



**Government of Andhra Pradesh**

## **Internal Audit Manual**



## **Part I: Theoretical Framework**

## **Part II: Practice Guide for Internal Audit**

## **Part III - Questionnaires and Check lists**

# **Annexure**

# Notes

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## Overview

Internal audit is present only nominally in Government of Andhra Pradesh. While there are a few departments and directorates that have 'internal audit' sections, there is no uniformity in their mandate, reporting structure or the audit methodology. Some 'internal audits' are more in the nature of *departmental inspection* involving the head of accounts with the help of a few staff inspecting the offices in the lower formation. Realizing the need for strengthening internal audit, GoAP has taken several important steps such as a) constituting committees on internal audit at State and District level vide G.O. Ms No. 478, Finance (IA) Department, dated 10-11-2003; b) entrusting the audit of some departments to the office of State Audit; and c) creating a cell in the Finance Department to oversee the activities of internal audit. This manual is aimed to further strengthen the internal audit in the government by equipping the staff involved in audit with necessary conceptual understanding and practical knowledge of conducting the audit. Needless to say, the manual in itself is of no use, unless the government sets up an internal audit unit a) with a clear mandate that ensures its independence and role (please refer chapter two on Internal Audit Charter / Mandate for further information); and b) which is manned by competent internal audit professionals.

## Scope of the Manual

Governments of today are involved with a variety of functions and roles. Each function and role brings with it its peculiarities; as a result while they have commonality in some respects, there is great deal of divergence at another level. Irrigation Department and Health Department present two different domains as do others such as Power (with its power purchase agreements) and Roads and Buildings (with PPP, BOOT, etc.). Thus, each department has its area of specialization or technical domain and degree of complexity. Although an auditor is generally expected to understand such complexities presented by organizations that he audits, *this manual addresses only what is common across all the departments, that is, it contains guidance of a generic nature*. It is hoped that the internal audit department would develop the specialized guidelines for each department on its technical aspects in due course.

Audit is generally seen as a deterrent against wrong doing. 'The fear of audit' is supposed to keep a check on malpractices in government departments. While there may be an element of truth in this, it is not quite correct to view auditing as a policing or a regulatory function for two reasons. Firstly, it does not encourage ethical behaviour as a value in itself. Instead, it places the burden on the management to 'catch' the wrong doer. This is both a frustrating as well as an expensive exercise. It is expensive because, when audit's aim is to 'catch' wrong doer, its coverage has to be higher. For instance, even though a school or a taluk level office is not material enough to warrant audit, it would still need to be audited to 'enforce' discipline. Secondly, an agency which is so used (as any regulator) would need to be insulated from threats, inducements, etc. which again call for higher expenses. It would be good if the government can take a stand on this and clearly mandate internal audit to be an assurance providing agency.

Governments are increasingly depending on IT applications for internal management and for delivery of public services. While the automated systems provide advantage over manual systems in terms of accuracy and uniform processing of transactions, they also carry a very high risk of fraud and misstatement. Though the overall scope and objective of audit does not change in computerized environment, changes in the processing, storage and retrieval of financial information and related environment needs to be understood by auditors to assess inherent control risks. Thus, the modern practices of internal audit have to keep pace with the changing environment.

This Manual is divided into three Parts. While Part – I provides a theoretical framework for internal audit function, Part –II and Part – III serve as work book for auditors in conducting audits. Relevant audit concepts and quality check lists are provided at appropriate places.

### **Part I: Internal Audit Function – a Theoretical Framework**

For an internal auditor to effectively discharge his function, he must have a sound conceptual understanding of internal controls framework, various types of audits, government auditing standards, audit risk, materiality, and so on. While audit may be performed based on check lists and Internal Control Questionnaires, a good understanding of underlying concepts helps the auditor perform a qualitatively better job. It is expected that this part of the IAM would give those

additional inputs to internal auditor that would make him aware of the theoretical underpinnings to what he is doing.

## **Part II - Practice Guide to Internal Audit**

The practice Guide is divided into four sections viz. Working Papers, Planning Phase, Conducting Phase, Closing and Reporting Phase, which are briefly discussed below.

**Working Papers:** maintenance of working papers is an important responsibility that the internal audit should follow with discipline.

**Planning Phase** This section deals with various steps involved in planning - from planning the annual audit programme to a more detailed plan for individual audits. The annual audit programme would require the head of Internal Audit to match the requirement of audit with his resources. To illustrate, Internal Audit section of AP Vaidya Vidhana Parishad may have more than 200 auditable units comprising hospitals plus district offices in its purview. It may not have resources to audit all of them during the course of one year. The annual programme would then have to select units in such a manner that those entities representing higher risk are audited on priority. On the other hand, individual audit plan deals with planning the audit of a selected unit. It involves gaining understanding of the organization and its operations, controls and management assertions, desk review including analytical review, assessment of inherent risk and controls risks and so on. At the end of this phase auditor determines the nature, timing and extent of audit procedures to be applied.

**Conducting Phase** Having broadly identified the risks, in this phase the auditor goes through audit procedures in areas identified for audit, gathers evidence applying different techniques including sampling. A Work Breakdown Structure (WBS) of audit is prepared and resource allocation (audit staff) is done. A well documented audit program helps auditor to delegate and supervise audit project efficiently.

**Closing Phase** The audit is closed once all the audit procedures are completed by collecting the required evidence and the replies to preliminary audit observations have been obtained. Review of work done by the field staff as per audit program is an important closing process as also a review of analytical tests and evaluation

of audit evidence gathered. The audit is formally closed with an exit conference with head of the department when the draft findings of audit are discussed and the audit team leader may at his discretion resolve some of the issues based on the explanations furnished.

**Reporting Phase:** Final deliverable of audit process is the Audit Report. This chapter deals with contents, documentation and quality of audit report.

In this section where ever 'must' and 'should' have been used, it is expected that the internal audit would comply with the procedure without fail unless there is reasonable basis for deviation. Similarly where 'generally should' and 'may' are used compliance is seen as optional or desirable.

### Part III: Check lists and Questionnaires

Standardized questionnaire are provided in this part.

### Acknowledgements

Internal audit as a discipline has evolved over a long period and the basic principles and standards for internal audit have been laid down by the Institute of Internal Auditors and International Organization of Supreme Audit Institutions. A large amount of literature and internal audit manuals are available in public domain. In India, the Comptroller and Auditor General has adopted (internal) auditing standards based on those enunciated by the INTOSAI. The CAG's Manual of Standing Orders (Audit) provides detailed guidance for audit of government expenditure and receipts.

This manual has been prepared at the Centre for Good Governance, Hyderabad under the overall guidance of Dr Rajiv Sharma, Director General, Centre for Good Governance by Sri A. Srinivas Kumar, IA&AS, Dy Executive Director with the assistance of Sri A H D Varma, ACA and Ms. P. Vasantha. It is based on the personal experience in addition to the material in public domain. A list of books and manuals consulted in preparing this manual is given at the end of this volume.

CGG had conducted a training programme based on this Manual for Internal Audit Officers of Finance Department in February 2009. During the course of the

training, the checklists given at the end of the manual were gone over again to make sure that they were appropriate and adequate for the purpose.

It is proposed to revise the Manual every three to four years to reflect changes in the audit methodology and techniques and bring it up to date in all respects. It is requested that the users of this manual and others who might have gone through it casually may please bring to the notice of Internal Audit Cell, Finance Department, Government of Andhra Pradesh any shortcomings in this manual so that they may be made good in its next edition. Similarly, any suggestions for its improvement would also be welcome.

## Chapter 1 - Internal Controls and Internal Audit

### Internal Controls

- 1.1 Internal Control is an *integral process* that is operated by an organization's management and personnel and is *designed to address risks* and to provide reasonable assurance that in pursuit of organization's mission, the following general objectives are achieved:
- executing orderly, ethical, economical efficient and effective operations;
  - fulfilling accountability obligations;
  - complying with applicable laws and regulations;
  - safeguarding resources against loss, misuse and damage
- 1.2 Committee of Sponsoring Organizations (COSO) has developed an internal control framework that has come to be accepted as the standard all over the world. The key concepts of COSO framework include:
- Internal controls are an on-going process, a means to an end, and not an end in themselves;
  - Internal controls are affected by people at all levels of an organization and not just policies and their documentation; and
  - Internal Controls will never eliminate risks but can provide a reasonable assurance that controls are in place to mitigate risks.
- 1.3 Internal control is not a single measure but a series of prescriptions of dos and don'ts that touch every activity of the organization. In that sense it is an integral part of the organization. Also, internal control is not something which is separate from the people who operate them. It is part of the roles and responsibilities of the persons working in the organization. As all organizations exist for a purpose, the basic objective of internal control is to ensure that the organization achieves its mission; in other words, it aims to minimize the risks that the organization may not be able to achieve its mission. Any system of internal control can provide only reasonable assurance as it would be not be economical to provide an absolute assurance. This recognizes the fact that there are costs associated with

any internal control and such costs should not exceed benefit derived from it. Moreover, excessive controls may result in employees circumventing them and, they could also result in delays and inefficiencies in operations.

- 1.4 Apart from ensuring ethical, efficient, economical and effective operations, one of the main objectives of internal control in public sector is to safeguard resources which are acquired with public money. Organizations in the government sector are vulnerable in this respect because cash basis of accounting (which is predominant mode of accounting in government) does not provide sufficient assurance related to acquisition, use and disposal of assets. With the extensive use of Information Technology in many government organizations, internal controls related to IT have also assumed great deal of importance. Managers of organizations where IT is used should be aware of risks of poor controls in IT systems, particularly where they deal with payroll, procurement, stores, etc.
- 1.5 Any system of internal control is limited by the following factors:
- *Human factor:* Internal control is susceptible to flaws in design, poor judgment, wrong interpretations, misunderstanding, carelessness and abuse or override as all these involve human involvement.
  - *Resource constraints:* As already mentioned, internal control implies costs and resources could be one other limiting factor. Particularly in smaller organizations very elaborate or sophisticated internal control may not be possible. In such cases, the management should consider whether the lack of one type of control could be compensated by another less expensive control.
  - *Organizational changes and management attitude* also have a very significant bearing on internal control. Ultimately, it is the management's (the head of office and his team) attitude that determines how seriously are the internal controls taken by the staff. If they see that the management is relaxed or it does not itself follow many of the precepts, they would have little motivation to observe the internal controls. It is therefore very important that the top managers always set an example in this regard.
- 1.6 Internal control system exists to help organizations to meet their goals and objectives. They enable management to deal with the changes in internal and

external environments. They also promote efficiency, reduce risk of loss, and help ensure financial statement reliability and compliance with laws and regulations (COSO Internal Control Framework). COSO Framework for internal control system consists of five interrelated and equally important components:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring

1.7 The *control environment* sets the tone of an organization, influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure. This is, as already pointed out, determined by the management. Elements of control environment include:

- Personal and professional integrity and ethical values of the organization;
- Commitment to competence;
- The ‘tone at the top’;
- Organizational structure; and
- Human resource policies and practices;

In addition to the above, cash based accounting in government brings with it certain control issues particularly with respect to assets and liabilities.

