge all the functions of the District Audit Officer in his absence.

### **7.2.6 AUDIT SUPERINTENDENTS**

#### **(a) AUDIT SUPERINTENDENTS (HEAD QUARTERS)**

The duties and responsibilities of the Audit Superintendents posted at the State Head Quarters are:-

- (i) to supervise the day to day work of Auditors working under his control;
- (ii) to make sure that the Audit Reports received from the District Audit Officers are properly scrutinised with special reference to audit paras where recovery has been suggested;
- (iii) to point out the defects and omissions noticed, if any, during scrutiny of the Audit Reports, to the District Audit Officer concerned for necessary rectifications therein and issue of corrigendum thereon to all concerned;
- (iv) to supervise the processing of appeal petitions filed by the appellants for hearing and final disposal by the Appellate Authority appointed by the Government for the purpose;
- (v) to scrutinise and review the performance of audit works and other activities of audit in the District Audit Offices through monthly reports and returns received from them and bring the same to the notice of the Examiner of Local Accounts;
- (vi) to examine the special reports on misappropriation of cash / embezzlement / fraud, loss of stock & store and grave financial irregularities etc submitted by the District Audit Officers and to bring the facts to the notice of the Examiner of Local Accounts for further action in the matter;

- (vii) to supervise compilation of Annual Report of the Examiner of Local Accounts basing upon the facts and figures collected from the District Audit Officers; and
- (viii) to attend to any other work as would be assigned by the Examiner of Local Accounts from time to time.

**(b) AUDIT SUPERINTENDENTS (DISTRICT OFFICES)**

The duties and responsibilities of the Audit Superintendents posted at the District Audit Offices are:-

- (i) to supervise the audit work in field as allotted by the District Audit Officer and approved by the Examiner of Local Accounts and to ensure its timely completion;
- (ii) to impart necessary guidance to the auditors working under him so as to enable them to conduct a meaningful audit on the accounts and produce a qualitative audit report thereon;
- (iii) to review the progress of audit of any institution and to render necessary guidance to the audit party for timely completion of audit;
- (iv) to hold discussion with the local authority during his visit to the local body concerned for supervising the audit work / review on the progress of audit, regarding non-production / delayed production of books of account, non compliance and non-return of audit objection statements in time and other problems, if any, causing hindrance for smooth and timely completion of audit and try his level best to solve these problems;
- (v) to examine the proposal for extension of time for audit over and above the allotted days in respect of any institution submitted by the lead auditor of the party, from all the angles as per instructions of the Government in the matter on the spot and make his recommendations to the District Audit Officer for necessary consideration;
- (vi) to verify the compliance to the audit report submitted by the local authority on the spot with reference to the relevant accounts, records and registers and offer his para wise comments thereon for consideration and settlement of audit objections incorporated in the said report by the District Audit Officer;
- (vii) to verify the explanations submitted by the delinquents in response to the show cause notices / appeal petitions filed against the surcharge orders relating to the surcharge proceedings initiated under the provisions of the Act on the spot with reference to the relevant accounts, records and registers of the Local Authorities to which surcharge proceedings relates and submit his para wise comments thereon to the District Audit Officers for further action;
- (viii) to examine the audit objections of an audit report in which recoveries have been suggested through surcharge action,

judge their tenability and to process the surcharge proceedings to be initiated under the provisions of the Act while they are in office;

- (ix) to monitor the verification of pension papers of the retired Municipal Employees of Local Fund Service Cadre received from the Housing and Urban Development Department; and
- (x) to attend to any other work as would be assigned by the District Audit Officer from time to time.

## **7.2.7 AUDITORS**

### **(a) AUDITORS (STATE HEAD QUARTERS)**

The duties and responsibilities of the Auditors posted at State Head quarters of the Local Fund Audit Organisation are:-

- (i) to deal with the work relating to audit planning and programming in respect of District Audit Offices;
- (ii) to deal with the monthly reports and returns submitted by the District Audit Officer on their performances under different activities of audit;
- (iii) to deal with the official correspondence in the matter of audit received from different quarters;
- (iv) to deal with the Tour Programmes / Tour diaries / Tour particulars of the District Audit Officers;
- (v) to deal with the Assembly Questions;
- (vi) to compile information for preparation of Annual Report of Local Fund Organization;
- (vii) to deal with the special reports on misappropriation of cash / embezzlement / fraud, loss of stock & stores and grave financial irregularities submitted by the District Audit Officers;
- (viii) to deal with the work relating to inspection of District Audit Offices / supervision of audit work in the field / surprise visits to audit camps etc by the Asst Examiner / Deputy Examiner / Examiner of Local Accounts;
- (ix) to deal with the proposals for amendment to the Orissa Local Fund Audit Acts and Rules;
- (x) to deal with the appeals preferred by the appellant against the charge / surcharge orders passed by the Asst. Examiners at District level under the provisions of the Act;
- (xi) to maintain the prescribed records and registers relating to the work assigned to them; and
- (xii) to attend to any other work as would be assigned by the Examiner of Local Accounts from time to time.



## **(b) AUDITORS (FIELD OFFICES)**

### **(b.1) AUDITORS (DEPLOYED FOR OFFICE WORK)**

The duties and responsibilities of the auditors posted at District Audit Office are:-

- (i) to chalk out the Annual Audit Programme of the District in accordance with the instructions and guidelines issued by the Examiner of Local Accounts;
- (ii) to monitor the audit work in the field through the weekly diaries submitted by the audit parties and to bring its position to the knowledge of the DAO for necessary action thereon;
- (iii) to maintain the records and registers prescribed for keeping information on the audit activities;
- (iv) to prepare the monthly reports and returns as prescribed by the Govt and to look to their timely submission to Govt;
- (v) to scrutinise the reviewed audit reports before approval of the District Audit Officer for issue to all concerned;
- (vi) to take necessary measures for rectification of defects, if any, noticed in the audit report during scrutiny before its approval and issue;
- (vii) to attend to correspondence to be made in the matter of audit programming, audit in field and other activities of audit whenever required;
- (viii) to verify the compliances to the audit reports submitted by the local authorities for settlement of audit objections;
- (ix) to attend to the letters received from the Government in any matter of audit and ensure its timely disposal;
- (x) to check the pay fixation of the Municipal Employees under the provisions of the Revised Scale of Pay Rules;
- (xi) to process the surcharge proceedings in all fit cases as suggested in the audit report, for initiation under the provisions of the Act;
- (xii) to follow the surcharge proceedings, so initiated, up to its logical end under the provisions of the Act;
- (xiii) to verify the pension papers of the retired Municipal Employees of Local Fund Service Cadre received from the Government on priority basis; and
- (xiv) to attend to any other work as would be assigned by the District Audit Officer from time to time.

### **(b.2) AUDITORS (DEPLOYED FOR AUDIT WORK)**

An audit party generally consists of two auditors. In the case of audit of accounts of the bigger institutions, the District Audit Officer concerned may constitute the audit party to be deployed for the purpose, taking more than two auditors considering the magnitude of annual transaction of the Institution and the audit man days provided for the purpose. The senior most auditor of the audit party, consisting of two or more auditors, shall lead the party.

The duties and functions of the Lead Auditor of the audit party are:-

- (i) to manage general administration of the audit camp;
- (ii) to chalk out programme and plan of audit work as per the approved Annual Audit Programme of the party as allotted by the Examiner of Local Accounts;
- (iii) to conduct audit of accounts of the local body allotted to the party with reference to the prescribed accounting procedure, financial rules and regulations of the Govt and other guidelines relating to schemes and programmes;
- (iv) to submit weekly diaries of the party to the District Audit Officer;
- (v) to prepare and submit the Draft Audit Report to the District Audit Officer;
- (vi) to report to the District Audit Officer and also the concerned local authority immediately in writing, when misappropriation of cash / embezzlement / fraud or loss of stock & stores or grave financial irregularities, detected in course of audit;
- (vii) to issue half margin memos to the Local Authority/Auditee Institution in Form-D against dated acknowledgement;
- (viii) to participate in exit conference for discussion on the Draft audit report with the Head of the Office of the Local Body/Auditee Institution for finalization of audit report;
- (ix) to submit reports and returns as would be called for by the District Audit Officer or the Examiner of Local Accounts;
- (x) to examine the audit report of the preceding years for compliance of outstanding paras;
- (xi) to examine whether the recoveries, if any, suggested in the previous Audit Reports have been duly effected/credited; and
- (xii) to attend to any other work as would be assigned by the District Audit Officer or the Examiner of Local Accounts;

**(b.3) The duties and responsibilities of the Auditors other than lead auditor**

- (i) to assist the Lead Auditor of the party in discharge of his duties in respect of audit work;
- (ii) to scrutinise the accounts of the auditee institutions, issue half margin memos and prepare Draft Audit Report; and
- (iii) to attend to any other work as would be assigned to him by the lead auditor of the party or by the District Audit Officer.

**7.3 WEEKLY DIARY OF AUDITOR**

- (i) The Lead Auditor of the Party shall submit the weekly diary in prescribed form showing the work done by all the auditors of the party (including the Lead Auditor) during a week to the District Audit Officer on the first working day of the succeeding week;
- (ii) The weekly diary must show the work done by each auditor separately;

- (iii) The weekly diary shall be submitted on the last day of the week. If the last day(s) of the week is holiday, the same will be submitted on the next working day;
- (iv) The man-days consumed during a week shall be calculated @ 0.5 day for one day's work of an auditor and the progressive total of the days consumed by the weekend out of the allotted days shall be reflected in the weekly diary;
- (v) The weekly diaries of each audit party shall be scrutinized in the office of the District Audit Officer by the programme auditor properly for the purpose of monitoring the audit work in the field and bring the lapses, if any, there-in to the notice of the District Audit Officer for necessary action there-on;
- (vi) The weekly diaries of each audit party shall be approved by the District Audit Officer after scrutiny;
- (vii) The approved weekly diaries of the audit party shall be referred to while checking the tour particulars of the auditors of the party for drawal of their Travelling Expenses;
- (viii) No travelling expenses claims for the period of time consumed in excess of the allotted days for audit of any institution of any party shall be entertained unless and until the extension period is sanctioned by the Examiner of Local Accounts;
- (ix) The District Audit Officers and the Audit Superintendents shall prepare their monthly tour programmes with reference to the weekly diaries of different audit parties for review on the progress of audit;
- (x) A check register of weekly diaries of Auditors shall be maintained in the prescribed Form No.-18 in each District Audit Office regularly to watch and monitor the audit work in the field.

## **CHAPTER-8**

### **AUTOMATION OF LOCAL FUND AUDIT (ALFA)**

#### **8.1 AUTOMATION OF LOCAL FUND AUDIT**

Prior to the year 2011-12 the audit activities of the Local Fund Audit were processed manually. But with the advancement of information technology and introduction of e-Governance system, organization of Local Fund Audit has initiated on line system of functioning of audit work. Directorate of Local Fund Audit has developed its own website in the name of AUTOMATION OF LOCAL FUND AUDIT (ALFA). The ALFA provides details of information about the Local Fund Audit Organization i.e. Auditable Institutions, Annual Audit programme, Organizational Structure, Govt. Notifications & Circulars, Audit Reports etc. From the year 2012-13 onwards, preparation of audit programmes, generation and submission of audit reports, scrutiny and approval of audit report and monitoring of entire gamut of audit works are being processed through the ALFA system. All the statutory actions including surcharge action are also conducted and managed through the ALFA system. The development of on-line system of functioning has brought transparency and efficiency in audit work. At the same time, it has also helped to reduce the time and financial constraint in audit functions. The domain in ALFA system is open to general public and it has enabled to develop the interface between audit organization and the public. Hence, the on-line system of functioning of audit organization has given a new face to the Local Fund Audit organization.

Prior to implementation of the project, the entire process was in manual mode causing unnecessary delay and duplication in work, resulting in inadequate monitoring, absence of standardisation and public accessibility.

ALFA provides a complete e-solution for the audit process of Local Fund Audit Organisation starting from the formulation of Annual Audit Plan & Programme, assignment of audit to different parties, review of progress of audit, uploading and review of the audit report, tour management of the audit personnel, availability of audit reports in the public domain etc. to revolutionisation of the perspectives and profiles of the organisation.

It provides interface for all the functionaries within the organisation and with the auditee institutions under other Government departments. The citizens can have access to the rules, regulations as well as approved audit reports available in the system.

The Chartered Accountant Firms (CA Firms) undertaking accounts review of aided colleges can access the system, know their assignment status and upload reports .

The system provides for two way communication - from the field level to the headquarters and vice-versa. Important circulars and notifications are

made available in the site for reference. Besides, there is an intra-mail service for internal communication.