1.8 *Risk assessment* is the process of identifying and analyzing relevant risks to the achievement of organization’s objectives and determining the appropriate response. Elements of risk assessment are:

***Risk identification:*** The organization must identify risks that any of its stated objectives would not be achieved. To illustrate, an organization involved with conducting an examination, evaluating the answer papers and declaring results should assess the risk that any of these activities is not done properly. Once a risk (e.g. risk of breach of confidentiality of question paper) is identified, the organization should provide adequate internal control measures to reduce / eliminate the risk.

**Risk evaluation:** Risk evaluation involves assessing the significance of the risk (in terms of its gravity) and the possibility of the risk actually materializing. This requires the organization to categorize risks as high, medium or low based on some judgment. The idea is for the organization to address the high category risks. In the above example, significance and possibility of risk i.e. breach of confidentiality would be considered very high.

**Risk assessment:** Risk assessment requires the organization to understand how much risk it is able to take. This is important because any risk mitigation comes at a cost. Sometimes, it is possible to transfer the risk to a third party. In the above case, the department responsible for conducting the examination cannot simply afford the risk of a leak of question paper. It severely affects its reputation and credibility besides causing inconvenience to the students / candidates.

**Developing a response:** After having identified the risks, evaluated and assessed them, the organization must develop a response to mitigate (reduce / eliminate) the risk. Appropriate response could involve *transfer, tolerate, terminate or treat* the risk. Obtaining insurance is an example of transferring the risk. Sometimes, it may be better to live with a risk that is too expensive to treat. Where the risk is too big, it might be better to terminate the activity altogether. This option may not always exist in government sector as there are obligations to society that have to be met irrespective of risks. Lastly, which is in most cases, the organization would like to treat the risk by adopting suitable control activities. In the above illustration, the department would take many precautions (controls) e.g. firstly this work would be handled at a fairly senior level by a very few persons; final selection of questions, printing of question papers, their transmission, custody and so on will be clearly demarcated so that responsibility for any breach of confidentiality is easily identified. The table below gives some examples of risk handling:

Risk	Response	Action
Breach of confidentiality of a question paper	Treat	a) Handled by a very few selected individuals; and b) roles and responsibilities clearly established.

Fire	Partly Treat  Partly Transfer	Ensure that a) there are no combustible material in the premises; b) the electrical wiring is proper;  Take Fire Insurance
Financial risk in operating commercial infrastructure venture such as a toll bridge	Transfer	Sign a Build Operate Transfer agreement which passes the risk to private partner
Risk of use of government resources (stationery) for personal use	Tolerate	Expenses on controlling this would be disproportionately large compared to corresponding benefit.
	Terminate	Government is obliged to provide services that are not provided by private enterprises such as social and physical infrastructure; therefore, this option does not practically exist in government to terminate an activity.

- 1.9 *Control activities* are the policies and procedures established to address risks and to achieve the organization's objectives. There are two types of controls.
- *Prevent Control:* This type of internal control would prevent a risk from occurring. An example of this would be barring the physical access to cash chest or the place from where cashier operates.
  - *Detect Control:* Detect controls are measures that would point to misdeeds through reconciliation / review. Any kind of reconciliation (bank reconciliation), post audit, etc. would fall under this category as they help detect if something had gone wrong.

As a general rule, preventive controls are more expensive than detective controls. Any good system of internal control should have good mixture of the two. Also, it would not be prudent to place excessive reliance on prevent control to the exclusion of detect control because once a prevent control is compromised, there is no way to detect that an illegal act has or is occurring.

1.10 To be effective control activities must be:

- Appropriate
- Function consistently
- Cost effective
- Comprehensive
- Directly relate to control objectives

1.11 Some examples of control activities are:

*Authorizations and approvals:* Authorization is the principal means of ensuring that only valid transactions and events are initiated as intended by the management. Authorization procedures must be well documented and clearly communicated to managers and employees. These should include specific conditions and terms under which authorizations are to be made.

*Segregation of duties:* To reduce the risk of error, waste, or wrongful acts and the risk of not detecting them, no single individual or team should control all key stages of transaction or event. Therefore, duties and responsibilities should be so assigned to a number of individuals that there are enough checks and balances. Notwithstanding separation of duties, collusion can still take place, which can reduce or destroy the effectiveness of this internal control. A common place example of this internal control is the segregation of duties of cashier and accountant; and that of stores clerk who accounts for receipts and issues and the store keeper who physically handles receipts and issues. A small organization may have too few employees to implement this control. In such cases, the management should be aware of the risks and compensate them in some other manner e.g. enhanced supervision, rotation of employees, and so on.

*Control over access to resources and records:* Restricting access to resources to authorized individuals reduces the risk of loss or misuse of resources. All assets must be protected against loss and misuse by implementing this control. Facilities

such as a photocopier, telephone, internet, vehicle, etc. also require protection against improper use.

*Verifications:* Transactions or events (receipt of goods supplied or cash balance at the end of day) are verified to ensure correctness and validity. Personal records / service books are periodically verified to ensure their correctness.

*Reconciliations:* This is one of the most commonly used and effective detect control measure in any organization. Reconciliation of one set of records with another (the DDO's accounts with Accountant General's records, own cash book with bank statement).

*Reviews and post audit* play an important role in ensuring that activities have taken place in accordance with the intents and objects of management. A review of financial statements can reveal if there have been any discrepancies pointing to wrongdoing. A procurement process can be post audited to make sure that it complies with all the regulations.

*Supervision:* Supervision (assigning, reviewing, approving and guiding, training) is an important and high level internal control. This is something that is done at different levels of management periodically.

- 1.12 *Information and communication* are essential to realizing all internal control objectives. 'Management's ability to make appropriate decisions is affected by (appropriate, timely, current, accurate and accessible) information'. Effective communication should flow down, across and up the organization, through all components and the entire structure
- 1.13 Internal control system should be monitored to assess the quality of the system's performance over time. Monitoring is accomplished through routine activities, separate evaluations or a combination of both

### Internal Audit

- 1.14 Internal auditing is defined by Institute of Internal Auditors (U.K. and Ireland) as *'an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to*

*evaluate and improve effectiveness of risk management, control and governance processes.'*

- 1.15 Internal audit is a part of an organization's internal control framework because it is a master control that checks whether all other controls are working effectively. Internal Audit is '*a managerial control which functions by measuring and evaluating the effectiveness of other controls*' (The Institute of Internal Auditors, New York). In this sense, internal audit is an overarching control over all other controls. It seeks to find out whether all other controls are satisfactorily working in practice by subjecting them to compliance tests. Where the compliance is either weak or absent, the internal audit conducts substantive checks in order to evaluate the impact of the non-compliance. Thus, it provides the management with a periodical assessment of the functioning of internal controls within the organization and recommends measures for strengthening them.
- 1.16 Traditionally, internal audit was seen more as an inspection mechanism concerned with identifying and reporting compliance with rules and procedures. While this objective remains relevant even today, internal auditors are now looked upon more as assurance providers to endorse soundness of processes within the organization. While the establishment and monitoring of the internal controls is the primary responsibility of the management, internal auditor supplements by providing an independent and objective assessment on their adequacy and offer suggestions for improvement. The purpose of internal audit is to evaluate effectiveness of management control systems and procedures and to assess whether public resources are managed in conformity with the laid down systems, principles and practices of public financial control. Thus, internal audit is a key element of good governance.
- 1.17 While internal auditors are a part of overall internal control system, they are not responsible for implementing specific control procedures. The auditors' role is to audit organization's internal control policies, practices and procedures to assure that controls are adequate to achieve organization's mission. It is the responsibility of managers to establish an effective internal control environment in their organization. This is part of their stewardship responsibility over the use of government resources. In other words, they set the tone through their actions, policies, and communications which result in a culture of either positive or lax

control. As part of internal controls the managers are expected to plan, implement, supervise, and monitor the internal controls. Therefore, it is equally important that the management assesses relative risks of different operations and institutes necessary internal controls such as supervisory checks on maintenance of cash book, regular bank reconciliation, etc. It should also document the internal controls in clear and unambiguous terms in procedural manuals so that everybody knows what is expected.

- 1.18 While as a principle internal audit should not be involved in any management functions, its services could be utilized in the following:
- participating in committees in an advisory (non-decision making) capacity;
  - providing advice on internal controls; and
  - Answering technical questions; and providing training.
- 1.19 For being effective, IA should be manned by trained and competent staff and supervisory officers. Secondly, its independence must be ensured through proper reporting arrangements and a clear mandate. Lastly and most importantly, the effectiveness of IA would ultimately depend upon the importance that the organization attaches to its reports, which is reflected in the action taken.
- 1.20 Related to internal controls and internal audit are the concepts of compliance and substantive testing. These are discussed in detail in the chapter 5 dealing with *Risk based audit and use of statistical sampling in audit*.

To sum up, the manager as much as the internal auditor should appreciate the role that internal controls play in minimizing the many risks the organization faces in its day to day operations. The risks are not necessarily always financial. There are risks to effective and efficient operations. For example, the potency of vaccine (for say pulse polio) is important for the objective of the programme to succeed. If there are no 'controls' ensuring the proper storage of vaccine, the programme faces the risk of failure, whose consequences are much more than the financial loss of amount spent on vaccine. While all of us are aware of internal controls intuitively, an internal auditor should specifically identify and document the internal controls in a given area so that he can test their effectiveness in operation.

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## Chapter 2 - Internal Audit Charter and Standards

### Internal Audit Charter

- 2.1 The internal audit charter is a formal document that establishes the nature, role and functioning of the internal audit in the organization. It sets out the Internal Audit's mandate.
- 2.2 The Institute of Internal Auditors suggests:
- The charter of the internal audit activity is a formal written document that defines the internal audit's *purpose, authority and responsibility*. The charter should *(a) establish the internal audit's position; (b) authorize access to records, personnel and physical properties relevant to the performance of engagements; (c) define the scope of internal audit activities.*
- 2.3 The mission of the internal audit function is to provide independent assurance that internal controls are functioning effectively so that the organization (government department) achieves its objectives and in doing so it also complies with all applicable laws. More specifically, IA's objectives should include ensuring that the Departments are:
- a. carrying out their activities and programs as authorized by appropriate authority which yield results that are consistent with established goals and objectives;
  - b. using resources in an economical and efficient manner;
  - c. identifying, measuring, classifying and reporting financial and operating events in an accurate and timely manner in accordance with applicable codes, guidelines and government orders; and
  - d. safeguarding assets under their control.
- 2.4 The role to be assigned to internal audit department shall require it to:
- a. Audit all departments of Government of Andhra Pradesh on an on-going basis depending on the volume, risk and identified problems;
  - b. Conduct post-audit reviews to monitor corrective action taken on the identified weaknesses; and

- c. Respond to request for audit services for specific purposes;
- 2.5 In order to ensure effective functioning of the internal audit, it is absolutely important that it has:
- unfettered access to all documents, records, books of accounts, computer systems, files, etc. as necessary for the performance of the audit;
  - cooperation from all the key personnel and the staff of the Department in providing the required information and explanations within the reasonable time;
- 2.6 It is also important that the Internal Audit is independent from the departments that it audits. For this purpose, it should report to either Principal Secretary in Finance Department or the Chief Secretary. (A model charter is given in Annexure A for guidance)

### Standards of Internal Audit

- 2.7 Internal audit should adhere to the standards of best practices developed by the Institute of Internal Auditors and the Comptroller and Auditor General of India. The internal Auditors are expected to apply and uphold the following principles (*Code of Ethics and International Standards for Professional Practice of Internal Auditing - Institute of Internal Auditors, U.K. and Ireland*):
- 2.8 **Integrity:** *The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.* Internal auditors shall perform their work with honesty, diligence and responsibility. They should be fair and just in conducting the audit. They shall not accept any inducements from any individuals of the department during the audit process. S/he shall not collude with the employees of the department by disclosing any audit findings thus compromising possible action against them.
- 2.10 **Objectivity:** *Internal Auditors shall maintain utmost objectivity in conducting the audit and reporting their findings.* They should acknowledge and incorporate all information received from the department without withholding any information which may distort the reporting of activities under review. Internal auditors shall be fair in reporting any improper activities and transactions within the department without fear or favour.

- 2.11 **Confidentiality:** Internal auditors should respect the value and ownership of information they receive and should disclose the information without proper authority unless there is a legal or professional obligation to do so. Internal Auditors should not use information for any personal gain or in any manner that would be contrary to law or detrimental to legitimate and ethical objectives of the organization.
- 2.12 **Competency:** Internal auditors should possess thorough knowledge of the audit process and objectives of the audit. They should be competent in identifying the information needed for the audit purposes and shall not expend resources in collecting irrelevant and redundant information. They should strive to maintain highest quality of performance and should continually engage in improving their proficiency in audit procedures and techniques by acquiring additional knowledge and skills.
- 2.13 **Independence:** The internal auditor should not only be independent but appear to be independent of the Department under audit review. To ensure independence, the internal audit function should directly report to the audit committee appointed by the government or Principal Secretary in Finance Department or the Chief Secretary. Most importantly, internal auditors should not be involved in the regular departmental duties.

To sum up, a clear internal audit charter is very important for it be effective. In the absence of such a charter, the internal audit would lack legitimacy and acceptance within the organization. When the Internal Audit reports to the top management, the seriousness with which it is taken is obviously higher. On its part, the Internal Audit Department and the internal auditors should strive to observe the internal auditing standards so that the lend credibility to their work.

## Chapter 3 - Types of audits<sup>1</sup>

- 3.1 Although internal audit is mainly concerned with verifying whether internal controls are functioning effectively in actual operation, it will be useful for the internal auditors to be familiar with various types of audit that are generally carried out by auditors. Some of these audits such as regularity audit and propriety audit would come within the ambit of internal audit. While internal auditors can be called upon to review the financial statements prepared by the organization before they are passed on to external (statutory) auditors, they would not be expected to conduct financial audit. Internal audit in government may be required to audit autonomous bodies such as AP Vaidya Vidhana Parishad, AP Health Medical Housing Infrastructure Corporation, etc., which maintain their accounts on a mercantile basis. It would be useful for internal auditors (at least a few among them) to be conversant with the double entry accrual based accounting and the financial statements prepared under it.

### Financial Audit

- 3.2 Financial audit provides reasonable assurance that the financial statements of the organization present a true and fair view. In conducting financial audits, auditor determines whether:
- a. financial information is presented in accordance with the applicable accounting standards including specific requirements of financial disclosure;
  - b. the organization's internal control structure over financial reporting and safeguarding assets is effective; and
  - c. the organization has complied with laws and regulations applicable to it.
- 3.3 In case of government accounts, this audit is performed by the CAG. In respect of government companies it is done by the statutory auditors i.e. the chartered accountants with CAG conducting a review under Section 619 of Companies Act. Most of the autonomous bodies under the state government are required to

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<sup>1</sup> The basic definitions of types of audits have been adopted from the *CAG's Manual of Standing Orders (Audit), 2002*

prepare annual financial statements (Statement of Receipt and Payments or Income and Expenditure and Statement of Assets and Liabilities), which are audited by either the statutory auditor or CAG of India depending upon the by-laws of the organization and the provisions of CAG's (Duties, Powers and Conditions of Service) Act.

### **Attestation Audit**

- 3.4 An attestation engagement is an assignment where auditor is engaged to issue, review or conduct an agreed upon procedure on subject matter or an assertion that is responsibility of another party. Stock audit is an example of such assignment wherein audit is restricted to stock related transactions. In case of attestation audits, auditor affirms his findings rather than expressing opinion. Though there are similarities in approach between an attestation audit and financial audit, attestation requires in-depth review of the given function. That is why Public Company Accounting Oversight Board (PCAOB) issues attestation standards separately from auditing standards.

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

- 3.5 Audit against regularity consists in verifying that the expenditure conforms to the relevant provisions of the Constitution and of the laws and rules made there under and is also in accordance with the financial rules, regulations and orders issued by a competent authority either in pursuance of any provisions of the Constitution or by virtue of powers formally delegated to it by a higher authority. The rules, regulations and orders against which audit is conducted mainly fall under the following categories:
- a. rules and orders regulating the powers to incur and sanction expenditure as well as delegation of powers to incur and sanction expenditure from the Consolidated Fund and Contingency Fund of the State;
  - b. rules and orders dealing with the mode of presentation of claims against Government, withdrawing moneys from the Consolidated Funds, Contingency Funds and Public Accounts and in general the financial rules prescribing the detailed procedure to be followed by government servants in dealing with government transactions; and

- c. rules and orders regulating the conditions of service and pay and allowances and pensions of Government servants.
- 3.6 Audit against rules and orders would obviously involve interpretation of the rules / orders. Auditors' duty stops with bringing to the notice of the competent authority any action that is, in their opinion, contrary to the rules /orders on the subject. It is for the authority which is vested with the power to make rules to take a view in the matter and decide on the further course of action.

### **Propriety Audit**

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

### **Performance (Value for Money) Audit**

- 3.8 Efficiency-cum-Performance Audit (ECPA) or Value for Money (VFM) audit is a comprehensive review of the projects, programmes, schemes, organisations, etc. in terms of their goals and objectives aimed at ascertaining the extent to which the expected results have been achieved from the use of available resources of money, men and materials. It is a technique of audit adopted to assess and evaluate the economy, efficiency and effectiveness of development schemes, projects or organisations and hence this branch of audit is also known as Economy, Efficiency and Effectiveness Audit or the Three Es Audit. Economy relates to incurring expenditure which is keeping with the requirement, while efficiency means that the output is commensurate with the input. For any expenditure to be considered effective, it should have resulted in achievement of the intended objective.

- 3.9 Performance audits consider whether the organization has
- a. followed sound procurement practices;
  - b. acquired the appropriate type, quality, and amount of resources at an appropriate cost;
  - c. properly protected and maintained resources;
  - d. avoided duplication of effort by employees and work that serves little or no purpose;
  - e. avoided idleness and overstaffing;
  - f. adopted efficient operating procedures;
  - g. adopted adequate management control system for measuring, reporting, and monitoring a program's economy and efficiency.
- 3.10 Normally detailed guidelines are prepared for conducting performance audits based on desk review of related documents. To illustrate, if performance review of working of a government scheme such as rural employment guarantee scheme is to be conducted the auditors would first study the NREGS Act, the state government scheme, the organizational arrangements, etc. in detail. They would then prepare a list of instances whose existence / achievement would be examined in audit by gathering supporting information or evidence. In the above illustration, one of the instances could be to gather evidence to support compliance with the stipulation that the use of material / equipment was restricted to 30 percent of value of the work. Internal Audit is not normally expected to undertake such performance reviews; but, should it be required in some special cases, it can start with examination of controls in place for achievement of scheme's objectives and gather relevant evidence.

### Systems Audit

- 3.11 A system is an orderly arrangement of separate but interdependent and interacting activities and related procedures which implements and facilitates the performance of the functions of an organisation. The concept of Systems Audit is that if an in-depth analysis of the mechanics of a system reveals that it is designed with appropriate controls, checks and balances to safeguard against

errors, frauds, etc., Audit can reasonably assume, without the necessity of undertaking a detailed examination of the individual events or transactions, that the results produced by the system would be fairly accurate. Evaluation of the efficiency and effectiveness of any system will, however, require sample testing of its actual working. Systems Audit thus serves also as an effective aid to management. Information Systems Audit is a good example of a systems audit. This discussed separately below.