The important functions of ALFA are explained below:

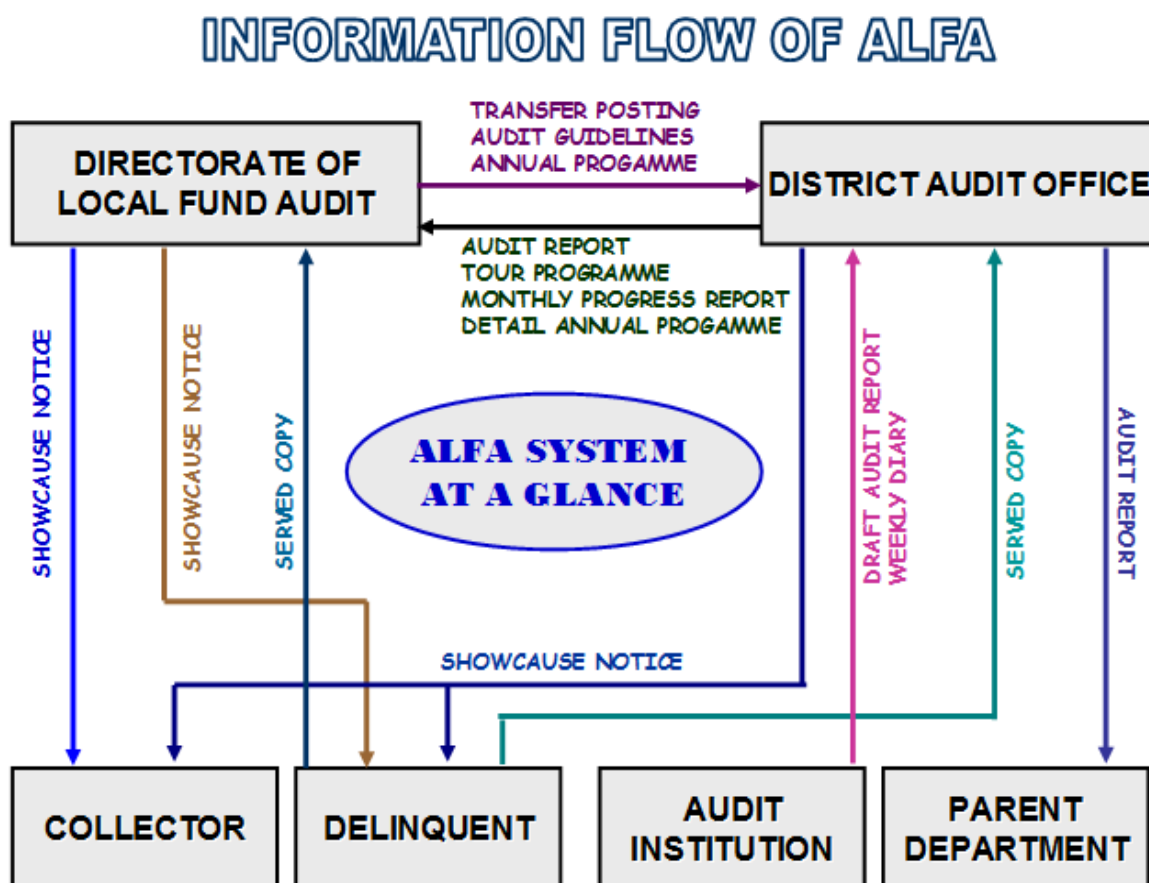
The screenshot displays the ALFA website interface. At the top, there is a navigation bar with the time '11:18:06 AM' and a 'LOGIN' button. The main content area is divided into several sections:

- Directorate of Local Fund Audit (DLFA):** A central text block describing the organization's role as the Statutory Audit Organization of Government of Odisha, established in 1948. It mentions 23 District Audit Offices and lists various entities audited, including Panchayat Samities, Gram Panchayats, and Universities.
- CITIZEN SERVICES:** A list of services including:
  - OLFA Statutes (Act/ Rule)
  - District Audit Offices(LFA)
  - Auditee Institutions
  - Audit Report
  - S.R.T.I
  - Miscellaneous
  - Circulars / Notification
  - Approved Audit Plan
  - Contacts
- NEWS:** A section titled 'update MY PLAN Screen by 22/03/2014 - 5PM for further action at DLFA' and another news item about 'ALFA training to the DAO and Programme Auditor for Database updation and Annual Audit Programme 2014-15'.
- SERVICES FOR ALFA USERS:** A list of utility services such as 'Download Mozilla Firefox', 'Download Pdf Reader', 'Download Odia SW(Windows)', and 'Accounts Review for colleges'.
- DLFA Annual Conference:** A central image showing a group of people at a conference.
- Footer:** Contains copyright information for 2013 Finance Department Govt. Of Odisha and a disclaimer.

The Automation of Local Fund Audit (ALFA) was launched in May, 2012 in order to effectively monitor the audit programme, issue of audit report, follow up action on the audit report such as initiation of surcharge proceedings, action and final recovery of the surcharged amount through Odisha Public Demand Recovery Act. It is an internet based system through which the real time reports are available. It is a comprehensive online audit

management system comprising of various sub-systems to cater to the requirements of auditing operations.

## 8.2 INFORMATION FLOW OF ALFA



### 8.3 The ALFA functionalities involve the following activities

- Preparation of an accurate Annual Plan Programme
- Online Weekly Diary Management
- Systematisation of audit workflow
- Monitoring Weekly Diary
- Monitoring Tour Programme
- Member Reshuffling
- Institution Reshuffling
- Audit Reports Management through Common Audit Format
- Compliance management
- Surcharge management
- Audit report preservation
- Corrigendum management
- Grievance management
- Mailing service management
- Online query management system etc.

## **8.4 PREPARATION OF ANNUAL PLAN AND PROGRAMME**

Preparation of Annual Plan & Programme through ALFA system involves the following steps:

### **8.4.1.1 Annual Plan & Programme in District Audit Offices**

- i. Plan Initiation: The audit process for a new programme year is initiated by the Director, LFA.
- ii. Manage Auditors
  - (a) Office Management
  - (b) Party Formation

The District Audit Officer after getting information of initiation of the new plan programme from the Directorate through the system generated SMS allots Auditors for the Office work like Programme Auditor/ Surcharge Auditor etc. Then the Programme Auditor creates the Party and allots auditors in each Party and sends it for approval of the District Audit Officer who approves or rejects.
- iii. Manage Institutions(Party wise)
  - (a) Institution Selection
  - (b) Year of Accounts Selection
  - (c) Transit Days Allocation
  - (d) Approval of Party wise Annual Plan Programme by DAO:  
The programme Auditor allots auditee Institutions against each party along with Pending year of accounts & type of audit to be conducted (general or thematic).
- iv. Reviewer Management.  
The programme auditor allots one Reviewing Officer against each Institution.

### **8.4.2 Approval of Annual Audit Programme**

- i. District Level by DAO: The DAO approves / rejects the proposal submitted by the programme auditor. After final scrutiny of the proposal, DAO sends the entire Draft Plan to the DLFA.
- ii. Directorate Level.

The Programme Auditor at DLFA makes a thorough scrutiny and sends the Draft Plans received from all DAOs to the Audit Superintendent (Programme, DLFA). The Audit Superintendent of DLFA forwards the same with his / her remarks to the AE-cum- Assistant Director. The AE-cum- Assistant Director forwards the same to the DE-cum-Deputy Director. The DE-cum-Deputy Director can modify the proposal and sends to the Director,

LFA. The Director, LFA can approve or instruct the DE-cum-Deputy Director to make necessary changes.

Execution of above activity through ALFA system saves substantial time and manpower and provides the user with correct plan and programme.

#### **8.5 ONLINE WEEKLY DIARY MANAGEMENT**

This is the only State Govt. Organisation where daily performance of personnel is being monitored on-line, which shows everyone's contribution towards governance. Each auditor deployed for audit submits his/her daily official work (daily diary) online, which is made available to higher authorities for monitoring the work progress.

#### **8.6 TOUR PROGRAMME MANAGEMENT (AUDIT SUPERINTENDENT/DISTRICT AUDIT OFFICER)**

Tour proposal initiation, its approval at Head Quarter level and tour report submission all are done online. These activities are followed with SMS service, so as to execute the process quickly. This helps higher authorities in monitoring the work progress as well as brings transparency in governance.

#### **8.7 MEMBER RESHUFFLING**

This module helps the DAOs in managing members (auditors) in a party. The proposal of dropping any member and adding any member to a party is initiated at district audit office level and the same is made available to Head Quarter for approval/rejection. Only after the Head Quarter level approval, the changes are made available to concerned user.

#### **8.8 INSTITUTION RESHUFFLING**

This module is similar to the above one. Through this module, DAO initiates the proposal for managing the institutions allotted to a party. The proposal of dropping any institution and adding any institution to a party is initiated at District Audit Office level and the same is made available to Head Quarter for approval/rejection. Only after the Head Quarter level approval, the changes are made available to concerned user.

#### **8.9 AUDIT REPORT PREPARATION**

This is the main feature of the system. Earlier there were 19 different formats for preparing draft audit reports for 19 different categories of auditee institutions. But for enhancing the clarity of the report after a number of discussions a Common Audit Format for all 19 categories of auditee institutions has been introduced.

It involves the following steps:

- i. Preparation of Draft Audit Report(DAR) by Lead auditor
  - (a) Entry of Para wise Audit findings as per Model Pro-forma
  - (b) Entry of Delinquent wise Surcharge
  - (c) Entry of Para wise Misappropriation/Loss of Stock & Stores
  - (d) Entry of Various Statements



- ii. Review of DAR by Reviewing Officer
- iii. Scrutiny & Approval of DAR by DAO
- iv. Publication of DAR

#### **8.10 COMPLIANCE MANAGEMENT**

According to the OLFA Act, 1948, Local Authority has to submit the compliance against each Audit Report within 60 days of receipt of the approved report. Since the reports are made available to public as soon as it is approved by DAO, now waiting time for receiving the report from DAO is saved. The compliances received, in hard copy, from Local authority are entered into the system for further processing.

#### **8.11 Corrigendum Process for institutions other than GP**

This process will be activated only for reports approved by DAO and preserved by the System. The corrigendum process is to be carried out at Surcharge Section. It is initiated at Surcharge Auditor level of each DAO.

##### **Detail Process Flow**

Before initiation of surcharge activity on an approved audit report, corrigendum process on that report must be completed.

##### **Surcharge Auditor Activities on Corrigendum process:**

When Surcharge Auditor logs in, two link buttons will appear on the screen. Auditor has to click on the **Corrigendum** button to start the process.

A screen showing all approved and preserved audit reports for the district will appear. Auditor has to scrutinise the reports one by one and if no correction is required then Auditor has to click on "**No Findings**" button otherwise click on "**Findings**" button provided against each row of approved report.

If the report is found to be correct and no corrigendum is required then user has to click on the "**NO FINDINGS**" button. To accept the no corrigendum against the shown report user has to click on the "**Accept**" button.

For the cases, where corrigendum is required, user has to click on "**Findings**" button and then a screen will appear where user has to select the appropriate para for providing the findings.

Auditor can view the content of the para in the left half and in the right half he can provide the corrigendum for the selected para and click on "**Save**" button to save the content of corrigendum.

If correction is required at surcharge level user can do the same by clicking on the "**Manage Surcharge**" button.

Auditor can view the surcharge report by clicking on the "**Surcharge Report**".

Auditor has to click on the "**Submit Findings**" button. A screen will appear where he can view the Draft corrigendum report. If it is correct then

he/she has to click on the "**Submit**" button, so that the same can be viewed at Audit Superintendent (Surcharge Section) level.

#### **Surcharge Audit Superintendent Activities:**

A link to corrigendum is also given in the home page of Audit Superintendent of Surcharge Section.

When Audit Superintendent clicks on the **Corrigendum** button a screen will appear showing all Findings/No Findings submitted by Auditor.

Here Audit Superintendent has to view the preserved Audit Report first and then he/she can view the Findings submitted by Auditor by clicking on the "**Findings**" button in case of Findings submitted by Auditor otherwise for case where Auditor has submitted 'No Findings', Audit Superintendent can submit the same or can enter his findings against the report and submit to District Audit Officer.

Audit Superintendent can correct the findings as submitted by Auditor by clicking on the "**Edit**" button shown against appropriate para. Audit Superintendent can add new findings against other paras by clicking on the "**ADD NEW FINDINGS**" button.

#### **DAO level Corrigendum Activities:**

District Audit Officer can initiate corrigendum process against approved and preserved Audit Reports by clicking on the "**Approved Audit Report**" button appearing in his/her Home page. Against each approved Audit Report in **Corrigendum Action** column there will be "**No Findings**" button for the cases where Surcharge Auditor & Audit Superintendent have mentioned that no correction is required and for which correction is required, "**Findings**" button will appear.

District Audit Officer has to click on "**Findings**" button to view the draft corrigendum report prepared by Surcharge Auditor & Audit Superintendent along with Audit Superintendent's view in the screen.

District Audit Officer has to verify the things if found to be correct, he/she can certify the same by clicking on the "**Certify Corrigendum**" button; he/she can send back the findings to surcharge Auditor for modification along with his/her views. Each time after typing the comments, DAO has to click on the "**Save**" button. After certification, the "**Print Corrigendum**" button will be activated. For printing the corrigendum report DAO has to click on that button, then a screen will appear, where DAO has to enter details regarding to whom, it is required to be sent and save the same by clicking on the "**Save**" button. User has to click on the "**Print**" button to print the report.

### **8.12 ALFA-SURCHARGE PROCESS FLOW**

Surcharge is initiated only after completion of Corrigendum Process. Depending upon the surcharge Amount, it is initiated at different levels as mentioned below.

Audit Superintendent can initiate surcharge for the cases where surcharge amount  $\leq$  Rs.50,000/- and DAO can initiate surcharge for the cases where surcharge amount  $>$ Rs.50,000/-.

The Home Page for initiation of Surcharge will display the following buttons.

To start the process, Auditor has to click on the "**Surcharge**" button. A page for verifying surcharge will appear, where user has to select the plan year and the auditee institution from the dropdown menu.

User has to verify delinquent wise by clicking on the "**Verify 9(2(b))**" button. When user clicks on the button, a screen showing details of amount for which the delinquent is responsible in different paras along with the detail remarks will be displayed. User has to go through the report and if satisfied, he/she has to click on the "**Certify**" button else if not satisfied, user has to click on "**Not Certify**" button.

If user is not satisfied with the surcharge detail, he/she has to click on "**Not Certify**" button so that he/she can put required remarks in the remarks space and has to click on the "**Submit**" button to forward the same to higher authority. To certify the correctness of the data, user has to click on "**Certify**" Button for further process.

Now the verification at surcharge Auditor level is over for U/s 9(2)b. Now depending upon the surcharge amount value next process will be activated at Audit Superintendent level or DAO level.

Here in the above screen for all verified (verified by Auditor) cases along with not verified cases by Auditor will appear. Audit Superintendent can issue by clicking on the "**Issue**" button in case of verified cases else he/she can verify the 'not verified' cases and then issue the same.

When "**Issue**" button is clicked, a report will appear which can be used as show cause notice.

For verified cases, the "**Issue**" button will be activated at Audit Superintendent/DAO level as per the logic as mentioned above. After issue of 9(2)b, the screen will appear with reminder for 9(2)b button along with served copy of 9(2)b.

The reminder report can be generated if required.

In the above reminder report, user has to provide required inputs like letter No., date, issued to, memo Nos., delinquent address etc. To save the input, user has to click on "**Save**" button before clicking on the "**Issue**" button. The reminder report will be generated.

After receiving the served copy, user has to click on the "**Receive Serve Copy**" link to provide compliance status.

If user clicks on "**OK**" button the screen will be viewed.

After receiving served copy of 9(2)b, the 9(3) process will be activated in Audit Superintendent/DAO level.

The process flow for 9(3) is similar to as mentioned for 9(2)b case.

### **8.13 Audit Process**

- All members of an audit party can take up only one institution for audit at a time.

- One party can take up another institution for audit either after Completion of audit of one institution in all respect as planned in the programme or in case the institution is deferred for certain genuine reason.