### Manpower Audit

- 3.12 During systems audit the examination of organization should extend to examining whether proper distribution and clear demarcation of functional responsibilities exist among the personnel working in the organization and whether its staffing pattern conforms to the norms and standards prescribed for the purpose and has the competent authority's approval. During this review, it may also be necessary to examine how far the norms adopted for assessing manpower requirements are realistic and how far the available manpower is utilized efficiently and effectively without any overlap of duties and responsibilities.

### Information Systems Audit

- 3.13 The biggest challenge for auditors (including internal auditors) is the extensive application of information technology in offices that come under their audit purview. Many of the government departments have computerized their operations in a manner that the records do not exist in the same hard copy form. Also the audit trail<sup>2</sup> (sequence) of operations through a paper record is often lost in automated system, particular where work flow is automated. Internal auditors would face this challenge to varying degrees depending upon the extent of computerization in the departments they audit. It may be very high in Commercial Taxes Department and not so in the other departments.
- 3.14 Information Systems Audit is the process of collection and evaluation of evidence to determine whether a computer system has been designed to maintain

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<sup>2</sup> *The Audit Trail is a documented unbroken chain of events that is necessary in order to determine if basic internal controls are in place. It provides a basis for audit test work.*

data integrity, safeguard assets, allow the effective realization of organisational goals, and ensure efficient utilisation of resources. Data integrity relates to the accuracy and completeness of information as well as to its validity in accordance with the norms. More specifically, internal auditor should determine by independent tests that computer-processed data are reliable and that

- the input data are reasonably accurate and complete; and
- any computer processing performed on that data is reasonably accurate and complete.

3.15 Where computers are applied to generate general / financial information for the management, internal auditors may not subject such a system to any assessment. However, when payments (such as payroll or pensions) are processed on computer systems, it becomes necessary for the internal auditors to test the system to assess its reliability.

#### **Grant or contract audits**

Grant and contract audits are designed to evaluate compliance with the conditions of grants, the contracting process and third party contractual performance.

#### **Fraud and financial irregularity audits**

Fraud and financial irregularity audits are designed to verify the existence and magnitude of suspected fraud and financial irregularities. Internal audit may be requested to conduct a fraud and financial irregularity audit as a result of discovery or suspicion of a fraud or financial irregularity having taken place.

#### **Internal Audit Vs External Audit**

3.16 While internal audit is a management's tool for internally checking whether the internal controls that it has put in place are working as expected, the role and responsibility of external audit (CAG of India) is not only different but also much broader in its scope. Essentially, external auditors are independent of the organization and perform their audit as per the governing Statute or as per terms of engagement. External Auditors take into account the effectiveness (or otherwise) of internal audit while determining the extent of audit that they would

do. There are some important differences between internal and external auditors which are explained below:

	<b>Internal Audit</b>	<b>External Audit</b>
<b>Focus</b>	Provides financial, operational, assurance-and provides consultative, governance, computer, and fraud related services	Primarily attests financial statements, reviews internal controls and performance
<b>Reports to</b>	Reports to management administratively. Builds relationships throughout the organization to ensure concerns are identified and resolved in a timely manner.	Primarily reports to the shareholders (in public sector CAG reports to the legislature)
<b>Standards</b>	Follows the IIA's International Standards for Professional Practice of Internal Auditing	Is governed by international (INTOSAI) audit standards
<b>Independence</b>	Demonstrates organizational independence and objectivity in work approach, but is not independent of the organization	Is independent of organization
<b>Results</b>	Identifies problems, makes recommendations, and helps facilitate resolution	Meets statutory requirements and provides necessary guidance to improve systems and processes.

To sum up, audit work can be differentiated based on the focus of audit. Some audits have attestation of financial statements as their focus, while some others might have performance as their focus. Internal Audit is essentially concerned with verifying the effectiveness of internal controls in operation and compliance with laws, codes, rules, government orders, etc. In addition, it might be required to also comment on regularity and propriety of transactions.

## Chapter 4 - Audit Evidence

- 4.1 Audit Evidence means information gathered by auditor in course of audit to form credible audit conclusions. Evidence collection process establishes fact that appropriate evidence is identified, collected, cross-checked and documented by the auditor. The standard of evidence gathered by the auditor is important as it protects him in case of allegation of professional negligence and if the auditee contests the audit observations.
- 4.2 Evidence in relation to accounts essentially relates to existence/occurrence, completeness, validity and accuracy of recorded value of transactions. In case of purchase of an asset e.g. an air conditioner for the office, the audit would gather evidence relating to its actual delivery in the office (occurrence/ existence), sanction for its purchase (validity), payment (correctness of amount and classification) and so on. In relation to internal controls evidence refers to substance that supports effective operation of controls. Sufficient evidential matter would include the following:
- a. **Physical evidence** is obtained by direct inspection or observation of activities of people, property or events. Such evidence may be documented in the form of memoranda summarizing the matters inspected or observed, photographs, charts, maps or actual samples;
  - b. **Documentary evidence** consists of created information such as letters, contracts, accounting records, invoices, management information on performance, etc.
  - c. **Testimonial evidence** is received from others through statements received in response to inquiries or through interviews. Testimonial evidence needs to be evaluated from the stand point of whether the individual may be biased or only have partial knowledge about the subject.
  - d. **Analytical evidence** consists of re-computation of calculation, comparisons, reasoning and separation of information into the area.

### Quality of Audit Evidence

- 4.3 *Competent, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusions regarding the organization, program, activity or function under audit.*<sup>3</sup>
- 4.4 Evidence collected should be sufficient and appropriate. Sufficiency refers to quantity of assurance and appropriateness refers to quality (relevance and reliability) of assurance. Sufficiency and appropriateness are inter-related. Evidence obtained should be both sufficient and appropriate. Evidence is considered sufficient if an independent party re-performs the tests, they would obtain same results. If sufficient evidence could not be obtained for some reason, this fact should be disclosed in audit report. When information is obtained from an external organization, the auditor should place due emphasis on accuracy and completeness of the information.
- 4.5 Evidence collected should be so objective that any knowledgeable person should reach the same conclusion on reviewing the evidence gathered. In case auditor fails to obtain required evidence for reporting, he should perform additional tests for establishing the facts. Auditor should consider most cost-effective means of obtaining evidence, but difficulty in obtaining evidence or cost cannot be reasons for omitting necessary processes. Internal auditors should consider source and nature of information obtained to evaluate its reliability. If evidence is not reliable, they should conduct further verification.

### Principles of Audit Evidence

#### Relevance

Evidence must be relevant to its related audit conclusion. Otherwise it is not persuasive regardless of any other consideration.

E.g. While conducting audit of social welfare department, poor results obtained by a boarder of the hostel cannot be claimed as evidence for weakness in administrative controls. Similarly, non-availability of staff cannot be claimed as evidence for poor control on assets.

<sup>3</sup> Chapter III: Field Standards in Government Auditing, sub-head: Audit Evidence

<b>Objectivity</b>	Objective evidence is usually more persuasive than subjective evidence. Objective evidence is achieved when two or more auditors, working independently, are very likely to arrive at the same result.
<b>Documentation</b>	Documentary evidence typically is more persuasive than undocumented evidence. E.g. Hearsay evidence that one of the employee misuses office telephone for his personal use is less persuasive than detailed analysis of the phone bill.
<b>External</b>	External evidence is considered more persuasive than internal evidence. E.g. Statement of account from bank is considered more persuasive evidence for bank balance than balance shown in bank book by the organization. Sales invoice received from the supplier is more persuasive evidence compared to internal advice prepared while making payment to the supplier.
<b>Sample size</b>	Larger samples are generally more persuasive than smaller samples.
<b>Sampling method</b>	Statistical samples are usually more persuasive than non-statistical samples. Statistically random samples help avoid sampling bias because they are based on laws of probability. Statistical samples allow auditors to quantify their level of confidence in sample results
<b>Corroboration</b>	Corroborated evidence is usually more persuasive than uncorroborated evidence. Corroborated evidence is the same or similar evidence acquired from two or more independent sources E.g. In a scheme where medicines are distributed through NGOs, reconciliation of records maintained (copy of the consignment advice, entries in stock register, copy of the courier invoice) with confirmation received from NGO would be more persuasive.
<b>Timeliness</b>	Timely evidence is typically more persuasive than

	<p>evidence obtained with a delay.</p> <p>E.g. Internal auditor’s observation of virus in computer systems can be a good evidence (of weakness of controls in safeguarding data), if reported soon. It may be a useless if reported after time lag.</p> <p>Note: For this reason, audit loses importance if they are taken up after considerable time lag. Follow-up and corrective action is part of audit scope in such assignments.</p>
<b>Authoritativeness</b>	<p>Authoritative evidence is more persuasive than non-authoritative evidence</p> <p>E.g. Confirmation on the letter head of the NGO is more persuasive than acknowledgement from the courier company that the consignment has been delivered.</p>
<b>Directness</b>	<p>Direct evidence is usually more persuasive than indirect evidence.</p> <p>E.g. A direct count of inventory by auditor is more persuasive than someone else’s counted figure. Also, an original document is more persuasive than its copy.</p>
<b>Adequacy of controls</b>	<p>Evidence from a well controlled and reliable system usually is more persuasive than evidence from a poorly controlled or questionable system</p> <p>E.g. Airlines ticket with boarding pass is more reliable evidence than a bill from local airlines booking agency</p>

- 4.6 Evidence collected during the process of audit should be carefully documented. Audit manager should review the working papers to ensure that it is reliable on all counts and supports the audit conclusions.

**Relation between management assertions / audit objective and audit evidence**

- 4.7 Control objective refers to the objective with which control is placed by the management. Control objective is to negate the possibility of risk or material misstatement or error. By placing controls, management asserts that possibility of material loss or misstatement is reduced. Audit objective is to validate

management's assertions independently and identify weaknesses. To support audit opinion, auditor collects evidence.