#### **8.14 Weekly Diary**

Every member of a party has to enter daily diary and the Lead Auditor of the party has to submit the weekly diary online. In case of unavailability of 'Net connectivity', hard copy of the diary will reach to Dairy manager, who will be entering the dairy details at District Audit Office.

#### **8.15 Tour Process**

- Reviewers have to submit their tour programmes online and get it approved by Deputy Examiner before performing any tour.
- Only for approved tours, reviewers can submit review reports and higher authorities can monitor their tour programme.

#### **8.16 Introduction of Common Audit Format**

- Steps have been taken to introduce a common audit format for all 19 different categories of Institutions
- The new format is simple and compact to accommodate required information including the relevant financial statements

#### **8.17 Introduction of Messaging Service**

- Intra ALFA mailing service enables ALFA user in communicating among themselves
- SMS integration at various transaction level is helping in quick disposal of matters
- SMS is auto delivered to higher authorities

#### **8.18 Users of ALFA**

ALFA portal has been designed, keeping in view the convenience of the users. The users/stakeholders of the system are mainly:

- Director
- Joint Directors
- Deputy Directors
- Asst. Directors
- All District Audit Officers
- Auditors and Audit Superintendents
- All Officers of Finance Department
- Empanelled Chartered Accountant Firms
- IPAI Auditors
- Interested citizens

#### **8.19 24x7 Accessibility**

The ALFA application module is available only through internet and it is accessible by the users on 24 x 7 basis.

#### **8.20 Online Help**

Through this system, user is being provided with a help facility to overcome the problems they are facing while using the application.

#### **8.21 Grievance Redressal Management**

Besides the Help facility, another facility for smooth functioning of the application has been provided to user, i. e., 'grievance management'. User submits grievances online and those are made available to the proper authority to act on them.

#### **8.22 Online User Manual**

Online user manual is available in the ALFA portal for all important modules.

#### **8.23 Online Query facility**

Any user can search the position of the other user. The status of the audit progress, completion and pendency etc can be viewed by this process which enables the authority to monitor properly.

#### **8.24 Odia Report Format**

For Gram Panchayat audit, Auditors are required to submit data in Odia language. For each paragraph, predefined formats have been incorporated into the system so as to help the user to feed data easily and accurately.

## **CHAPTER-9**

### **AUDIT PROCEDURES**

#### **9.1 INTRODUCTION**

Audit is an instrument of financial control. It performs the same functions in the financial field as the police in the maintenance of law and order. As such, while performing such a significant work, the person who is officially designated as Auditor for the purpose, shall see that the interest of tax payers against any extravagance, carelessness or fraud on the part of the official or management in realization and utilization of public money and other assets is properly safeguarded. Besides, it must ensure that the accounts maintained truly represent facts that the rules and orders framed by competent authority in regard to financial matters have been duly obeyed; that the expenditure has been incurred with due regularity and propriety; and it must bring to notice of the competent authority any irregularity or impropriety in connection with the realization and utilization of public money without fear and favour.

Apart from the rules and regulations in regard to the financial matters, which an Auditor refers to in auditing, the personal zeal and interest of the Auditor in his work and the application of his own skill, personality and experience to the constantly changing facts presented before him carry the real value of an audit.

#### **9.2 PHYSICAL VERIFICATION OF CASH AND STOCK & STORES**

Under the provisions of Rule 20 (a) of the Orissa Local Fund Audit Rules, 1951, the auditor shall, before commencing the audit on the accounts of a Local Body, verify the cash balances, the securities held by the local authority, the postage stamps and also the stock of saleable forms, unspent balance of permanent advance, revenue court fee stamps, printed forms kept for issue of receipts for payment received. The result of verification shall be recorded in relevant book, so that when audit reaches that stage of check, he can see if the actual balance agrees with the book balance.

#### **9.3 VERIFICATION OF SCHEDULES IN FORM 'A' & 'B'**

The auditor shall examine the schedules in form 'A' & 'B' containing technical irregularities in payment and adjustment vouchers and technical irregularities, defects and commissions in accounts and registers respectively left with the local body by last audit for necessary compliance and shall see if the defects have been properly remedied.

#### **9.4 CHECK OF RECOVERY OF SUMS SURCHARGED**

Immediately before taking up an audit, the auditor shall check the recoveries relating to the surcharge cases pertaining to the local authority concerned with reference to the local records and satisfy himself that they have been duly credited to the local fund and report the matter to the District Audit Officer (Rule 15 of O.L.F.A. Rules 1951).

## **9.5 AUDIT OF RECEIPTS**

The audit of receipts will ordinarily start with the cash book and in checking the receipts the entries will be traced from the various registers, counter foils of receipts, treasury challans, office copies of bills etc.

In dealing with receipts, the auditor should examine:

- (a) that the totals in the several registers are correct and all amounts shown as realised in the Daily Collection Registers / Subsidiary Registers are reflected in the cash book;
- (b) that the receipts in proper printed form have been granted in all cases over the dated signature of the head of the office or the person authorised to make such collection / to receive such dues;
- (c) that the receipts have not been appropriated for departmental expenditure;
- (d) that remissions of revenue have not been granted in any case without proper sanction;
- (e) that there are challans in support of the amounts directly credited by the parties at the Treasury;
- (f) that the amounts have been credited to the proper heads of account;
- (g) that the demands are correctly assessed and punctually and fully realised. Particular attention should be paid to loan, house rent and hire charges;
- (h) that collections are not unnecessarily retained in the hands of the collecting staff; and
- (i) the stock account of receipt books has been maintained properly.

The auditors must pay special attention to unusual delays in the remittance of collections to Treasury. If such delay is casual and relates only to small amounts, it may be merely noted as an irregularity. If, however, the delay is systematic and relates to large amounts, the matter should be specially dealt with in the Audit Report. They should see that there is no leakage of revenue for want of adequate rules regarding assessment and collection and suggest modifications of rules in force in such cases to the District Audit Officers. Apart from the general procedure for audit of receipts, mentioned above, the auditors have also to examine the following points while auditing the receipts of a local body from different sources.

### **9.5.1 TAXES AND NON-TAXES**

- (i) It is primarily the responsibility of the Local Authorities to see that all items of revenue and other dues, which have to be brought to account, are correctly and promptly assessed, realised and credited to the Local Body fund. Under the various Acts relating

to Local Bodies, the Examiner of Local Accounts has been entrusted with the audit of accounts in respect of both receipts and expenditure and as such, it is also one of the important functions of the Audit Department to see that all sums due to the Local Body have been realised and properly accounted for. It should also see that the initial accounts of demand have been properly prepared, that all items of demand have been entered in the accounts, that the demand arrived at in the case of taxes and fees is generally correct and that adequate steps have been taken to enforce recovery. Any investigation by audit in this regard must be so conducted as not to interfere with the executive responsibility.

- (ii) In conducting the audit of receipts, audit should ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment and collection of revenue and to see by an adequate detailed check that any such regulations and procedures are being observed and that demand, collection and balance statements are regularly prepared and agreed with the subsidiary registers of demand and collection and the balances are regularly reviewed or checked in the manner specified by the Statutory Rules, Government Orders or Regulations, if any. In the audit of receipts ordinarily, the general is more important than the particular.
- (iii) It would be necessary to ascertain what checks are imposed against the commission of irregularities at the various stages of collection and accounting and to suggest any appropriate improvement in the procedure.
- (iv) Ordinarily audit will see that no amounts due to local bodies are left outstanding on their books without sufficient reason. Audit will continue carefully to watch such outstanding and suggest to departmental authorities any feasible means for their recovery. Whenever any dues appear to be irrecoverable, orders for their write off should be suggested.
- (v) Frauds and embezzlements are not infrequent in the collection of revenue in local bodies. The system of revenue collection should be closely scrutinised to see whether the fraud or defalcation was rendered possible by any defect in the rules or whether it was due to neglect of rules on the want of supervision on the part of any person responsible for the administration of the fund. It is the duty of audit, therefore, at such investigations



to suggest safeguards that are likely to prevent the recurrence of such frauds or defalcations.

- (vi) Objections for want of tax receipts in support of outstanding items of taxes and of payees receipts in support of disbursements made are serious ones, as such cases on investigation may, at times, disclose frauds or defalcations. Objections of this nature, therefore, deserve immediate attention and investigation. The auditor should, therefore, prepare a report thereon soon after the defect is noticed and communicate to the Executive Authority of the Local Body for necessary compliance.
- (vii) The more important points to be examined in the audit of assessment, collection and accounting of taxes and other receipts are given below.
  - (1) That the prescribed procedure such as the obtaining of higher sanction, the publication of proper notification, has been observed, wherever a new tax is levied or the rate of an existing tax is revised.
  - (2) That the assessment is in accordance with the scale, if any, fixed in the Act or Regulations. (Note:- Only a few assessments need be checked).
  - (3) That exemption has been granted only in cases entitled to exemption under the provisions of the Act or the Rules.
  - (4) That all taxable items have been entered in the appropriate Demand Registers and proper watch is also kept over the growth of revenue by obtaining Supplementary list of persons or properly liable to tax.
  - (5) That collections have been posted in the appropriate Column of the demand and arrear demand registers.
  - (6) That a Demand, Collection and Balance Statement has been prepared in the Register at the end of the year and the collection as noted in such statement agrees with the collection as entered in the collection Registers.
  - (7) That the writes-off of outstanding tax, if any, are supported by complement sanction and there is a record to show that the items are really irrecoverable.
  - (8) That the grant of remissions is in accordance with the rules or orders.
  - (9) That the arrears are not barred by limitation and legal action has been taken for recovery of the outstanding dues timely as per the provisions of the law.

### **9.5.2 OTHER INCOME**

The items of other income vary from institution to institution. But items of income from leases, rents and miscellaneous sales are common to all the institutions. The general principles of audit of these items are as follows.

#### **(a) Leases**

With regard to leases of property belonging to a Local Body or managed by it, it should be seen in audit:

- (1) that all property usually leased out has been leased out;

**NOTE:-** The Miscellaneous demand register or other register for the previous year which contains a record of property leased out during that year should be examined to see that all items have been leased out during the current year also and in case of omission a record of reasons for such omission is available

- (2) that ordinarily leases of markets, cart stand etc have been sold in public auction after due publicity; that sale notices and sale lists are in such cases available and that the amount of bid has been accepted by competent authority;
- (3) that a registered agreement has been taken setting forth the conditions of lease;
- (4) that security has been taken for due fulfilment of the terms of the lease;
- (5) that the payment of instalments is watched through the miscellaneous demand register or any other register prescribed for the purpose;
- (6) that penal interest, if any, due under the agreements for belated payments has been correctly calculated and recovered;
- (7) that in cases of persistent default, action has been taken to terminate the lease as provided in the agreements;
- (8) that remissions granted, if any, satisfy the conditions prescribed in the rules or orders.

### **9.5.3 Miscellaneous Sales**

In the case of miscellaneous sales, it is to be seen that the sale proceeds received against the article sold is confirmed by the competent authority. Further it is to be ensured that the sale proceeds have been received against proper receipt and duly accounted for in the relevant books of account.

#### **9.5.4 GOVERNMENT GRANTS AND RECEIPTS FROM OTHER BODY**

The Auditors are to see that the Government Grants and receipts from other bodies, if any, due to the local body as per the sanction orders of the Government and release orders of other bodies respectively have been drawn / encashed by transfer credit to the accounts of the local body concerned for the purpose. The auditors are also to see that the Register of Grants and the Register of cheques and Drafts have been maintained properly.

#### **9.5.5 DONATIONS AND CONTRIBUTIONS**

Donations and contributions are generally received from Public, Philanthropists, NRIs etc for a specified cause or causes like construction of Hospital Buildings, opening of new schools or for such other purposes. The Auditor is to see that such type of receipts, if any, has been properly accounted for.

#### **9.5.6 ENDOWMENTS**

Endowments may be in the shape of land, buildings or cash which are donated to local bodies by donors such as Philanthropists, NRIs and such other rich people with a condition to utilise the lands and buildings for specific purposes and proceeds / interest as the case may be for a specific purpose such as grant of scholarships to a certain category of meritorious students. The different categories of Endowments of the Institutions will be recorded in the Register of Endowments in different sets of pages. The main purpose of audit is to ensure that the various items are utilised / appropriated for the purpose for which they are endowed.

#### **9.5.7 LOANS**

The borrowings of Local Bodies are governed by the provisions of the Acts and Rules of the Institution concerned. It should be seen in audit:-

- (i) that the loans raised by the local body are covered by proper authority;
- (ii) that the loan sanctioned is drawn only when it is required for expenditure; and
- (iii) that the transactions in respect of loans are being recorded in the loan ledger/register.

#### **9.5.8 INVESTMENTS**

It should be seen in audit that investments of surplus balances, Provident Fund amounts, etc conform to the rules that proper accounts of such investments are maintained; that interest is realised on the due dates and brought to account and certificates, bonds on receipts in support of investments are provided for verification. It should also be seen in audit that surplus funds are invested in Nationalised Banks only.

## **9.6 AUDIT OF EXPENDITURE**

### **9.6.1 GENERAL PRINCIPLES**

Expenditure from the funds of Local Bodies is subject to the following essential audit checks:-

- (i) that the funds have been expended only for the purpose authorized by the Acts or Rules;
- (ii) that the sanction, either special or general, of the authority competent to sanction the expenditure has been obtained;
- (iii) that the sanctioning authority possesses the necessary power to accord sanction;
- (iv) that the expenditure has not been split up to avoid the sanction of the higher authority;
- (v) that there is provision in the budget estimate to meet the charges or that re-appropriation have been duly sanctioned;
- (vi) that every payment is supported by a voucher in proper form;
- (vii) that the vouchers are consecutively numbered, are arithmetically correct and contain no erasures or over-writing. It should be seen that the signature of the payee whenever recorded in the bill, agrees with that given on the receipt and all corrections are duly attested;
- (viii) that the vouchers are supported by proper receipts and there are acknowledgements of the payees even in the cash memos;
- (ix) that the amounts paid are correctly entered in the relevant registers;
- (x) that all bills are passed for payment by the competent authority and that the payment orders are expressed both in words and figures;
- (xi) that all paid bills have been stamped "Paid";
- (xii) generally that any particular rules introduced, are followed, prescribed forms are used and that the expenditure has been incurred with due regard to broad and general principles of financial propriety. Cases involving a breach of these principles and thus resulting in improper expenditure or waste of public money should be treated by audit in the same manner as cases of irregular or unauthorised expenditure are treated.

### **9.7 CASH BOOK**

While checking the cash book, the Auditor shall see:-

- (i) that the cash book is maintained in the prescribed form;
- (ii) that the cash book is written up daily;
- (iii) that the Receipts and payments entered in the cash book are correctly classified and all the entries are arithmetically correct;
- (iv) that the Cash Book is balanced daily and signed by the Competent Authority. That the totals of the cash books have been checked by the competent authority or got checked by a member of the office other than the writer of the cash book;

- (v) that all totals, subsidiary totals amounts brought forward and balances worked out in the cash book are correct;
- (vi) that the payments of advances and their adjustments are properly exhibited and monthly review of outstanding advances and adjustments therefrom are recorded in the Cash Book;
- (vii) that the cash balance has been verified physically at the end of each month and the results of verification recorded in the Cash Book both in words and figures. Besides monthly verification of cash balance, there are surprise verifications by the Higher Administrative Authorities of the local body at intervals;
- (viii) that the instructions issued by the Government regarding maintenance of Cash Book from time to time, if any, are strictly followed;
- (ix) that the prescribed limit up to which money may be held in the chest has not been exceeded;
- (x) that T. V. or bill wise analysis of cash balance has been made at the end of each month;
- (xi) that a main Cash Book showing total transactions of each subsidiary Cash Book has been maintained;
- (xii) that if there have been cases of diversion of funds from one head to another except in cases of pooling of funds for creation of suspense reserve. If so, the Auditor has to comment on it;
- (xiii) that if there has been rush of heavy draws from Treasury towards the end of the year without prospect of immediate disbursement. If so the same should be commented upon by audit; and
- (xiv) that the difference between the closing balance of the Cash Book and the Treasury / Bank Pass Book balance at the end of the year, if any, has been reconciled properly. If not, the auditor should comment on it.

## **9.8 TREASURY PASS BOOK**

The Auditor shall see:-

- (i) that the pass book is written up in the Treasury and that each entry is authenticated;
- (ii) that the totals of receipt and payment side are correct;
- (iii) that the collections remitted into the Treasury have been duly credited and that only those sums for which cheques have been issued and encashed have been debited in the pass book;
- (iv) that necessary reconciliation statement of balances as required under the accounting procedure rules has been prepared and written in the PL Account of the Local Body at the time of closing the accounts for each month; and
- (v) that the page certificate is recorded under the signature of the Treasury Officer.

### **9.9 PERSONAL LEDGER ACCOUNTS**

A Personal Ledger Account, which is also called as “Main Deposit Account”, is maintained in the prescribed form particularly in Panchayat Samities and Urban Local Bodies. All moneys received by the local body, remitted to Treasury, drawn from Treasury by self-cheques and payments made by cheques are reflected in the Personal Ledger Account head-wise. The closing balances of a day in the Personal Ledger Account shall tally with that of the Treasury Pass Book. Any discrepancy noticed between the closing balances of the Treasury Pass Book and the Personal Ledger Accounts at the close of financial year shall be reconciled by audit. Besides, the Auditor will also see that the analysis of the closing balances of the Personal Ledger Account at the end of each month has been worked out properly by the local authority.

### **9.10 BOOK OF DRAWALS**

It should be seen that a Book of Drawal for submission of bills to Treasury for drawal is maintained in the prescribed form. This Register is put up before the Drawing and Disbursing Officer, while signing the bills for attesting the entries made therein. The Auditor has to check the receipt side of the Cash Books with reference to the Bill Register and the Book of Drawals as regards the drawals of money from Treasury.

### **9.11 BILL REGISTER**

The audit should see that a Bill Register is invariably maintained in the prescribed form. Bills to be signed by the Drawing and Disbursing Officer are entered in the Bill Register and put up before the Officer along with the Book of Drawal and bills for attestation of the entries in the Registers while signing bills. The Auditor is to check the bill amounts entered in the Cash Book after their Drawals, with reference to the Bill Register and Book of drawals.

### **9.12 BANK PASS BOOKS**

As per the instructions of the Central / State Government, funds received for implementation and execution of various schemes and developmental works should be deposited in a Nationalised Bank by opening a separate Bank Account for each scheme and programme. The Auditor should see that the funds received under a particular scheme / programme have been duly credited to the Bank Account meant for the said scheme/programme and drawn as and when required for the purpose. The discrepancy, if any, noticed between the pass book balance and the balance shown in the cash book under that scheme / programme at the end of each month has been properly reconciled or not, is to be checked by the auditor.

### **9.13 CHEQUES**

It is to be seen that:-

- (i) the cheque Books are obtained from the Treasury or from the Bank as the case may be;
- (ii) each Book contains a specified number of cheques, which has been certified by the competent authority;
- (iii) the Cheque Books are kept in the personal custody of the Drawing and Disbursing Officer and made over to the Accountant whenever required and obtained back daily before the office is closed;
- (iv) no cheque is signed unless required for immediate delivery to the person to whom the money is to be paid;
- (v) the amount of cheque is written both in words as well as in figure on the counterfoil and the counterfoil is initialled by the person or persons authorised to sign the cheques.
- (vi) the cheques are drawn in favour of payees and not in favour of the Drawing Officers except for :-
  - (a) amount required for disbursement of pay of establishment;
  - (b) amount required for recoupment of Permanent Advance;
  - (c) and Government Drafts from the Treasury for payments to be made outside jurisdiction of Local Bodies;
- (vii) the fact of cancellation of a cheque is noticed in red ink upon the counterfoil and reference to the same is available in the cash book against the original entry;
- (viii) intimation regarding all lost cheques for which fresh ones are required to be issued, has been duly sent to the Treasury or the Bank concerned and the fresh cheques are only issued after receipt of intimation to the effect that the payment of lost cheques has been stopped at the Treasury or at the Bank concerned;
- (ix) the fact of destruction and number and date of an old cheque has been entered in the counterfoil as a new cheque is issued in lieu of time expired cheque and note that the drawals has been made against the original entry in the cash book
- (x) Payments exceeding Rs500/- are made by cheques.

### **9.14 CHALLANS**

The audit is to see:-

- (i) that every challan has been stamped with the Treasury seal and has been initialled by the Accountant or by the Treasury officer as the case may be;
- (ii) that reference to credits is available in the Remittance Register

### **9.15 PERMANENT ADVANCE**

In audit, it should be seen:-

- (i) that the Head of the Office or the Authority competent to operate the permanent advance has given an

acknowledgement for the amount of permanent advance held by him on the first working day of each financial year. In case of transfer of charge, the relieving officer has furnished a similar acknowledgement on the date of taking over charges;

- (ii) that the entries in the Permanent Advance Cash Book are initialled by the Head of the Office or the officer competent to do so as the case may be;
- (iii) that recoupments are always made in full on the last working day of the month and if necessary, more than once, in course of a month;
- (iv) that the amounts of the sub-vouchers audited need be compared with the entries in the Permanent Advance Cash Book;
- (v) the totals of the Permanent Advance Cash Book and to compare the total with the recoupment voucher;
- (vi) that all sub-vouchers have been stamped "paid in cash and cancelled"

#### **9.16 ADJUSTMENT REGISTER**

The auditor should check:-

- (i) all entries in the Adjustment Register with the adjustment vouchers;
- (ii) that adjustments are recorded in sufficient details and correctly made;
- (iii) the totals of the Adjustment Register for each batch of adjustment and trace the totals of credits and debits in the abstract of receipts and payments.

#### **9.17 ADVANCE LEDGER AND ADVANCE TRANSACTIONS**

While checking the advance transactions, the Auditor should:-

- (i) trace all advance payments into the Advance Ledger;
- (ii) see that the ledger has been closed monthly and the total of the outstanding advances has been verified with the cash book figure
- (iii) check the closing balance;
- (iv) scrutinise with special care the old items of advances left unadjusted at the end of the audit;
- (v) see that advances have been paid only with the orders of the competent authority and in accordance with the provisions of rules;
- (vi) see that proper receipts (stamped receipts where necessary) have been obtained in support of payment;
- (vii) bring to light the outstanding and the progress of adjustment;
- (viii) trace all items of advance payments and adjustments thereof from the Contractor's ledger except in cases where these are paid to departmental subordinates;



- (ix) see that advances are adjusted within the prescribed time and no further advance has been sanctioned before adjustment of previous one.
- (x) see that complete statement of outstanding advances are regularly compiled and reviewed by the competent authority;

#### **9.18 ABSTRACT REGISTER OF RECEIPTS AND PAYMENTS**

The audit should see:-

- (i) that the entries in the Cash Book and Adjustment Register are posted every day in the Abstract Register of Receipts and payments;
- (ii) that the totals under each head of account is posted instead of item wise details;
- (iii) that the cash book and the Adjustment Register with vouchers and the Abstract Register and classified abstracts of receipts and payments are checked by the head of the accounting staff of the Local Body daily and the balance are proved;
- (iv) that the monthly accounts in proper form have been compiled.

#### **9.19 DEPOSIT LEDGER**

Audit should see:-

- (i) that all deposits received by way of security deposit and other sums which are not the property of the Local Body are entered into Deposit Ledger and the amounts repaid are duly debited;
- (ii) that no deposits are credited except those that have appeared in the cash book or in the Adjustment Register and that no deposit is kept out of accounts;
- (iii) that correct balances are brought forward from previous years;
- (iv) that the closing balance is correct;
- (v) that the Register of Government and other interest bearing securities has been maintained and interest due has been realized.

#### **9.20 INVESTMENT REGISTER**

Audit is to see:-

- (i) that no portion of the general fund has been invested without the special sanction of Government;
- (ii) that the investments have not been used for the purpose other than for which the same were made;
- (iii) that in case of investment written off the register, by sale or other wise the amounts of sale proceeds have been duly credited in the accounts or if the sale has been affected by transfer of the investment, the new investment has been entered in the register.

#### **9.21 LOAN REGISTER**

The Auditor shall see:-

- (i) that the loans raised are covered by proper authority;

- (ii) that the transactions in regard to the loans are being recorded in the loan Register in the prescribed form;
- (iii) that the loan is utilised solely for the purpose for which it is taken;
- (iv) that payment of principal and interest are being regularly made in accordance with the conditions of the loan;
- (v) that the balance of loan outstanding is mentioned in the registers;

Where loans are paid to individuals or to any institution by the Local Body, the Auditor should see:-

- (a) that loans have been sanctioned in strict conformity with the provisions of Rules relating to the Local Body concerned and according to the procedure laid down for the particular kind of loan;
- (b) that the entries in the ledger are correct and complete and agree with those in the bond;
- (c) that the bonds have been taken in all cases, all bonds are complete and correctly filled in and are eventually supported by completion certificates fulfilling the terms and conditions;
- (d) that receipts (duly stamped where necessary) have been obtained for disbursement of loan and amounts shown therein agree with payment entries in the cash book ,Ledger , Bond and disbursement certificate;
- (e) that the amount payable as loan have not been drawn unnecessarily and have been disbursed promptly or else, refunded to the Treasury;
- (f) that all repayment entries are supported by challans (and receipts in case the realization is made by the departmental authorities);
- (g) that interest has been correctly calculated and penal interest has been charged wherever necessary;
- (h) that there is no misclassification of repayments;
- (i) that subsidy is granted or adjusted only in accordance with the provision of rules and orders of Government and necessary records and certificates are available in support of the adjustment;
- (j) that steps have been taken to send requisition to the Certificate Officer and that the Requisitioning Officer has rendered necessary assistance to expedite recovery and kept proper watch on the progress of execution of the certificate proceedings as per the O. P. D. R. Act, 1962 in case of non recovery of loans;
- (k) that notices have been issued timely to parties concerned;
- (l) that steps have been taken, wherever necessary to realise the dues from personal surities;
- (m) that all unrealisable and doubtful cases are brought to light in audit;

- (n) that loans have been utilised for the purpose of which those were granted;
- (o) that all the prescribed registers have been maintained and postings are correct and complete;

A statement showing the amount of loan disbursed, amount falling due for recovery, the amount actually collected and the balance outstanding in respect of each category of loan should be appended to the Audit Report.

## **9.22 REGISTER OF LAND**

Audit is to see:-

- (i) that proper records of all lands including roads, sites of buildings, tanks etc are maintained;
- (ii) that lands acquired through land acquisition proceedings, by private purchase, by free gift or other wise are entered promptly in the Register of Lands;
- (iii) that if any plot of land shown in the Register is sold or otherwise transferred, the entry relating to it is struck off and the facts in connection with the sale or transfer stated in the remarks column under the initials of the Head of the Office;
- (iv) that the register is annually examined and signed by the Head of the Office personally;
- (v) that a registered deed has been executed in each case of purchase and free gift.

## **9.23 GRANT-IN-AID**

**Auditor should see that:-**

- (i) the expenditure is covered by a sanction, the sanction accorded is definite and conditions, if any, precedent to sanction, have been fulfilled;
- (ii) there is a proper sanction order for the grant-in-aid and if any conditions are attached to the payment of the grant e.g time within which the money must be spent, particular object on which grants should be utilised, etc, are specified in the order sanctioning the grant-in-aid. The sanction order must also specify the rule or order under which sanction is accorded, the period for which grant is admissible in the case of recurring grant-in-aid and the budget head to which charge is debitible;
- (iii) the stamped receipts relating to disbursement of the grant and utilisation certificates are furnished promptly by the Local Body concerned;
- (iv) the conditions on which the grants were made have been or are being fulfilled. Breaches of those conditions should be reported.

**Audit is also to see that:-**

- (i) Register Of Grants in the proper form has been maintained;
- (ii) drawals have been made in instalments by transfer credit to the Local Body's Account as prescribed in the sanction order;

- (iii) detailed bills showing the minor head allocations have been attached to the bill while drawing the grant;
- (iv) conditions attached to the payment of grant sanctioned, time within which the money must be spent, particular objects on which grants should be utilised etc, specified in the orders of grant-in-aid have been observed;
- (v) there has been no unauthorised diversion of funds from one minor head to another;
- (vi) all items of expenditure incurred from out of the Govt. grant have been posted in the register and no disbursements have been shown in the register which are not actually disbursed against the particular Government grant;
- (vii) a statement showing minor head wise grants placed at the disposal of the Local Body and expenditures met from out of the grants during the time limit prescribed in the sanction order and balance left unspent shall be prepared and enclosed to the Audit Report.