- 4.8 *Illustration:* If employing security personnel is a control, corresponding management assertion is that no un-authorized person is allowed inside and assets are safeguarded. Auditor performs certain procedures to check if this control (i.e., security) is functioning as intended by the management (i.e., no un-authorized person is permitted in). Similarly, bank reconciliation is a control through which management asserts completeness and authenticity of dealings with the bank. Auditor would check this control by inspecting reconciliation statements. He would obtain statement of account from bank as evidence to support effectiveness of this control.

### **Relation between audit objectives / audit procedures and audit evidence**

- 4.9 For each key management assertions, auditor applies audit procedures. While conducting audit procedures, auditor employs evidence gathering techniques to obtain audit evidence. So, where there is scope for material misstatement, more audit procedures are applied to obtain more evidence.

To sum up, internal auditors have to pay special attention to gathering audit evidence. They should always bear in mind that they must be able to defend their findings if the audited organization contests them. Moreover, any findings that fail to stand close scrutiny due to unsatisfactory evidence would result in internal audit losing face and credibility; and, also such findings would be considered unfair by the auditee.

## Chapter 5 - Risk based auditing and use of statistical sampling

### Risk based audit

- 5.1 Audit is generally based on a test check of some transactions. A hundred percent audit check is not only highly expensive but also unwarranted as the objective of audit (which is assurance about operation of internal controls and effective compliance with laws, rules, etc.) could be well achieved by a test check. The question is - what is the criterion used for selecting the areas of audit and transactions. One important criterion in prioritizing the audit focus is based on risk. Risk is nothing but the exposure to the chance of failure or loss. It is related to the probability that an event or action will occur which would adversely affect the organization. In analyzing risks, following questions should be asked:
- What can go wrong?
  - What is the probability of it going wrong?
  - What are the consequences?
- 5.2 It is thus important to identify and analyze the risks associated with the audited organization. The risk of misstatement or error is not uniformly distributed across all areas or transactions. In other words, some areas or transactions tend to be more prone to errors or misstatements. Sometimes, a risk is inherent in the given circumstances. To illustrate, when there is a pressure to incur expenditure (say due to threat of lapse of funds), there is a tendency to bend the rules to withdraw money as an advance and deposit in a bank account. Establishment expenditure has lower risk compared to expenditure on procurement. Therefore, one way of selecting areas and transactions would be based on internal auditors' assessment of risk of deviation from the norms. Given limited resources and a choice between auditing a district hospital or a district office, the internal auditors would choose the former as there are many more areas which pose risk such as procurement of medicines, payments to suppliers of goods and services, etc. in a hospital. Areas where there is discretion exercised by the department should be considered more risky than where the rule is clear and permits no deviation.

Although higher value transactions are not necessarily more risky, being fewer it would be wiser to check as many of them as possible.

- 5.3 It is likely that in some auditees the controls are generally weak posing a risk. It is seen that the control environment in bodies that operate outside the Treasury control (such as the societies and corporations) is generally not as rigorous. Poor control environment poses a high risk of error and misstatement in accounts. Past audit reports would provide a good guide to control environment of an organization. Internal Auditors should invariably consult the past audit reports and other material in the planning phase (dealt with in more detail in chapter 7) to determine the state of controls.
- 5.4 After identification of the risk factors that operate in the organization/ program, it is important to assess their materiality judged on the intensity of risks and their possible impact. Assessing the intensity can be done on a scale consisting of high, medium and low risks. The effect of these risks on performance also needs to be assessed. The existence, intensity and impact of the risks would need to be considered in tandem while prioritizing audit focus.

### Materiality

- 5.5 The concept of materiality is relative in nature and depends on the professional judgment of the auditor. What is material for one organization may not be material for another organization. For example, while auditing a project of construction of railway bridge, running into crores of rupees, work done by a small sub-contractor worth a couple of lakh may not be material, but while auditing a primary health care centre in a rural area and expenditure of Rs.50,000 on civil repairs may be material. Materiality depends on the size and nature of the department activities. Materiality is subject matter of professional judgment of the auditor and provides quantitative threshold.
- 5.6 Some times items individually may not be material, but collectively as a group their value may be material. For example, while constructing a dam, irrigation department may have thousands of small tools and equipments in use. In such cases auditor should consider whether aggregation of the whole group is material. Auditor may find that the total cost of various small tools being used in a project

works out to, say 10% of the total cost of the project, he may decide to take stock of the group.

- 5.7 Materiality is not considered where compliance is required either by an Act or rules and regulations. For example, while auditing payments, auditor would not apply materiality to TDS obligations of the department under Income Tax Act. Similarly, materiality can not be applied while auditing payment in cash where the amount exceeds the limits prescribed by Income Tax Act.

### **Compliance and substantive testing**

- 5.8 The auditors would initially check the controls by conducting what is known as a compliance testing, that is, testing to assess compliance with the internal control. To illustrate, it is expected that the cash book is closed at the end of every working day and signed off by the supervisor. The internal auditor would first check whether there is compliance with this control measure. If it is seen that the control measure is operating without fail in practice, the auditor would stop further examination. However, if it is seen that compliance with this control measure is poor, say only 40 percent, then the internal auditor would have to do a substantive test of the cash book transactions to ensure that non-compliance with the control has not resulted in any untoward incident.

### **Use of statistical sampling in audit**

- 5.9 Since it is not possible to verify all the transactions, events, records, etc., the auditors use risk assessment to narrow down to areas or groups of transactions with higher risk for audit. Once the area or group is selected based on risk, auditors may select transactions for audit using a sampling technique so that the audit conclusions would apply to the entire population. For example, in certification audit income / sundry debtors, creditors, capital work-in-progress and assets, provisions, etc. are generally considered to carry higher risk as a good amount of 'window dressing' of financial statements takes place through under / over estimation in these balances. It would be acceptable if auditor were to spend more time checking sundry debtors than running expenditure. However, auditor cannot examine the entire list of sundry debtors and has to perforce pick a few

for test checking. If this selection is done using a sampling technique it would enable auditors draw inference about the entire list.

- 5.10 Sampling is the process of selecting a subset of the population of the items to draw inferences that represent the entire population. '*Audit sampling*' means the application of audit procedures to less than 100% of the items within an account balance or class of transactions to enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population.<sup>4</sup>
- 5.11 Selection of a sample is influenced by the size of the population, objectives, complexity, type of activity, transaction frequency and level of comfort of expected from the test. The following are the methodologies of sample selection:

### **Judgmental or non-statistical sampling**

- 5.12 Judgmental sampling is the process where the auditor uses subjective selection of the items based on judgment rather than a scientific methodology. In this case auditor relies on his experience to choose the items for auditing. Though judgmental sampling is a widely accepted method of sample selection, evidence gathered through this technique is considered less reliable because:
- the criterion set for the selection of sample varies between the individual auditors in terms of differences in individual auditors' ability, knowledge, experience, perceptions, etc.; and
  - it is based on intuition and hence no scientific corroboration of the evidence gathered.
- 5.13 Where internal auditors come across a well-designed and well-run system, they may use judgmental sampling (by picking a few transactions randomly) to confirm that the system is indeed well-designed and well-executed. If the audit tests confirm the view held, there would be no need for further tests. Thus, judgmental sampling may be used to determine whether there is a need for a statistical sampling. The only disadvantage with judgmental sampling is that the

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<sup>4</sup> *Auditing and Assurance Standard 15 on Audit Sampling issued by Institute of Chartered Accountants of India*

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test results cannot be extrapolated to the entire population. That is, as the sample is not representative the audit findings cannot be said to be true for the entire population. Nonetheless, judgmental sampling is popular as auditor's judgment supported by extensive knowledge of the auditee and its functions offer simplicity in drawing conclusions.

### Statistical Sampling

- 5.14 Statistical (probability) sampling is a scientific selection of items that ensures that all items in the population have an equal chance of being selected. The main advantage of statistical sampling is the fact that there is a strong theory to support and explain statistical sampling. One of the attractive aspects of statistical sampling is that it is possible to measure the reliability of the estimates from the sample results. If for example, after conducting audit tests on a particular revenue receipts based on a statistical sampling it is seen that there is an 'x' amount of underassessment / underreporting of revenue. It is possible to estimate the likely underassessment / underreporting for the entire receipts with a measure of error or conversely, degree of confidence.

### Statistical Sampling Techniques

- 5.15 **Random number sampling:** Random number sampling is considered most likely to result in a random sample. All the items in the population are numbered and in case of availability of the data in digital form, sampling or audit software such ACL or IDEA can be used to select the items randomly. In cases of manual selection, some amount of judgment of the auditor in choosing the sample randomly is applied.

*Illustration:* If expenditure (payments) is being audited and all vouchers are serially listed, auditor may select a random sample through a random number generator.

- 5.16 **Systematic or Interval Sampling:** Interval sampling means selecting items at intervals; it is a relatively simple sampling method. Interval sampling involves selecting a sample at given interval. To illustrate, in the example given above of expenditure audit, auditor may select every seventh or seventeenth voucher for audit. The interval can be determined by dividing the total number of vouchers

by the sample size. If the total number of vouchers is 2000 and auditor decides to audit 50 vouchers, he would select every 40th voucher for audit.

- 5.17 **Stratified sampling:** The population is divided into homogeneous, mutually exclusive groups and independent samples are drawn from each group. In the above example of expenditure audit, if there are vouchers of very high value and very small value, auditor may like to stratify the population according to value. All vouchers above Rs 10 lakh may form one group and those below Rs 10 lakh the other group. He will then draw sample from each group separately. While conducting the internal audit of procurement contracts, the contracts can be stratified according to their values or volume of contract and samples can be chosen from these independent, homogeneous groups.
- 5.18 **Cluster Sampling:** When documents and records are so scattered or dispersed that it is too time consuming and costly to use simple random number sampling, internal auditor may use the technique of cluster sampling. Cluster sampling is what the name implies - clusters of items are selected at random, then clusters are examined either in their entirety or are themselves sampled.
- 5.19 Clusters may be based on natural separation, e.g. all documents in a file cabinet drawer may be examined. Clusters may also be artificial. It may happen that all vouchers are tied up in separate bundles. Internal auditors may pick one or two bundles randomly for audit.
- 5.20 **Monetary Unit Sampling:** This technique is used to select records according to monetary units rather than physical attributes. To illustrate, in audit of purchases where all purchase orders are listed with their individual value and cumulative value, auditor may select PO falling at the interval of every Rs. 500,000. The advantage of monetary unit sampling are smaller sample sizes and an almost infinite degree of stratification.
- 5.21 **Attribute sampling** is a sampling technique used to select items from a population for audit testing purposes based on selecting all those items that have certain attributes or characteristics. This type of sampling will help the auditor evaluate internal controls over a large number of similarly characterized transactions. It is more objective in nature and depending upon the compliance (yes) or non-compliance (no) of the transactions with policy and procedures and set standards the item can be chosen.