#### **9.24 BUDGET**

The auditor, in course of audit, shall see the budgetary provision of the auditee institution relating to the year under audit and examine the expenditure with reference to the budgetary provision under different units. Further, the budgetary provision during the current year may be compared with that of the previous year; if substantial difference is noticed, the reasons of such difference in provision should be recorded in the Draft Audit Report. Any event of diversion of fund for expenditure from one unit to another should be examined and reflected in the draft audit para. Further the auditor shall examine the actual receipt & expenditure with that of estimated provision to see whether the budget is realistic.

#### **9.25 RE-APPROPRIATION**

In case of re-appropriation, it should be examined whether the re-appropriations have been sanctioned by the competent authority and as per provisions of rules. It should be examined whether the savings proposed to be transferred will really accrue after meeting all legitimate charges and there is no tendency to with-hold any payment under the unit. It should also be examined whether re-appropriations give any indication of inaccurate budgeting or insufficient control over expenditure.

#### **9.26 ASSET & LIABILITY**

Auditor shall append to his report a statement of assets & liabilities indicating the financial position of the Local Authority concerned. Such fixed assets as land, buildings, plant, machinery, tools, etc., shall, therefore, be excluded from statement and only liquid assets such as cash (in hand or in treasury, bank or post office), investments, loans, advances and outstanding rents and rates and such liability as unspent balances of earmarked grants, contribution payable, unpaid bill, etc. shall be included in it.

### **9.27 POSTAGE STAMPS REGISTER**

The audit is to :-

- (i) trace all purchases of postage stamps in the Register;
- (ii) check the totals and closing balances;
- (iii) verify the balance in hand as on the date of audit and record the result of such verification on the postage stamps Register.

### **9.28 STATIONERY REGISTER**

It is to be ascertained whether:-

- (i) all purchases of stationery are recorded in the stationery Register;
- (ii) balances have been correctly brought forward;
- (iii) all issues are duly authorised and are in accordance with the sanctioned scale, if any, and supported by acknowledgements;
- (iv) the power regarding local purchase of stationary articles has been duly exercised and the prescribed limit has not been exceeded;

### **9.29 SECURITY REGISTER**

The Auditor shall see:-

- (i) that all employees who are required, by the rules or by nature of their duties, to furnish security, have furnished the full amount of security;
- (ii) that security bonds have been executed in all cases in the forms prescribed and that stamp duty has been paid by the employees concerned;
- (iii) that in the case of personal security and landed property the validity of the securities has been verified by the Head of the Office and this fact certified to in the security Register;
- (iv) that all Government promissory notes pledged as security are forthcoming. If such promissory notes have been lodged with the Reserve Bank of India, see that the amounts are traceable in the Annual list published by the Reserve Bank;
- (v) that the return of the post office Savings Bank Pass Books and other documents have been duly acknowledged by the parties concerned.

### **9.30 ESTABLISHMENT BILLS**

The Audit will see that:-

- (i) establishment and fixed recurring charges are duly sanctioned and are drawn according to the sanctioned scale;
- (ii) last pay certificate is attached to the establishment bills in the case of all transfers of Govt and other servants and that transfers are authorized by competent authority;
- (iii) the date of making over and taking over charges are noted on the bills or on separate reports and that the joining time is not exceeded;

- (iv) in the case of Govt servants deputed to a Local Body, Leave Salary Contributions and Pension Contributions are duly remitted to the Treasury every month as per terms of deputation;
- (v) temporary establishments are separately billed for and are covered by the sanction of the competent authority;
- (vi) provident fund and other deductions are regularly made as required by rules;
- (vii) un-disbursed amounts of pay, have been refunded by short drawals in subsequent month's bill; see that no item is outstanding for more than 3 months;
- (viii) pay, allowances and leave salaries are separately shown in the bill and that the names of all persons on leave, under suspension, on deputation as well as of those holding officiating posts are entered in the absentee statement appended to the bill;
- (ix) leave salary and allowances drawn are admissible under the provisions of the rules in force adopted by the Local Authority;
- (x) the supplementary bills by reference to the original bills from which the amounts were with-held or refunded are checked and the numbers and date of subsequent bills have been quoted on the original bills;
- (xi) arrear pay is drawn in a separate bill;
- (xii) fixation of initial pay and dates of increments have been correctly made and that increments are sanctioned in time;
- (xiii) the amount of an establishment bill for a month is not drawn and disbursed on or before the last working day of the month unless there is specific order of the Govt.;
- (xiv) dated acknowledgements of the employees have been obtained in the bills or in the acquittance rolls and there is no excess or double payments, where the claims are not credited to their Bank Accounts directly;
- (xv) the Pay Acquittance Rolls and the abstract of pay bills are maintained in the prescribed form properly.

### **9.31 TRAVELLING EXPENSES BILL**

The Auditor shall see that:-

- (i) the bills have been countersigned and passed by the Controlling Officer where necessary and are otherwise in order;
- (ii) the journeys billed for have been performed by the shortest and cheapest route;
- (iii) acknowledgements have been obtained in the bill or in the acquittance rolls;
- (iv) claims admitted are in accordance with the rules and orders issued by Government;

Besides, while checking the travelling expense bills, the Auditor has to give attention specifically to the following:-

- (a) that the claims admitted in the bills are in accordance with the tour diaries of the employee;
- (b) that exchange of mileage allowance for daily allowance is correct;
- (c) that the rate of daily allowance has been correctly calculated and halting allowance (i. e. Night Halt) has been correctly charged;
- (d) that the claims in respect of transfer travelling allowance have been correctly calculated.

It will be enough to make a percentage check in respect of item (a) above. Besides, in auditing the accounts of a Local Authority the auditor shall examine a percentage of the countersigned travelling allowance bills of the officials, but in the case of non-official office bearers of the Local Authority, the comments in the audit report may be confined to cases where travelling allowance charges are held to be contrary to law. Where it is necessary to criticise charges incurred by such persons which are not contrary to law, the comments shall not appear in the audit report, but shall form the subject matter of a supplementary memorandum which shall be submitted to the State Government and not to the Local Authority concerned by the Examiner of Local Accounts.

**N.B:-** It is not the intention of the State Government that more or less trivial materials shall be separately reported to Government in a supplementary memorandum but the report is wanted when it appears that there are matters which are of sufficient importance to bring to the notice of Government.

### **9.32 CHECK OF LOG BOOKS OF VEHICLES**

The Auditors should see that:-

- (i) a separate log book has been maintained for each vehicle in the prescribed form and all the columns have been properly filled in;
- (ii) the log book has been reviewed periodically by the officer-in-charge;
- (iii) the mileage run are recorded invariably and vague entries have not been made in the column relating to purpose of journey;
- (iv) the vehicle has not been used for purposes other than those authorised under the departmental regulations;
- (v) hire charges at prescribed rates have been collected where necessary;
- (vi) the arithmetical calculations regarding quantity of fuel and lubricant and mileage run are correct;
- (vii) the mileage run per litre has not varied widely from the average;
- (viii) there is no discrepancy between the issues as per purchase vouchers and fuel and lubricant stock accounts on the one hand and receipts as per Log Books on the other;

### **9.33 MAINTENANCE OF VEHICLE**

It should be seen in Audit that:-

- (i) replacements of all tyres, tubes and other items to the vehicles have been done according to the rules and regulations of the Govt for the purpose and the replaced items have been entered in the prescribed register;
- (ii) all unserviceable materials like tyres, tubes etc have been put to auction;
- (iii) the ceiling limit for petrol / diesel prescribed, if any, is not exceeded;
- (iv) repair of the vehicles is carried out only at the workshops approved by the Govt and the expenditure incurred for the purpose is duly approved by the MVI (Motor Vehicle Inspector) and is within the prescribed limit.

### **9.34 SERVICE BOOKS**

It should be seen:-

- (i) that service books are opened for all regular employees and are in the custody of the Head of the Office;
- (ii) that the record of service of each employee is complete;
- (iii) that leave, increments, promotions, transfers, LTC etc, have been recorded and attested by the Head of the Office;
- (iv) that duplicate service books have been maintained in all cases.

### **9.35 LEAVE ACCOUNTS**

It should be seen:-

- (i) that a leave account is kept for each employee in the prescribed form;
- (ii) that all kinds of leave are recorded in the leave account;
- (iii) that the leave granted is admissible as per rules;
- (iv) that the leave earned / credited to the leave account is as per rules;
- (v) that the leave account is signed by the Head of the Office periodically and is up-to date;

### **9.36 CONTINGENCIES**

The Audit should see:-

- (i) that the bill is in proper form and the classification is correctly recorded thereon;
- (ii) that the requisite sub-vouchers are enclosed to the bills;
- (iii) that the expenditure is a proper charge against the funds of the Local Body;
- (iv) that the expenditure has received such sanction as is necessary;
- (v) that the expenditure has been incurred by an officer competent to incur it; and
- (vi) that the rates are apparently not extravagant.



### **9.37 AUDIT OF EDUCATIONAL INSTITUTIONS**

In auditing the accounts of an Aided Educational Institution, the Auditor shall see the following points in addition to the procedure prescribed for audit of other items mentioned in the foregoing paragraphs of this Manual.

- (i) The fees and fines have been collected from the students at the prescribed rate and remitted to Govt Treasury in full or in part as per the rules and regulations of the Government.
- (ii) The students' funds such as Library, Game, Magazine etc. have been collected from the students and utilised for the purpose for which the same have been collected.
- (iii) The grants-in-aid received either from the Government or from other bodies are spent for the purpose for which they are sanctioned. The terms and conditions attached to the grants have been duly observed while utilising the same for the purpose. The matching contribution, wherever provided, is actually received and spent by the Local Authorities.
- (iv) That no expenditure on School buildings was incurred without the necessary approval of the site plans and estimates
- (v) That no grant-in-aid, stipend, building grants or any non-recurring expenditure was incurred in contravention of the rules.
- (vi) That no book, periodicals, not required for teaching the prescribed curriculum, was purchased without sanction of the competent authority.
- (vii) That the instructions issued by the Government in Education Department from time to time relating to the financial matters have been followed by the Local Authorities strictly.

### **9.38 PONDS**

The audit should see the following points:-

- (i) when ponds under direct management of the local body, the pond keeper's Register of Collections is properly maintained and the collections made thereon are credited to the Cash Book.
- (ii) (a) When ponds are leased out, the bid list and the sale list should be checked to ensure that necessary entries have been made in the Register of Fixed Demand.  
(b) It shall be seen that the agreements have been executed and registered.  
(c) Collection should be checked with the challans and the Cash Book and the remissions with sanctions.  
(d) Genuineness of all remissions should be checked and noted in the audit report. Any case of irregular remissions or remissions granted without proper enquiry and without taking adequate steps for realisation should also be noted.

(e) It shall be seen that outstanding balance at the end of a year has been correctly brought forward to the Register of the subsequent year.

(f) A list of heavy and long outstanding demands should be appended to the audit report.

(g) It should be examined to ensure that no ponds are opened and closed without the sanction of the competent authority.

### **9.39 FERRIES AND MARKETS**

The checks detailed in para – 9.38 should be applied mutatis mutandis to ferry and market receipts.

### **9.40 LICENSE FEES ON CARTS AND CARRIAGES**

The Audit should see that:-

- (i) proper steps were taken to assess all the carts and carriages plying within the jurisdiction of the Local Body;
- (ii) licenses have been granted only to those owners who have satisfied the prescribed requirements of the Local Body;
- (iii) the Register of owners of carts and carriages have been written up properly and that all arrears outstanding have been duly brought forward to the Register of owners for the subsequent years;
- (iv) refunds of license fees, if any, are made in accordance with the provisions laid down in the respective Act;
- (v) the amount of daily totals of the Register have been credited to the Cash Book;
- (vi) the stock Register of License forms and tin tokens have been maintained and the book balances agree with the balances actually in stock. The unused tin tokens for the year under audit should be destroyed to prevent their fraudulent use.

### **9.41 MISCELLANEOUS RECEIPTS**

In addition to the checks mentioned earlier, the following check should be exercised:-

- (i) Receipts from other sources such as rent on land and buildings, sales of property (both moveable and immovable) shall be checked, sales and bid-lists shall be called for and checked with the entries in the Cash Book to ascertain that receipts so realised have been credited to the funds of the local body.
- (ii) It should also be ensured that sales have been conducted properly and that the highest bid has been accepted. In case highest bid is not accepted the reasons for non-acceptance of the highest bid has been recorded in the bid list under the dated signature of the competent authority. In case it is found to be less favourable to the interest of the tax payers, the same should specifically be mentioned in the audit report.

- (iii) In case of rent on land, buildings etc, it should be seen that proper records have been maintained for lease of land; building etc.
- (iv) In case of other sources of fixed income, it should be properly checked to see that the fixed income are realized in time and are credited to the funds of the local body.

#### **9.42 REGISTER OF FORMS**

Audit should see the following.

- (i) All purchases of forms shall be traced from payment vouchers into the forms Register and shall be ensured that all issues are bonafide.
- (ii) It shall be seen that separate accounts have been kept for all saleable forms. Credits of the sale proceeds of such forms shall be traced into the Cash Book.
- (iii) Receipts, issues and balances of all kinds of Receipt Books, License Books etc shall be carefully checked and verified with the stock Register.
- (iv) Also see that annual verification of the stock of forms have been done by the Head of the Office.

#### **9.43 WORKS EXPENDITURE (GENERAL)**

Auditors should see that:-

- (i) administrative approval and technical sanction have been accorded by the competent authority in respect of each work and the work finds place in the approved annual action plan of the Local Body;
- (ii) necessary funds have been provided for incurring the expenditure;
- (iii) estimates have not been split up to avoid the sanction of higher authority and the sanction of the competent authority is obtained where a single estimate is prepared for a group of works;
- (iv) the amount of the sanctioned estimate is based on the quantity of work done as recorded in Measurement Book. Excess over estimate, if necessary, is sanctioned by the competent authority;
- (v) the estimate is properly detailed and each separate item is clearly specified;
- (vi) the expenditure is within the sanctioned estimate and is based on the quantity of work done as recorded in the Measurement Book. Excess over the estimated cost, if any, is regularised by preparation of revised estimate where necessary and is sanctioned by the competent authority;
- (vii) there have been no deviation from the detailed items of the estimates without proper sanction;
- (viii) That the estimates are prepared on the basis of the approved schedule of Rates;

- (ix) if any material is to be supplied departmentally, the facts should be noted in the estimate;
- (x) the works have been check measured before final payment by the competent authority;
- (xi) the estimate clearly indicates the quantum of peoples' contribution, if any;
- (xii) when a new work is to be constructed partly from the materials obtained from the demolition of the old structure, the general practice is to frame estimates for the net cost of the new work. In such cases the Auditors should examine the estimates with particular care and should call for full particulars of the number, quality and value of old materials, if the information is not available from the estimate or connected papers;
- (xiii) when a work is to be executed by departmental supply of materials and the executant is to be paid for labour only, the estimate is prepared showing the cost of labour and materials separately;
- (xiv) all calculations in the work bill are correct;
- (xv) a completion certificates has been furnished on every final bill;
- (xvi) where any work is allotted and executed through tenders the rates charged in the work bills are not in excess of those quoted in the accepted tender; and
- (xvii) all recoverable amounts such as advance payments, security deposits, income tax, royalty, fines and penalties and other dues, if any, are recovered from the contractor's bill;

#### **9.43.1 TENDER**

In cases where works are allotted to contractors through tenders, the audit is to see the following points:-

- (i) that tenders have been duly invited and received;
- (ii) that time given for submission of tenders is adequate;
- (iii) that necessary earnest money has been deposited;
- (iv) that specific rates have been quoted in the tender for all items of work;
- (v) that tender for work at estimated rates or at a percentage in excess or less of such rates without any statement of the rates tendered, are objectionable and may lead to claims in future by contractors;
- (vi) that the comparative statement has been correctly prepared;
- (vii) that the authority competent to accept the tender i.e the authority who accorded technical approval has accepted the lowest tender or reasons for the non acceptance of the lowest tender have been recorded;
- (viii) that if any comments are necessary, they are dealt with separately from the Audit Report and communicated confidentially to the Audit Officer for further action being taken

- in consultation with the Examiner of Local Accounts, if necessary;
- (ix) that the disposal of tender has been made as expeditiously as possible;
  - (x) that where tenders have been invited prior to the sanction of the estimate , the current PWD Schedule of Rates has formed the basis of the tender;
  - (xi) that agreements are executed in standard form applicable to each case;
  - (xii) that the rates, conditions as per the tender are incorporated in the agreement;
  - (xiii) that the time schedule is mentioned in the agreement;
  - (xiv) that the penal provisions in case of failure to abide by the conditions in the agreement are also incorporated;
  - (xv) that all corrections in the agreement are attested by both the parties;
  - (xvi) that claims have been accepted by the competent authority before the work is commenced;
  - (xvii) that fresh tenders are always called for where more than 6 months have elapsed between the date of receipt of tender and its final acceptance in cases where the authority competent to accept a tender certifies that it was not necessary to do so giving reason for the same;
  - (xviii) that the rates entered in the original agreement are the same as the tendered rates in case of works for which tenders were called for;
  - (xix) that agreements are not revised on the score that market rates have risen after the agreements have been accepted;
  - (xx) that if the materials are to be supplied by the Local Body, the materials to be supplied, the place or places of delivery and the rates to be charged to the contractor or executant are specified in the contracts . Vague quotations such as “ issue rates” etc should be avoided and that such rates do not vary from those notified in the notice calling for tenders;
  - (xxi) that contracts are free from ambiguities and rates to be allowed are definitely stated;
  - (xxii) that in cases of improper acceptance of other than the lowest tender noticed in course of audit, the auditor should mention the number of such cases and the number of contracts investigated by him to enable the Audit Officer to draft a suitable para for specific information of the Examiner of Local Accounts;
  - (xxiii) that the whole tender process has been taken up on behalf of the Local Body by an officer or officers empowered to do so.

### **9.43.2 DEPARTMENTAL EXECUTION OF WORKS**

The Auditors should see that:-

- (i) advances made are supported by sanction of competent authority and have been accounted for in the petty / subsidiary Cash Book of the Officer entrusted with the execution of the work;
- (ii) the previous advance has been adjusted before disbursement of the subsequent advance subject to the relaxation provided in the Accounting procedure;
- (iii) the materials and miscellaneous stores purchased are covered by the provision in the sanctioned estimate;
- (iv) such materials and stores purchased from time to time are accounted for in the " Site Account Register";
- (v) the hire charges of trucks, road rollers etc are debited to the works concerned and adjustments are effected under proper heads;
- (vi) the surplus materials and miscellaneous stores purchased for the work have been disposed of under proper authority;
- (vii) the sub-vouchers and Muster Rolls are supported by the quantity of work done recorded in the Measurement Book;
- (viii) Muster Rolls have been correctly prepared, proper acquittances taken and payments are certified by the Junior Engineer in charge of the work;
- (ix) advances given to departmental officers are not allowed to remain long with them without being adjusted or refunded;
- (x) the work-charged establishment is covered by proper sanction;

### **9.43.3 MEASUREMENT BOOKS**

The Auditors should see:-

- (i) that the measurement book is provided with a complete index;
- (ii) that the pencil entries in the Measurement Book in detail measurement have not been inked over except in the contents column, which should invariably be in ink;
- (iii) that the entries in area, content column have been filled in by the person who recorded the measurement;
- (iv) that reference has been given in all cases to the vouchers on which payment has been made;
- (v) that all connected entries in the Measurement Book have been crossed up by the Accountant when he checked and passed the bill;
- (vi) compare the bills with the abstracts prepared at the end of each set of measurement;
- (vii) that the calculations of the detailed measurement mostly in respect of items where the unit rate of cost is high, are properly checked in audit;
- (viii) that the corrections, if any, are attested by the officer concerned;

- (ix) that in case of payment of running bills, reference to previous set of measurement and number of running account bills are clearly recorded before subsequent measurements are taken;
- (x) that measurements are recorded in chronological order;
- (xi) that pages or portion of pages left blank have invariably been crossed and cancelled over the dated initials of the person, in whose favour the Measurement Book has been issued;
- (xii) that there has not been unusual delay in making payments on account of the works already measured. To this end the date of measurement and date of payment, as recorded in the Measurement Book should be compared and the vouchers referred to whenever necessary. Habitual delay in making payments need be thoroughly investigated and a specific report on this made to the Audit Officer;
- (xiii) that required percentage of check measurements have been carried out;
- (xiv) that remarks made by the check measuring authorities and corrections in red ink made after the check measurements do not indicate that the irregularity and incorrect measurements are malafide;
- (xv) that all works of excavation , etc liable to submersion such as closing of breaches, clearing slit, brush work filling river margin are check measured in time by the check measuring authority and the reasons in exceptional cases are given concisely and clearly in the remark column of the Measurement Book by the officer recording the check measurements;
- (xvi) to compare the date of measurement with the date of payment and see that inevitable payments are not postponed at the end of the year with a view to avoid excess over allotment;
- (xvii) that in case of cancelled measurements, the cancellation is supported by the dated initial of the officer ordering cancellation and also full reason for the same;
- (xviii) that the check measurement is conducted with discretion and that the items of work easily susceptible to fraud or which would seriously affect the total amount of the bill, if not accurate , are selected for check-measurement;
- (xix) that measurements are recorded or signed by the superior officer, when measurements are taken jointly by two or more officers;
- (xx) that the Register of Measurement Book is signed by the Head of the Office or the Officer authorized to issue the Measurement Books, on the occasion of each fresh supply of Measurement Books and by both the Relieving and Relieved Officer on every occasion of transfer of charges;
- (xxi) that the used up Measurement Books have been returned to the institution and they are carefully preserved;

- (xxii) that the Measurement Books outstanding for over two years from the date of issue are duly called for, for reissue;
- (xxiii) that sanction of the competent authority is forthcoming for missing Measurement Books. The Audit Officer should investigate cases of Measurement Books lost since the last inspection and report the results of his inspection with comments on the following points:-
  - (a) action taken against the person/persons responsible for the loss in case the loss is not merely occasional;
  - (b) adequacy of the measures adopted to ensure that the works measured in the lost Measurement Book and already paid for are not paid for the second time;
  - (c) that the stock of un-used Measurement Books agrees with the book balance; and
  - (d) that in case of complete Measurement Books, the Head of the Office has certified to the effect that the Measurement Book is complete in all respects and can be produced in a Court of Law, if required.

#### **9.43.4 NOMINAL MUSTER ROLL**

The Auditors should see that:-

- (i) muster rolls are maintained in accordance with the instructions contained in the Accounting Procedure Rules of the Local Body concerned and the instructions, issued by the Government from time to time;
- (ii) that the calculation made in the Muster Roll are arithmetically correct;
- (iii) that muster rolls are kept for daily labour only and do not include the wages of peons and other similar employees for the entertainment of which distinct sanction is required;
- (iv) that the charges have been correctly allocated and that there are no unusual delays in the payments;
- (v) that the payments to labourers are made by the Officer-in-charge of the work and where possible by an officer of the highest standing available;
- (vi) that unpaid balance are brought forward to the next muster roll and that there are no long standing arrears;
- (vii) that whether outturn of the work is commensurate with the expenditure incurred;
- (viii) that the sanctioned strength of the muster roll and the period allowed is duly certified on the body of the muster roll by the competent authority under his own signature and date;
- (ix) that duplicate copies of muster rolls are not prepared and separate roll exists for the period of each payment;
- (x) that surprise checks have been exercised by the Head of the Office, who should initial the muster roll on the date of such check;



- (xi) that the amounts paid on each date are noted in words as well as in figures.

#### **9.43.5 WORK CHARGED ESTABLISHMENT**

The fixed charges registers should be scrutinised to see that:-

- (i) proper sanction exists for each post;
- (ii) provision for the purpose has been made in the sanctioned estimates;
- (iii) the pay of no such post exceeds the rates in cases where such rates have been definitely prescribed by a higher authority for any particular class of post;
- (iv) a proper acquittance is on record in respect of each such payment;
- (v) the pay bill is prepared correctly and in proper form;
- (vi) Proper record regarding wages remaining unpaid on the monthly bills have been kept;
- (vii) the pay of a person is not charged to a work when actually no work has been done and paid for;
- (viii) no leave salary is paid to members of work charged establishment except for the provisions contained in Rule-173 of the Orissa Service Code;
- (ix) the actual travelling expenses only have been allowed in cases where skilled labourers had to be imported from outside in view of non-availability of such labourer in the locality. Such cases should be very rare and only resorted to in case of emergency.

#### **9.43.6 REGISTER OF WORKS**

The Auditor should see that:-

- (i) the register has been properly maintained and the expenditure incurred and materials issued from time to time have been noted against each work together with the quantity of work done in respect of each item of expenditure as recorded in Measurement Book;
- (ii) the value of people's contribution, if any, has been recorded in respect of each work bill;
- (iii) the entries for each work are in accordance with the sanctioned estimate;
- (iv) all sanctioned estimates for works have been entered in the Register of Works;
- (v) excess over estimates on individual items of the estimate are covered by sanctions obtained from the competent authority;
- (vi) a note of completion is made in respect of completed work;
- (vii) there is evidence to show that delays in closing accounts due to non-measuring work done or on account of non-settlement of bills have been eliminated;
- (viii) all liabilities and assets are settled and suspense account cleared before accounts of a work are closed;

- (ix) suspense item as shown in the Register of works are traceable in the contractors ledger recorded as amount due to or from the contractors or executants and all such dues are cleared off along with the final payments made to the contractor;
- (x) all cases of expenditure on demolition, restoration or re-execution of the works irrespective of the amount involved or of the date of original execution should be investigated with reference to the report on estimate etc in order to see:-
  - a. that original expenditure has not proved fruitless ;
  - b. that the new expenditure is not due to lack of foresight or neglect either in the arrangement for original construction or in those of maintenance after construction;
  - c. that the original and new expenditure had reasonable justification.
- (xi) Besides, the audit should give attention to the following points.
  - (a) ex-gratia payments to contractors and executants such as for importing labour for rapid execution of work, for damages sustained by flood or fire etc;
  - (b) compensation to contractors for delay in starting work or its abandonment or for variation from estimate on account of inconvenience arose on the part of auditee institution or for any other cause;
  - (c) payments for clearance of site, boiling out of water, water required for construction when these are not specifically provided in the contract;
  - (d) any extraordinary charge to the work

#### **9.43.7 CONTRACTORS' LEDGER**

The Auditors should see that:-

- (i) adequate reasons exist for delay in adjusting secured advances outstanding for over six months;
- (ii) adequate action has been taken in case of old outstanding accounts for the submission of a subsequent running bill or the final bill;
- (iii) agreement has been effected between the balances shown in the ledger with that of the register of works;
- (iv) the ledger shows the balance due to or from each contractor or executant in detail of several works undertaken by him;
- (v) the balances have been correctly brought forward;
- (vi) the debits for value of stock supplied to contractors and executants are made from original receipts given by them which should agree with the entries in the stock register and with the rate stipulated in the agreement;
- (vii) all the receipts obtained from the contractors and executants in support of issue of materials for use in the works bear their dated acknowledgement and are properly filed;
- (viii) the ledger bears evidence of check by the Head of the Office.

#### **9.43.8 REGISTER OF TOOLS AND PLANTS**

Auditors should see that :-

- (i) the balances have been correctly brought forward from the previous years;
- (ii) all tools and plants etc purchased according to the payment vouchers have been entered in the Register;
- (iii) the purchase of tools and plants etc. and sale of unserviceable articles have been made under proper sanction;
- (iv) credits for all sale proceeds of unserviceable tools etc are traceable in the Cash Book;
- (v) the balances of all tools and plants etc at the end of the year have been struck and the certificate of actual verification of the balances in stocks has been furnished by the competent authority;
- (vi) no tools and plants etc. have been written off except with the sanction of the competent authority;
- (vii) all tools and plants temporarily lent have been duly accounted for.

**NOTE:-** The above checks apply mutatis mutandis to all stock accounts in general.

#### **9.43.9 STOCK AND STORES**

The Auditors should see that:-

- (i) the purchases have been made after assessing the actual requirement for a quarter;
- (ii) suspense reserve has been created for purpose of stock and necessary clearance have been made by debit to different works at monthly and fortnightly intervals;
- (iii) the initial accounts are in proper order and the receipts and issues are recorded there in order of occurrence;
- (iv) there are no fictitious adjustments;
- (v) authority exists for the receipt or issue of materials and a proper acknowledgement for every issue accounted for;
- (vi) the materials received have been examined and measured at the time of receipt by an authorised person;
- (vii) only expenditure connected with the acquisition of stock materials and with manufacture operations along with freight etc, are taken into consideration in fixing the issue rates;
- (viii) issues are ordinarily confined to materials which have to be supplied under the conditions specified in the agreements;
- (ix) the issues are charged for at the rates shown therein;

**NOTE:-** The difference between stock issue rate and that chargeable under the contracts being treated as additional final outlay on the works concerned.