- 5.22 For example, a transaction can be chosen when it complies with the parameters set – does the student using the social welfare scholarship form have the bank account number field filled: Yes or No. This allows the auditor to evaluate the existing control mechanism and examine the extent of it.
- 5.23 **Variable Sampling:** This is a technique used to estimate the total value of the population based on the sample total and is used to project quantitative characteristic. For example, review of the account balances, testing detailed items that support the account total. It is used in the substantive testing that details the adequacy, completeness and existence of those activities during audit period.
- 5.24 **Sample Size:** Determination of the sample size and selection of the sampling technique are two important issues during statistical sampling. Sample size is perhaps, the most important issue in the sampling. The sample size is influenced by various factors including the purpose of the study, population size and allowable sampling error in addition to, the level of precision, level of confidence and the degree of variability in attributes (distribution of attributes or characteristics of the population) being measured. For example, greater the heterogeneity of the population larger should be the sample size, to allow the inclusion of the differences of attributes and attain greater level of precision. Sample size is determined using the following techniques:
- *Using census for small population:* For smaller population, the entire group can be used as a sample. However, this is not feasible with larger populations due to the cost considerations involved in the collection of the data in the form of questionnaires, etc.
  - *Using a sample size of a similar study:* Working papers of the audit conducted earlier on the organization can be used to determine the sample size of the present audit in mandate.
  - *Using published tables:* Published tables with given set of criteria in the combination of precision, confidence levels and variability can also be utilized to determine the sample size. This however, is relevant in cases of market research done by private agencies and has certain assumptions on the normal distribution of the attributes and the error of non-response. Therefore, using these published tables may not give the desired audit sample in Government Departments.

- *Using software:* Using software like IDEA, SPSS, and other business intelligence tools too, sample size can be determined.

5.25 As for sampling vouchers in government is concerned, internal auditors would normally use some form of judgmental sampling such as picking up the month March, which generally has a heavy rush of expenditure and picking another month at random. Internal audit would subject vouchers of these months for hundred percent checking. If the voucher particulars are available in digitized (computerized) format, internal auditors can apply one of the software mentioned above to determine the sample size and select the sample across all the months. However, in case voucher particulars not being available in digitized format, depending upon the materiality and the size of population, a sample size of 10 percent or more would be considered reasonable.

### Computer Assisted Audit Techniques (CAAT)

5.26 Tools like IDEA, SPSS, NT- Auditor, MS-Access, etc have brought about a revolutionary change in the audit techniques more so in audit sampling. These tools have rather simplified the conceptualization of sampling for compliance and substantive testing as well as for supporting the CAAT.

To sum up, due to resource constraints internal auditors would invariably be required to select audit areas and within the selected audit area a few transactions for test check. Such selection (particularly of the audit focus areas) would be done based on internal auditors' perception of risk. With experience the internal auditors will develop sufficient familiarity with the auditee organization's strengths and weaknesses; this combined with the analysis of documents relating to the auditee helps internal auditors to pick out the high risk areas.

Having picked high risk areas, as far as practicable the internal auditors should apply some sampling techniques to select the transactions that would be subject to detailed testing. Scientific sampling enables internal auditors to comment on the entire organization.

Internal Audit Department should adopt one of the audit software for its working and should train the internal audit staff on that software so that they have reasonable proficiency in it. Initially, the internal audit department may create a small group of auditors trained in statistical sampling and use of CAAT as it would be very expensive and even difficult to train everybody in these techniques. This group can assist the internal audit teams in drawing samples or using the CAAT.

## Chapter 6 - Working papers

- 6.1 Standards for the professional practice of Internal Auditing state that 'Internal auditors should collect, analyse, interpret and document information to support audit results.' Working papers are the documents either created by the auditor or gathered by him during the course of audit. Their preparation and maintenance is one of the key processes of audit. It provides evidence on how the processes of audit have been carried out, and hence is the source of evaluation of the quality of audit. Good practices suggest that auditor should document all important matters that provide evidence that audit has been carried out in accordance with the generally accepted auditing standards. The working papers aid internal auditors in planning, performing, supervising and reviewing audit work. Working papers are also a good source of evaluation of the internal auditor's work by external auditors and for peer review.
- 6.2 It is advisable to standardize audit working papers wherever possible. Correspondence with auditee, points / records of entry and exit conferences, questionnaires, check lists, etc. are a few that can be standardized. Well designed working papers facilitates auditor to delegate work and review whether the work is performed in accordance with the plan or not. It also provides a means to achieve efficiency, consistency and quality of audit. However, standardization of working papers in all audit areas is not possible as the audit procedures keep varying depending on size and complexity of audit.
- 6.3 ***Ownership of Documents:*** Working papers (the temporary files) are generated during the course of audit and once the audit is completed, they are handed over to the headquarters section. They shall, thereafter, be the property of the internal audit department which should take sufficient care in ensuring that they are kept in safe custody and in maintaining confidentiality of information they contain. They should be preserved as per the retention policy of the internal audit department which shall consider legal requirements, if any. Documentation may be in electronic form, especially in computerized environments. In such case auditor should also pay attention on safety and whether the medium (hard disk, CD, tape) is such that information can be recovered as and when required.

6.4 ***Permanent and temporary files:*** Internal auditors should divide files into permanent and temporary files for better management of working papers. Permanent audit file shall contain documents that hold good over several audit periods whereas temporary audit files shall have documents that are specific to a particular audit. Thus, permanent audit file would consist of:

- (i) audit charter;
- (ii) basic information of the department like organization structure, schemes under implementation and its geographical locations;
- (iii) roles and responsibilities of the key posts in the department; and
- (iv) laws, codes, rules, orders, etc. as applicable to the Department in the discharge of its functions and source of evaluation for the auditor.

6.5 IA should maintain two temporary audit files for each audit:

**1. Final Report, Correspondence with auditee, preliminary survey file:**

**Section A: Final report**

- a. Final and draft audit reports;
- b. Audit Plan (its various versions);
- c. Status of the follow-up of earlier observations;
- d. Audit Programme; and
- e. Reviews of the work done by assistants

**Section B: Correspondence with Auditee**

- a. Entry conference letter;
- b. Minutes of meetings of entry / exit conferences and other meetings; and
- c. communication with management and other external entities during the course of audit;

**Section C: Preliminary survey**

- a. Rules, regulations, laws applicable to auditee;
- b. Financial and other information collected from / about the department; and
- c. Organization charts, flow charts of processes, operating policies / procedures.

## 2. Working Papers

The working papers file should contain all tests conducted, samples drawn, documentary evidence supporting the audit findings, etc. These should be carefully page numbered and cross referenced in the final report.

- 6.6 The internal audit department should develop a consistent and rational system of numbering permanent and temporary files. Permanent files could relate to sanction of manpower, budget, accounts returns, and, of course, auditee (department) wise guard files that contain general information about them. Temporary files should be distinguishable from permanent files.
- 6.7 Temporary files should be maintained in ring folders with separator sheets that would set apart audit plan, sampling plan (if any), each audit area (establishment, contingent charges, procurement, etc.), the audit observations, replies from auditee, audit findings and finally the audit report. The audit paragraphs should be cross referenced to audit observations (memos issued to auditee), and the audit evidence.

To sum up, working papers are very important responsibility of the internal audit department. The audit staff should take care to properly file all the working papers, number the pages, cross reference the papers where required, etc. The headquarters staff should be trained to classify, label and maintain the temporary and permanent files. If there are any digital files (on hard disks) sufficient care should be taken to copy them on to Tapes/CD/DVD, label them suitably and store them properly. As in the years to come more and more work would be done on computers, the Internal Auditors should develop skills in taking care of digital files.

## Chapter 7 - Planning the Audit

- 7.1 Audit planning should be divided into strategic planning and field planning. Strategic planning should focus on issues affecting changes in the environment like new governance initiatives undertaken by departments, on-going computerization to developing strategy to bring out changes in audit approach and so on.

### Annual Audit Programme

- 7.2 As it would not be possible for IAD to audit all departments of the government within one audit cycle, it should develop a framework for identification of departments and functional areas within each of them that would be taken up for audit every year (yearly), once in two years (biennially) or once in three years (triennially). GoAP institutional framework along with a list of department wise HoDs are given in Annexures B and C. Such prioritization as mentioned in previous chapter can be done based on risk analysis and materiality of the potential risk. To illustrate, the Department of Health Services has as many as 1500 primary health centres besides some district level offices. Obviously, neither is it feasible nor required to audit all the PHCs every year. One option is to audit 500 PHCs every year so that all of them are covered in a cycle of three years. It can be said that such a selection brings with it predictability, which might encourage laxity in the years immediately after the audit. The point is, however, as discussed in the Preface to this manual whether the internal audit is an assurance provider or used as a deterrent. If it is seen as an assurance provider, the selection of PHCs could be done every year through random sampling (without removing those already audited).
- 7.3 Important objectives of the annual audit plan are to:
- Ensure coverage of all key departments each year;
  - Review periodicity of coverage at regular intervals;
  - Resource planning; and
  - Control redundancy in audits.

- 7.4 IAD should maintain a register of all auditee units. It has to prepare the annual audit programme matching with its resources i.e. the number of audit team days available. Assuming it has five teams (each team comprising one Audit Supervisor and two assistants) and about 225 working days (after deducting weekly holidays, public holidays, eligible leave, etc), total available audit team days will be 1125 (225\*5) days. Further assume that the audit teams need an allowance of 20 percent for travel, preparation of reports, consultation at headquarters, the available days will be down to 937 days. If on an average audit of one organization (district office) takes 10 days, IAD will be able to audit about 94 offices in the year. Given that the number of offices will be many times higher, IAD would have to prioritize the units that would be audited. It has to develop suitable criteria to select the units for audit. Some criteria could be - significance of expenditure (higher value), nature of expenditure (higher proportion of expenditure on procurement or works), more risk prone (involving payments to a large number of individuals as in rural employment guarantee scheme, welfare payments, subsidies, etc.).
- 7.5 IAD should prepare the annual audit programme sufficiently in advance, at least two to three months in advance i.e. by January so that the auditee units can be informed and necessary arrangement for audit can be in place in time. Also, the annual audit programme should be broken down into quarterly programmes and it should be so arranged that travel of audit teams should be optimized and there is a good mix of audits at state capital and districts in every quarter.

### Planning Individual Audits

- 7.6 *The auditor should plan the audit in a manner, which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner<sup>5</sup>.*
- 7.7 While planning individual audits due considerations should be given to the information available in permanent audit files. In case of first audit, sufficient time should be given to the audit team to gain understanding of the department.

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<sup>5</sup> Chapter III - Field Standards in Government Auditing

Plan shall consider availability of resources and skill levels and prior experience in conducting the audit of the said department. Preliminary planning involves

- (i) gathering basic understanding about the department, its operations and controls;
- (ii) identifying areas of audit focus through study of past audit reports, analytical review and assessing inherent risks;
- (iii) identifying requirements of legal compliance required of the department.

Ideally, of the total available time, about 40 percent should be budgeted for planning.

### Understanding the organization

7.8 Since internal audit is a key assurance function regarding organization's achievement of its objectives, auditor should have fairly good knowledge of the organization and its operations. This includes understanding the rationale of establishing the department, structure of the department, functions of the department, relation between secretariat office, head office and district level offices. Since internal audit is a continuing engagement, auditor should keep re-evaluating the knowledge gained in previous audits and keep updating the changes. Primary source of information about the department can be obtained through the following documents:

- internal policies;
- budget estimates, revised estimates and actual expenditure;
- audited financial statements;
- operating procedure manuals, departmental manuals, etc.;
- organization charts and flow charts of processes;
- annual reports,
- MIS reports;
- AGs inspection reports; and
- departmental / government web site.

- 7.9 Auditor may obtain additional information through discussion with key personnel in the department, departmental manuals, publications of the Central Government / State Government or other agencies (like survey reports) or documents like minutes of the meeting, information sent to secretariat, policy manuals. Internal Auditor should use flowcharts, questionnaire or interview methods to obtain necessary information. Audit manager should ensure that members of audit team inculcate habit of gaining functional knowledge of the department throughout the course of audit and share information among themselves. Knowledge so gained should be used to interpret and correlate the contents of various financial and MIS reports prepared by the department.

### Understanding the operations of the department

- 7.10 Risks involved in running a department depends operations of the department. For example, inherent risks of department of Police differ widely from that of department of school education. Operational controls enforced by the management are focused towards mitigation of these risks. In order to appreciate controls, auditor should gain understanding of the operations
- 7.11 Auditor should gain knowledge of size of the operations, key events, practices and unusual transactions during the period of audit that helps him assess the inherent risk. This understanding would help auditor in identifying key controls and nature, timing and extent of procedure to be employed in conducting audit.

### Understanding controls

- 7.12 *The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control<sup>6</sup>.*
- 7.13 After gaining understanding the organization, auditor identifies key controls in conducting operations. Internal audit department examines and evaluates the compliance to the controls specified in the various codes, manuals and government orders to assure effectiveness of controls in fulfilling the objectives

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<sup>6</sup> Chapter III - Field Standards in Government Auditing, sub-head: 'Study and Evaluation of Internal Controls'

of the Government. A summary of important provisions in various codes is given in Annexure D.

- 7.14 It is an accepted principle that those responsible for the conduct of public activity and the handling of public money should be held fully accountable for:
- Ensuring that public money is safeguarded and properly accounted;
  - Conducting activity in accordance with the law and standards; and
  - Delivering services in an economic, efficient and effective manner and strengthening service delivery performance, by establishing and seeking to achieve targets and meet community expectations of outcomes.
- 7.15 While the primary responsibility of administering effective controls lies with management, internal auditor provides assurance of effectiveness of controls. Internal controls extend beyond financial controls and envelop all the functional areas needed to achieve the set objectives of the organization. For example, the objective of social welfare department is to provide education to backward class communities. In this context internal auditor besides checking the treasury controls, also verifies the caste certificates produced by the beneficiaries and the authenticity of documents to ensure and provide assurance that benefits are passed on only to the intended beneficiary. Objective of codes, government orders, manuals and guidelines is to safeguard operations from frauds, errors, irregularities besides ensuring the sound accounting and financial reporting. Thus, understanding these controls is imperative on the part of auditor.

#### **Analyze the earlier audit reports**

- 7.16 Analysis of the reports of the earlier audit is needed to verify the Department's compliance with the recommendations of the audit. The following issues need to be verified to understand the environment:
- Errors corrected at the instance of the instance of the auditor
  - Remedial recourse or penal actions done on the recommendation of the auditor.
  - Improvements in internal controls in response to auditor's recommendations.

- Any special audits conducted that reduces the significance of the present audit.

7.17 Gathering knowledge of the department is a continuous process that would help auditor in:

- Identifying inherent risk
- Determining materiality
- Develop audit plan and program
- Evaluating audit evidence
- Identification of areas of special consideration
- Identification of unusual transactions and fraud indicators
- Appropriateness of accounting principles applied

### Perform analytical procedures

7.18 Analytical procedures are tests like trend analysis, ratio analysis, changes in account balances, etc. done to study plausible relationships between two sets of data to judge the reasonableness. For example, while auditing finance department, auditor may compute ratio of interest paid by State Government over total outstanding loans taken by the state. This relationship may show that average interest paid at around 8%. However, if it showed that interest amount was abnormally high as a proportion of total loans, the internal auditor would flag this for detailed check during the audit. Similarly, while auditing school education department, auditor may compute total number of students in primary schools and the amount spent on publication of textbooks. Significant deviation from expected results may prompt auditor to enquire and plan audit procedures accordingly.

7.19 It should be remembered that analytical procedures can establish only reasonableness, and are not in themselves evidence of any misstatement or error. Hence, they are generally used in planning and review phases of audit. The following are the some of the established analytical procedures applied by the auditors:

- Comparison of current year balances with balances with previous years;
- Comparison with anticipated balances (like actual vs. budget);
- Relatable balances (Loan Vs. Interest);
- Comparison with other budget figures of other comparable state governments (Expenditure on education by comparable state government); and
- Relationship between financial and non-financial data (total amount of scholarships disbursed with number of students in various social welfare hostels).

### Identification of inherent risk

- 7.20 Risks associated in the nature of operations of an organization in absence of controls are known as 'Inherent Risk'. Inherent risk while auditing commercial taxes is that trader tries to classify his product in low tax slab group to reduce his tax liability. In case of implementation of social welfare schemes, inherent risk is that the scheme may be misused by making false representations
- 7.21 Auditor should also try to know the reasons for existence of adverse conditions or highly favorable conditions such as sudden increase in the budget of department or acquisition of high value capital items. Assessment of inherent risk depends on auditor's professional judgment and may be judged at two levels i.e. macro level (environmental factors) and micro (account balance) level.
- a. Environmental factors that substantiate the inherent risk are:
- (i) integrity of the management (lower the integrity levels, higher the risk)
  - (ii) management's experience and understanding of the operations (inexperience of the management can lead to potential misuse by the staff)
  - (iii) unusual pressures to perform (unrealistic deadlines may cause management to take short cuts, make false claims, etc.)
  - (iv) economic conditions (lower economic activity can have impact on functioning of some of the departments like commercial taxes)

- b. Accounting factors that underpin the inherent risk would involve:
- (i) quality of accounting system (poor quality accounting is prone to more misstatements);
  - (ii) complexity of the transactions (huge engineering project may have more complexity in accounting than simple accounting of petty cash expenses);
  - (iii) Susceptibility of assets (assets like cash are more susceptible to theft than say, building);
  - (iv) Pressure to complete unusual and complex projects (routine transactions may be accounted with ease by the staff than unusual transactions);

**Identify legal compliances to be made**

- 7.22 *In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.*<sup>7</sup>
- 7.23 Government departments should adhere to all legal requirements. For example, Income Tax Act requires an organization to deduct tax at source while paying salaries to employees, suppliers etc. The details of such deductions need to be furnished to the tax authorities periodically. Similarly Provident Fund Act requires deduction of employee's contribution from salary and payment to PF authorities. Societies formed by some of the departments require auditor to understand implications of memorandum and articles of association, and bye laws on their operations. Apart from these, government departments need to adhere to various other procedures that have legal force like adherence to

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<sup>7</sup> Chapter III: Field Standards in Government Auditing, sub-head: Compliance with applicable laws and regulations

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Financial Code, the Treasury Code, Accounts Code and various government orders. A checklist of such compliances in the areas of cash payments, procurement and establishment has been enclosed in the Annexure D. Auditor should acquaint himself with the applicable legal provisions as one of the audit objectives is to assure adherence to legal provisions.

### **Knowledge of accounting and budgetary system, policies and procedures**

- 7.24 While the nature of work varies widely among departments, the State adopts uniform framework for budgeting and accounting. The budget manual, financial code, treasury code and accounts code enforce uniform practices and methodologies across all Departments. It is expected that the internal auditor is conversant with all the above referred manuals and codes. S/he should identify specific provisions, if any, applicable in case of the department for which audit plan is being prepared and incorporate related audit procedures for them. It could be deposits (court deposits, earnest money deposits, etc) or something else.
- 7.25 Internal auditor should prepare a preliminary audit plan based on the information available with it such as the previous audit reports, annual report and documents relating to the department, etc. However, as the audit starts, the audit plan should be continuously reviewed to bring in all the above information. Such a detailed plan would serve as a starting point for subsequent audit.