- (x) no carriage or incidental charges made by the executant are debited against the stock in removing the materials from or to the site of the work;
- (xi) there is no unnecessary accumulation of materials;
- (xii) a list of surplus serviceable stock articles not required for immediate use in the areas under the jurisdiction of the Local Body concerned, has been prepared and their disposal have been duly observed;
- (xiii) in respect of issue rate of any material being appreciably less than the market rate, necessary precaution as envisaged in para-244 of C. P. W. A. code are adopted. The disposal of these materials should be specially scrutinized to see that there was no irregularity or loss;

The accounts of stores should be regarded as of no less importance than those of Cash Book and strict compliance with the rules for prompt adjustment and proper verification of stores is essential. Therefore, the Auditor, Audit Superintendents and Audit Officers should scrutinize the accounts of stores (Audit Superintendents and Audit Officers to a certain percentage) as carefully as other accounts and bring to notice the cases of irregularities connected with the purchase, disposal and care of stores and want of satisfactory maintenance of initial records by the Departmental Officers. The following points may be seen in this connection:-

- (a) Non-verification of stores at the end of each half year ending January and July;
- (b) Purchase of materials in anticipation of orders or in excess of requirements. Collection of materials in excess involves unnecessary locking up of capital in an unproductive manner and risk of loss to the Local Body;
- (c) Purchase of stores at exceptional or at different rates as compared with the rates in similarly situated areas or to the rates published in the catalogue of the Firms, if available;
- (d) Irregularity in the procedure of purchase of stores;
- (e) Losses or shortage of stores;

**NOTE:-** For the purpose of last item, it would be useful to examine locally the report of verification of stock and bring to notice any unusual circumstances connected with any item.

#### **9.43.10 REGISTER OF RENTS OF BUILDINGS AND LANDS**

The Auditors should see that:-

- (i) prescribed rents are recovered in all cases except when accommodation is allowed rent-free;
- (ii) no building on site is removed from the Register on the plea that it is intended to be occupied rent-free;
- (iii) necessary additions to the list of rental buildings are made in the register as new property is acquired and that action to revise the standard rent is taken as addition and improvements are made

to any building and for this purpose, a comparison should be made with the register of buildings and rents. A statement showing the name of persons and amounts outstanding with reference to the periods for which due be appended to the report.

#### **9.43.11 ANALYSIS OF WORKS ACCOUNTS**

The Auditors should see particularly in audit of works expenditure that the accounting procedures and other instructions issued from time to time are followed and all prescribed registers and forms are correctly used. Clarification on any point of doubt or difficulty should be sought for from the Audit Officer either in person or in writing. While auditing the works accounts, at least five case records need to be selected for detailed analysis. The accounts of these selected major works should be subjected to the prescribed checks. They should be analysed completely and examined in detail. The following points should be particularly looked into:-

- (a) The estimate of the work concerned should be studied closely so as to ascertain that the rates allowed for each item of work in the estimate have been arrived at correctly. Quantities of material used should be compared with the volume of work actually done with a view to verifying that savings due to abandonment or other-wise have not been utilized for additional work or that there have been no material alterations or modifications in the sanctioned design without the sanction of competent authority.
- (b) All payments and supplies of materials, etc should be made strictly in accordance with the contract agreements indicating no laxity in any of the terms. The rates provided in these contracts should be specifically scrutinised with reference to the sanctioned estimates and the schedule of rates to see that they do not allow any concession detrimental to the financial interest of the Government.
- (c) Quantities of the materials required for the work actually done should be worked out on the basis of the analysis given in the estimate or other established formulas and compared with the actual issue, both in the case of direct issue to work or issues to contractors.

## CHAPTER-10

### ANNUAL REPORT

The 13<sup>th</sup> Finance Commission had recommended for suitable amendment of the Local Fund Audit Acts of the States to mandate laying of the Annual Reports of the Local Fund Audit Organisation in the Legislative Assembly every year. Accordingly, the OLFA Act has been amended to comply with recommendations of the 13<sup>th</sup> Finance Commission.

As per Sub-Section (2) of Section 8 of OLFA Act, 1948 the Examiner of Local Accounts shall prepare a consolidated Annual Report on the accounts of PRIs, ULBs, Aided Colleges, Universities, Development Authorities and other Miscellaneous Institutions basing on the audit findings of the Institutions audited during previous year. The Examiner of Local Accounts shall submit this Annual Report to the State Government by 30<sup>th</sup> September each year, which shall be laid before the State Legislature.

The Annual Report shall contain the following particulars, namely:-

- (i) An introduction mentioning the date of audit, the date of last audit, the period covered by audit, the name of the auditor and the name of the principal officer concerning the respective Local Authorities;
- (ii) A review of the previous audit report with special reference to the important objections in form of an appendix enclosed with the report;
- (iii) Serious breaches of accounts rules by the Local Authorities, if any;
- (iv) Payments contrary to law including double payments and over payments of individual items not below an amount of Rs.100/-;
- (v) Loss of money or property due to negligence or misconduct or failure to bring into account any amount due to the Local Authority under any rules framed for the purpose;
- (vi) Cases of material impropriety or irregularity including abnormal delay in making payments or realization of taxes;
- (vii) Procedural defects leading to fraud, detected, if any;
- (viii) Comparative position of collection of taxes for the last year under audit with preceding two years as applicable;
- (ix) A statement on the financial position of the Local Authority showing both assets and liabilities;
- (x) Position of utilization of Grants-in-Aid received and loans incurred by the Local Authority and utilization thereof during the period covered by the audit;
- (xi) A certificate with regard to correctness of the Annual Accounts as well as utilization of loans maintained by the Local Authority;
- (xii) Concluding remarks giving a summary of the important issues dealt in Report and the Examiner's opinion regarding the status of accounts as a whole;

## CHAPTER-11

### SURCHARGE ACTION & APPEAL

#### 11.1 MANDATE

In the aftermath of exit conference, the Draft Audit Report is finalized and issued to all concerned including the Local Authority. The Local Authority is liable to submit para wise compliance within two months from the date of receipt of the Report.

- (a) As per Section-9(1) of OLFA Act, 1948 the Auditor includes, in the Audit Report, a statement of every payment which appears to him/her to be contrary to law, the amount of any deficiency or loss due to negligence and the amount of any sum which ought to have been but is not brought into account.
- (b) After considering such report the Assistant Examiner (powers delegated by the Govt. in Gazette Notification No.-1685 dt.01.09.13) initiates surcharge proceeding as narrated below.

#### 11.2 SURCHARGE ACTION

After finalization and preparation of audit report by the auditor, the District Audit Officer shall submit such report to the Examiner of Local Account. Further, DAO shall also submit a copy of such report to the Local Authority concerned who shall submit the compliance on the report within two months of date of receipt of such report. After receiving such compliance from the Auditee Institution, the DAO-cum-Asst. Examiner may:

- (a) allow that no further action shall be taken as regard to any amount referred to in the audit report after proper verification of records and drop the objection paras if he/she is satisfied that no further action is required on the matter; or
- (b) may initiate surcharge action for collection of the amount as per the procedure enacted u/s 9(2)b, 9(3), 10(1) & 11 of OLFA Act, 1948 if the DAO is not satisfied with the compliance of the auditee organization.

As regards recovery of loss amount of local accounts by exercising of powers conferred by sub-section 2 of section 4 of OLFA Act, 1948, the State Government have made the following arrangement for recovery of amount through surcharge action

- (a) Assistant Examiner-cum-Audit Superintendent shall serve a show cause notice u/s 9(2)b of OLFA Act, 1948 on the delinquent requiring him to show cause in case where the amount involved does not exceed Rs.50,000/-,
- (b) Assistant Examiner-cum-District Audit Officer shall serve a show cause notice u/s 9(2)b of OLFA Act, 1948 on delinquent requiring

him to show cause in case where the amount involved exceeds of Rs.50,000/-.

While serving a notice on the delinquent, the authority shall require him to reply to the show cause notice within one month why such payment shall not be surcharged against him.

If the delinquent person does not respond/reply to the show cause notice within the stipulated time period, then the surcharge authority shall issue surcharge order U/s9(3) of the OLFA Act, for recovery of the loss amount.

If the delinquent person responds to the notice, after considering the show cause reply of such person, surcharge authority may (a) drop the charges against such person if satisfied or (b) he may conduct further enquiry on the matter.

After completion of enquiry, the authority making surcharge may (a) drop the case and stall further proceeding if he is satisfied that the loss or deficiency to the auditee institution has been recovered or made good by appropriate action of the authority of auditee organization; or (b) he may initiate recovery measures under section 9(3) of the OLFA Act, 1948 through surcharge action.

In case the concerned surcharging authority is satisfied that an amount of loss or deficiency is required to be recovered from such person, he/she shall issue notice u/s 9(3) of OLFA Act for (a) deposit of such amount due within 30 days from the date of service of the notice in the account of Local Authority; or (b) ask the delinquent, if he is aggrieved with the order, to appeal before the appropriate authority against his order of surcharge within 14 days from the date of receipt of his notice failing which such amount shall be recovered as amount due, as an arrear of land revenue.

### **11.3 APPEAL**

As per Finance Department Notification No.-27897/F dt.29.08.2013 read with Gazette Notification No.-1686 dt.01.09.13 any delinquent/person aggrieved with such surcharge order issued u/s 9(3) of OLFA Act, 1948, shall have to appeal before the following appellate authority within 14 days from the date of receipt of surcharge order.

- (a) Deputy Examiner of Local Accounts-cum-Deputy Director – surcharge up to Rs.1,50,000/-
- (b) Deputy Examiner of Local Accounts-cum-Joint Director – surcharge up to Rs.2,50,000/-
- (c) Examiner of Local Accounts-cum-Director – surcharge up to Rs.5,00,000/-
- (d) Secretary to Government in Finance Department – surcharge above Rs.5,00,000/-

The appellate authority may accept the appeal petition of the delinquent for hearing if he is satisfied that the same is in order or he may reject the petition citing reasonable ground thereof. After going through the merit of the appeal petition and causing further enquiry as he deems fit, the appellate authority either drops the surcharge proceeding against the



delinquent partially/fully or he may order the delinquent to deposit the surcharged amount in the account of auditee organization.

Any amount finally certified by the surcharge authority or decided by the appellate authority if not paid by delinquent within the stipulated period, shall be recoverable as an arrear of land revenue under 'Odisha Public Demand Recovery Act'. In this regard District Collector is the competent authority to recover the arrear amount under sub-section 1 of section 10 and he shall pay the certified amount received by him under sub-section 2 of section 10 to the Local Authority concerned.

## **CHAPTER-12**

### **INSPECTION AND MONITORING**

#### **12.1 ANNUAL INSPECTION**

In order to assess and bring an improvement in the overall performance and function of the District Audit offices, senior officers of the Directorate of Local Fund Audit, not less than the rank of a Deputy Director shall conduct Annual Inspection once in a year. The main purpose of the inspection is to improve efficiency in Statutory Audit works and administration of the field Offices. For this purpose, the Director shall prepare an Annual Inspection Programme of different District Offices at the beginning of the year. Besides that, a District Office can also be inspected by higher authorities on any other occasion for specific purposes with or without prior intimation. The District office shall prepare the required information in a prescribed format for inspection as communicated by the DLFA letter no.14699 dated 17/09/2013 prior to the visit of inspecting officer. During the time of Annual Inspection, the inspecting officer shall look into the matters such as audit coverage vis-a-vis the annual programme, quality of audit reports, audit compliance, pendency and disposal of Spot Verification Report, initiation and finalization of surcharge proceedings, recovery of surcharged amount, functioning of the establishment, office accommodation, maintenance of registers and records and overall performance of the each section including general administration of the office.

After conducting the inspection, the inspecting officer shall prepare his Inspection Note and communicate the same immediately to the District Audit Officer with approval of the Director. The DAO shall submit the compliance on the Inspection Notes within 15 days from the date of receipt of the same. In no case, submission of compliance to the inspection note should be delayed beyond 30 days. The compliance of the District Audit Officer shall be reviewed at the Directorate and necessary communication/direction shall be issued to the District Office as deemed proper. While conducting inspection, the inspecting officer shall also review the compliance of previous inspection note. As in case of Annual Inspection, the inspecting officer shall also communicate his Inspection Note soon after completion of any inspection and the concerned DAO shall submit the compliance to the same within 15 days from the date of receipt of the note.

#### **12.2 STATE & DISTRICT LEVEL MONITORING COMMITTEE FOR SETTLEMENT OF AUDIT OBJECTION**

In order to ensure prompt compliance to the audit reports and settlement of outstanding audit paras, the Government in Finance Department has formed Audit Monitoring Committee both at District level & at State level for taking effective steps. The constitution and functioning of the Committees has been notified by FD Notification No.-28110/F dt.31.10.2013, the details of which are as hereunder:

## **12.2.1 District Level Audit Settlement & Monitoring Committee**

### **(i) Constitution**

There shall be a District Level Audit Settlement & Monitoring Committee in each District for settlement of Audit Paragraphs in respect of all the Auditee Institutions of the concerned District, viz. Panchayat Raj Institutions, Urban Local Bodies and other Auditee Institutions.

The District Level Audit Monitoring Committee shall consist of:

- (c) Collector of the District.
- (d) District Education Officer.
- (e) District Audit Officer.
- (f) District Panchayat Officer.

The Collector shall be the Chairman of the Committee and the District Audit Officer shall be the Member Convenor. However, the Collector may nominate one of the ADMs to chair the meeting in his absence.

### **(ii) Meetings**

The Meeting of the District Level Audit Settlement and Monitoring Committee shall be convened at least once in six months at the Head Qrs. of the concerned District.

### **(iii) Transaction of Business**

Details of pending Audit Reports and Paras thereof shall be finalized by the District Audit Officer concerned and copies of the same shall be presented to all concerned well in advance.

### **(iv) Power to summon**

The District Level Audit Monitoring Committee can summon the Secretaries and Executive Authorities of the Local Bodies concerned for submission of compliance and attend the meeting of the Committee. Wherever necessary, District Level Officers of various Departments may be invited by the Committee to discuss Audit Reports of Local Fund Audit pertaining to such Departments.

### **(v) Settlement of Audit Paras**

In the Monitoring Committee Meeting the details of pending paras along with remedial action taken for settlement of Audit Paras shall be discussed and suitable decisions shall be arrived at by recording a minutes thereof.

### **(vi) Recommendations and Report of the Committee**

The decisions along with suggestions/recommendations and detailed report of the Committee on pending paras shall be forwarded to

the Director, Local Fund Audit for consideration of the paras for settlement.

### **12.2.2 State Level Monitoring Committee**

#### **(i) Constitution**

There shall be a State Level Monitoring Committee to review the settlement of Audit Paragraphs in respect of all the Auditee Institutions of the State relating to Local Fund Audit Organisation and suggest suitable action on cases of non-compliance.

The State Level Monitoring Committee shall consist of:

- (a) Secretary to Government, Finance Department
- (b) Secretary to Government, Panchayati Raj Department
- (c) Secretary to Government, Housing & Urban Development Department
- (d) Secretary to Government, Higher Education Department
- (e) Secretary to Government, School & Mass Education Department
- (f) Director, Local Fund Audit
- (g) Special Secretary/Additional Secretary, in charge of Local Fund Audit in Finance Department.

The Secretary to Government, Finance Department shall be the Chairman of the Committee and the Special Secretary/Additional Secretary in charge of Local Fund Audit shall be the Member Convenor.

#### **(ii) Meetings**

The Committee shall be convened at least once in a year. The State Level Monitoring Committee shall discuss in its meeting on the ATR (Action Taken Report) submitted by the Director, Panchayati Raj, Director, Municipal Administration, Director, Higher Education, Director, Secondary Education to arrive at suitable decisions by recording a minutes of such meeting.

#### **(iii) Follow up Action on the Report of the Committee**

The Director, Panchayati Raj and Director, Municipal Administration shall constitute a separate Cell in their respective Directorates under the supervision of a Senior Officer to deal with the compliances relating to Audit Reports pertaining to their organizations.

#### **(iv) Action Taken Report**

The cell formed as above shall, monitor and issue suitable directions for facilitating settlement of Audit Paras based on the report from the District Level Audit Settlement and Monitoring Committee. An Action Taken Report shall be prepared half yearly by the Cell and submitted to the Convenor with copy to the Director, Local Fund Audit Odisha. The report shall include the details of pending audit Reports and Paras, action suggested by the District Level Audit Settlement and Monitoring Committee,

the details of paras and reports settled and details of action taken by the defaulting Panchayats/Municipalities and further suggestions/recommendations for clearance of paras. The Action Taken Report received by the Convenor of the State Level Steering Committee once in six months from the Director, Panchayati Raj, Director, Municipal Administration, Director, Higher Education & Director, Secondary Education shall be discussed in detail to suggest methods for early settlement of Audit Paras.

**(v) Power to Summon**

Wherever necessary the implementing officers of different departments such as Panchayati Raj, H&UD, Higher Education, School & Mass Education & such other Departments concerned may be summoned by the State Level Monitoring Committee for compliance on the audit paras.

## **CHAPTER-13**

### **MISCELLANEOUS**

#### **13.1 RE-AUDIT OF ACCOUNTS**

The Examiner of Local Accounts may, in the following cases, order for conducting re-audit on the accounts of any institution for any period of accounts by deploying Auditors, other than those who conducted usual audit of the institution for the said period previously.

- (i) If there is any allegation either from the public/local authority or from the Departmental Authority stating improper and haphazard audit conducted with defalcation, misappropriation or other financial irregularities having been overlooked, the Examiner of Local Accounts may, if he considers it essential, order for re-audit.
- (ii) The Examiner of Local Accounts may order for re-audit if the auditor has completed the audit of an institution and failed to submit the draft report for any untoward or unforeseen reasons.
- (iii) The Examiner of Local Accounts, if satisfied, may order for re-audit where the Departmental or the Administrative Authorities of an institution request with specific reasons to conduct audit for any specific period of accounts or for any item of activities.

#### **13.2 SPECIAL AUDIT**

The Examiner of Local Accounts may, in the following cases, order for conducting a special audit on the accounts of any Local Body for any period of its accounts.

- (i) When under the provisions of Rule-13 of the Odisha Local Fund Audit Rules-1951, the Auditor after detecting the fraud or embezzlement, during audit of accounts of any Local Body, submits a special report on the matter to the Examiner of Local Accounts wherein he recommends for conducting a special audit to probe into the matters in detail of any item or for a specific period for detection of further misappropriation of cash, embezzlement or grave financial irregularities, the Examiner of Local Accounts, considering the reports of the auditor, may order for a special audit / detailed up-to-date audit for such period or such item(s) on the accounts of such Body as he feels necessary, informing the State Government of the circumstances rendering such audit necessary.
- (ii) When the Departmental Authority or the Administrative Authorities of any local body requests the Examiner of Local Accounts for conducting such special audit on the accounts of such body citing the reasons thereof.

- (iii) When the authority of any Institution or Organisation or Body, whose accounts are not subject to audit by the Local Fund Audit Organisation statutorily, requests the Examiner of Local Accounts to conduct audit on the accounts of such Body, the Examiner of Local Accounts may, by obtaining special order from the Government in Finance Department, order for conducting such audit.

### **13.3 AUDIT OF BROKEN PERIOD**

Generally audit shall be conducted for one complete year of accounts. As such audit of accounts of any Local Body for fraction of an accounting year is not permissible unless otherwise provided. But when a defalcation or fraud or embezzlement or any grave financial irregularity is detected and reported to the Examiner of Local Accounts under the provisions of Rule-13 of the Orissa Local Fund Audit Rules-1951 or when any request is made by any Departmental or Administrative Authorities of any local body, whose accounts are subject to audit under this Act, for audit of such body for any specified period of accounts, the Examiner of Local Accounts may order for a detailed up-to-date audit for any period of accounts, if he considers such audit necessary.

### **13.4 EXEMPTION FROM AUDIT**

The accounts of the Local Authorities as per their respective statutory provisions shall be audited not less than once in twelve months. As such, no accounts of a particular financial year or years or part thereof of any local body shall be left unaudited.

- (i) In extraordinary cases, where the accounting authority fails to produce the accounts of a particular year or years or part thereof, for any reason whatsoever, the auditor shall not audit the accounts of subsequent period unless the Head of the Administrative Department concerned exempts from audit the accounts of such period under intimation to the Examiner of Local Accounts.
- (ii) In such circumstances the auditor shall immediately report the matter to the Examiner of Local Accounts through the District Audit Officer and the Examiner of Local Accounts shall examine the case and report the matter to the Administrative Department of the concerned local body for necessary action.

### **13.5 SEIZURE OF RECORDS BY VIGILANCE**

Where important accounts records and registers of any local body have been seized by the Vigilance Department and kept in their custody and audit on the accounts of such local body is not possible in absence of such records and registers, the auditor shall verify the seizure list of the records and registers issued by the Vigilance Authority and report the matter to the Examiner of Local Account through the District Audit Officer for further action. In such cases, the auditor shall not take up audit of accounts of the Local Body concerned.

The Examiner of Local Accounts, on receipt of such report from the District Audit Officer, may request the Vigilance Department to cause production of the seized records before audit, if he considers it necessary.

### 13.6 AUDIT FEE

- (i) Audit fee shall be charged for audit conducted by the Auditors of Local Fund Department on the accounts of all Non-Government funds including cantonment funds but excluding the accounts of Port Trust Funds for which separate rates are prescribed, at the following daily rates fixed by the Government.

(1)	Lead Auditor (Senior One)/Audit Superintendent	Rs.400/- Per Day
(2)	Auditor	Rs.400/- Per Day
(3)	For a party consisting of one Lead Auditor another Auditor to assist	Rs.1000/- Per Day

- (ii) Audit fee shall not be charged for audit of the funds of Non-Government Institutions those are exempted from payment of audit fees under specific order of the Government
- (iii) Calculation of audit fees to be charged for audit of Miscellaneous Institutions (Non-Government Funds) other than the Hindu Religious Endowments Funds shall be made by multiplying the number of days actually consumed for audit of the institution concerned with the rates per day fixed by the Government from time to time.
- (iv) Calculation of audit fees in respect of audit of Hindu Religious Endowments (*Debottar*) shall be made in the following method.
- Total incomes of the Institution
  - Deduct public dues
  - Net assessable income.
  - Audit fees @ 1½ % on the net assessable income.
- (v) No audit fee shall be charged for audit of Sri Jagannath Temple funds as the same is exempted under specific order of the Government.
- (vi) The collection of audit fees of Local Fund Audit from the Endowments, Mathas and other Institutions shall be deposited into the Head "0070-other Administrative Services-60 other Services-60 Other Services-800-Other receipts/collection of audit fees of LFA, Finance Department from Endowments, Mathas & other institutions".
- (vii) A "Demand Note Register of Audit Fees Recoverable" shall be maintained in each District Audit Office.

### 13.7 REVIEW ON THE PROGRESS OF AUDIT

While conducting review on the progress of audit of any Local Body, the Reviewing Officers shall follow the guidelines furnished below.



- (i) The Reviewing Officers shall see that the portion of accounts covered in audit by the date of review on the progress, have been properly audited, and that the volume of transactions audited is proportionate to the time consumed.
- (ii) It should also be seen that all the records connected with the transactions covered in audit have been properly checked.
- (iii) The Reviewing Officers shall also conduct independent scrutiny of certain percentage of accounts to detect omission, if any.
- (iv) To scrutinise the weekly diaries of the Audit Party and to check timely issue and return of audit objection statements with replies of the Local Authority.
- (v) The Reviewing Officers shall also involve themselves in auditing, reporting and reviewing as all these activities are considered to be one and the same. Such an involvement of the Reviewing Officers will help improve the capacity of the Auditors.
- (vi) It should be the responsibility of the Reviewing Officers to see that the audit is conducted smoothly and the problems faced by the Auditors are solved by their personal contact with the Local Authorities concerned.
- (vii) Necessary instructions and guidance shall be given by the Reviewing Officers to the Auditors for smooth and timely completion of audit.
- (viii) The Reviewing Officers shall distribute the balance work to be covered in audit among the Auditors indicating time to be taken for each item of work so as to ensure timely and smooth conduct of audit.
- (ix) The observations of the Reviewing Officer at the time of progress review shall invariably be sent to the Audit Party, for guidance under intimation to the District Audit Officer.
- (x) In the course of review on the progress of audit, the lapses, if any, noticed in the maintenance of accounts, records and registers and non-maintenance of the same in accordance with the provisions of the accounting procedure and rules of the Local Body concerned or any other instructions of the Government thereon, shall be brought to the notice of the Local Authority by the Reviewing Officers with necessary advice in the matter.

### **13.8 TABLE REVIEW OF THE DRAFT AUDIT REPORTS.**

The Draft Audit Reports on the accounts of Gram Panchayats, Aided High Schools, M. E. Schools, Madrasas, Sanskrit Tolls, Small Miscellaneous Institutions and Small Religious Endowments shall be reviewed by the respective Audit Superintendents in the Office. The size of the Miscellaneous Institutions and Religious Endowments shall be determined by the District Audit Officers basing upon the annual transactions and their importance for above purpose.

The review of these reports shall mainly be based on the following.

- (i) The facts and figures furnished in the Draft Audit Reports shall be cross-examined with ref. to the narrative and statistical portion of the reports and the objection statements issued by audit.
- (ii) The presentation of loss or excess payments etc. as detected in audit and incorporated in the Reports shall be examined with ref. to the Objection Statements in order to ascertain as to whether the objections raised are self explanatory and depicts a clear picture of loss or excess payments etc.
- (iii) Arithmetical accuracy of the figures furnished therein shall be checked by the Reviewing Officers and the Report shall be finalised for approval and issue to all concerned.

### **13.9 REVIEW NOTES OF THE REVIEWING OFFICERS**

The review notes shall be prepared by the Reviewing Officers after conducting final review on the Draft Audit Reports or the review on the progress of audit on the accounts of any Local Body and shall be appended to the reviewed Draft Audit Reports in case of final review of the Draft Audit Reports and shall be issued to all concerned in case of progress review.

### **13.10 TECHNICAL GUIDANCE AND SUPERVISION OF THE C & AG OF INDIA**

The Eleventh Finance Commission, in its Report, stated that substantial amount of money are being sanctioned for various development works and poverty alleviation programmes in both Rural and Urban Sectors by the Union and State Governments. All these programmes are being implemented through the Rural and Urban Local Bodies of the States. The respective State Audit Authorities may not be in a position to check proper utilization of such huge funds for the purpose for which the same are provided. Further, it was also observed by the Commission that the accounting formats of these Local Bodies may not be uniform in all States. Therefore, it was recommended that the Examiner of Local Accounts / Director of Local Fund Audit of all the State Governments may be placed under the Technical Guidance and Supervision of the Comptroller and Auditor General of India over the audit of Local Bodies (Panchayati Raj Institutions and Urban Local Bodies only) conducted by the State Audit Agencies.

In view of the above recommendations, the State Government decided to implement the same in the State and entrusted the Technical Guidance and Supervision over audit of the Panchayati Raj Institutions and Urban Local Bodies to the Comptroller and Auditor General of India vide Finance Department Letter No 6879/F dt.16.09.2003, Lr.No.2839/F dated 18.05.2004 and Lr. No.2534/F dt.07.04.2011

- (a) The terms and conditions for providing the Technical Guidance and Supervision over audit of the accounts of the Panchayati Raj Institutions are as follows.

- (i) In addition to audit to be conducted by the statutory Auditors of P.R.Is and ULBs the C&AG of India will have the right to conduct such test check of the accounts and to comment on and supplement the report of the statutory auditor as he may deem fit
  - (ii) The C&AG of India or any person appointed by him in connection with the audit shall have the same rights privileges and authority as the C&AG has in connection with the audit of Government accounts
  - (iii) The results of audit may be communicated by C&AG or any person appointed by him, to the PRIs / ULBs the C&AG may also forward a copy of the report direct to the Government
  - (iv) The scope extent and manner of conducting audit shall be as decided by the C&AG
  - (v) The C&AG or his representative will have the right to report to State Legislature, the results of audit at his discretion.
  - (vi) The above terms and conditions will not affect in any way the CAG's right to access the accounts and records of the PRIs and ULBs under other sections of the C&AG's(Duties, Powers and Conditions of Service) Act,1971 and under other statutory process
- (b) The C&AG may provide suitable Technical Guidance and Supervision to primary external auditors of PRIs and ULBs viz DLFA or any other such designated statutory agency, for the purpose of strengthening Public Finance Management and Accountability in PRIs and ULBs. (L. No.-2534/F dt.07.04.201).