### **Intimation of Entry conference**

- 7.26 After preliminary planning, auditor sends 'intimation of entry conference' to the head of department notifying the intended audit program. A copy of the letter is to be placed in the audit files and changes, if any, shall be notified forthwith to the auditee. The intimation letter should contain the following information:
- Authority of the audit – audit agenda, scope, objectives etc.
  - Names of the auditors assigned to conduct the audit.
  - Notification of the entry conference.
  - Seeking the relevant personnel's approval to attend the conference
  - Any other relevant information as may be deemed necessary.

A specimen letter intimating date of audit and requesting for an entry conference is given at annexure E

To sum up, for any project good planning is half the job done. Internal Audit is no exception. Audit plan ensures high quality of audit and provides evidence of internal audit's due diligence. It is generally given a low priority because auditors are generally in a hurry to get on with the job. The importance of audit plan cannot be overemphasized. Internal audit department would do well to make this a standard practice. Moreover, although an initial audit plan is prepared, audit planning continues throughout the audit as additional information is gathered.

## Chapter 8 - Conducting Audit

- 8.1 Internal audit in the state government critically reviews the internal controls with reference to the Finance Code, Treasury Code, Account Code, Budget Manual, Leave Rules, Fundamental and Supplementary Rules, Pension Rules and various government orders. Internal auditors are required to be familiar with these codes and manuals with reference to which the audit is required to be conducted.
- 8.2 Internal Audit commences with an **entry conference**, which is a meeting between the key personnel of the auditee unit (including the head of the office) and the internal auditors to create a constructive environment for the audit. The scope and flow of activities of the audit are communicated so that auditee department makes necessary arrangements for effective conduct of audit. The plan and the methodology of the audit may be discussed for better communication and support of the auditee. However, audits with an element of surprise do not have any entry conferences. During the opening conference, internal auditors should:
- a. introduce the team members and explain the scope and methodology of the audit;
  - b. describe the process of raising the audit queries and their finalization including the time line for replies to be received from auditee;
  - c. request for the support (production of records, arrangements for seating the audit team, prompt response to audit queries, etc.) that is needed from the auditee;
  - d. identify the information / records that would be needed and the contact points in the auditee's organization; and
  - e. elicit the concerns, questions and suggestions of the auditee (particularly, the head of office);
- 8.3 The entry conference sets the tone for effective audit by establishing effective communication lines with the auditee organization. It also helps the internal auditor to validate the information he had gathered during the planning stage (Refer Chapter 7 – Audit Planning) and assess the attitude and perception of the key personnel towards controls.

- 8.4 Immediately after the entry conference, the internal auditors should submit a list of records that they would like the auditee to submit. Simultaneously, the internal auditors should collect additional information that would enhance their understanding of the organization. The Internal Audit team leader should divide the audit work among his colleagues and himself and according to the work distribution they should proceed with the audit. For example, one team member may take up verifying cash book, Treasury bill register and reconciliation with treasury and the bank; another might start checking the establishment expenditure. The team leader should take up the more significant items along with supervision of other team members. The work distribution should be recorded and kept with the working papers.

### Identification of audit areas

- 8.5 Internal Auditor should develop individual worksheet for evaluation of control activities and procedures in internal controls. Internal Auditor should list down all components of an audit area. For example, in audit of commercial taxes department, cash receipt could be on account of the following:
- Collection of taxes
  - Collection of penalties
  - Sale of an asset
  - Recovery of advance given to an employee
- 8.6 Internal Auditor should then identify assertions in each audit area. For example, in case of collection of tax, assertions include occurrence (no collection is accounted without actually being received), completeness (all tax collections have been accounted for and no transaction is left out un-accounted), and accuracy/valuation (amount is credited with actual value of money received – neither understated nor overstated and accounted under correct head of account) and compliance with law.
- 8.7 For each of the assertions, internal auditor should identify possible misstatement. These can be identified from the controls incorporated by the organization (through various codes and manuals). The internal auditor would then comment on the effectiveness of each of the controls.

8.8 *Note: Preparation of control evaluation sheet for individual area of audit may not be required in case of repetitive audit assignments. Standardized questionnaire may be used subject to periodical review of changes in the processes or legal requirements. However, disadvantage with questionnaire is loss of creativity. In questionnaire based audit, auditors tend to loose skills of identification of controls, constructing relation between assertions and audit objectives. In long run loss of importance of evidence, documentation etc. leads to fall in standards of audit. It is, thus, a good practice to identify assertions and controls, verify their effectiveness.*

### Review of audit plan

8.9 After entry conference, collection of additional information regarding the auditee, internal control evaluation, the internal auditors can review the audit plan that was prepared prior to commencement of the audit.

8.10 The following are the some of the audit procedures and techniques (manual or computer aided) employed by auditors in gathering evidence.

- **Inspection:** Examination of documents underlying transactions. Most commonly known name is vouching. Physical verification generally applied in case of assets to assert that asset exists. Examples include physical verification of store, surprise check of cash balances and periodical verification of assets listed in asset register.
- **Observation:** Seeing or watching activities or facility. Generally assets and processes are observed. Examples include entry of unauthorized persons into computer room and password sharing by employees
- **Inquiry:** Written or oral replies from the staff to questions posed by the auditor. Considered as weak evidence and used only to corroborate.
- **Analysis and Review:** A principal means through which internal auditor conducts the audit function is through careful analysis and critical review of both financial and operating data. Comparison of current account figures with past period will alert auditor to unusual variances. For instance, a large variation in salaries should be explained by additional recruitment during the audit period or enhancement of pay package of employees. Breaking down

individual accounts into their most refined detail so that unusual or significant items are highlighted and thus selected for investigation. To illustrate, breaking down the procurement or works contract amount into its elements would show high value contracts, an unusually large number of contracts awarded to same vendor over a short period, procurement of same item from different vendors at varying prices over a short period and so on, which will require further investigation.

- **Confirmation:** Refers to response directly from external organization with which auditee deals with. This is considered highly reliable, but may not provide evidence for completeness and valuation. Examples include balance confirmation from bank and confirmation of stock of medicines lying with NGO to be distributed in a rural area.
- **Scanning:** This is a process of quickly but carefully scrutinizing a ledger account, document, or any other record for questionable, unusual or improper items. This is the most useful technique while examining accounting records and information.

*Note: Inquiry is considered as weak evidence and is generally used as corroborative evidence.*

### Monitoring quality of audit work - role of team leader

- 8.11 *The work of the audit staff at each level and audit phase should be properly supervised during the audit, and a senior member of the audit staff should review documented work.*<sup>8</sup>
- 8.12 Monitoring quality of audit is an important task of team leader. On completing each task, audit staff shall submit individual work sheet for manager's review. Key responsibilities of audit manager include:
- Coordinating staff assignments – with specific reference to capabilities
  - Monitoring progress
  - Level of understanding of the audit staff

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<sup>8</sup> Chapter III Field Standards in Government Auditing: sub-head 'Supervision and Review'

- Review of documentation
  - Review of evidence gathered (i.e., sufficiency, objectivity, relevance and appropriateness)
  - Resolving issues
  - Review of preliminary risk assessment and change in audit program and procedures needed in light of audit finding
- 8.13 In each audit area, the internal audit would first check compliance with the established internal control. If the compliance is poor, the auditor should conduct a larger substantive testing. To illustrate, it is expected that every item of store is issued against a valid indent (issue voucher). Compliance testing would involve checking a sample of issues to assess the extent of compliance with the above requirement, where as substantive testing goes beyond compliance and sees whether the outcomes are as they should be i.e. whether actual physical balance tally with bin card or stores ledger in a sample of items. If the compliance is poor, the auditor would be required to conduct higher substantive testing to rule out errors or mischief.
- 8.14 The Internal Auditors would also decide at each stage how they would select the transactions for audit. As 100 percent of transactions cannot be verified, a sample of transactions needs to be selected. As far as possible, the auditors should try to apply a scientific sampling technique (please see Chapter 5 on Risk based audit and Use of sampling techniques). The internal audit should also include surprise check on some sections like cash and stores.
- 8.15 While the items that need to be reviewed during audit of a government department may vary slightly from organization to organization due to difference in the nature of activities and functioning, some items that are common to all departments are:
- a. Custody of cash
  - b. Fixed assets and stores
  - c. Cash Receipts
  - d. Cash disbursements
  - e. Establishment expenditure
    - i. Pay & allowances
    - ii. Claims
    - iii. Pension

- f. Contingent bills
  - g. Grants-in-aid
  - h. Procurement & contracts
  - i. Budgetary controls
  - j. Assessment of computerised systems
  - k. Assessment of risk of fraud
- 8.16 In the following paragraphs, a brief description of risks associated with the above general audit areas and the controls that are prescribed in the codes and manuals to deal with them are given. Neither the list of risks nor the list of controls is exhaustive. At the end of the manual are given some detailed check lists for audit of these areas. These are given for general guidance. It should be remembered that audit is always dynamic as there are new instructions, processes, procedures, and so on. Internal auditors should not take them as definitive and they should supplement them as required.
- 8.17 The Internal Audit Department should ensure that copies of all government orders are routinely endorsed to it by all departments. On its part, it should maintain separate portfolio files for different subjects.

### **Audit of cash receipts and cash disbursements**

- 8.18 Government financial transactions consist of receipts and disbursements, which are governed by the AP Financial Code and the Treasury Code. The receipts comprise ordinary revenue derived from taxes, duties, fees, fines and current incomes; and receipts of banking nature include repayments of loans and advances. Government disbursements comprise expenditure out of ordinary revenues, capital expenditure and payment of banking nature including loans and advances and repayment of deposits.
- 8.19 Although government's financial transactions are taking place increasingly through the banking channels, DDOs do handle cash for payments of salaries, wages, personal claims, contingent expenditure, etc. Needless to say, financial instruments such as demand drafts and bankers cheques also need to be handled with due care. Normally all government monies are kept in Treasury / government bank. Both deposits and withdrawals take place from the Treasury / government bank. There are no explicit instructions for opening of bank accounts

by government departments as it is expected that the departments credit government monies into the government account maintained by Government banker. Government departments should not normally open bank accounts in their name / designation and deposit government monies in these accounts unless otherwise specifically permitted. These days, however, DDOs are allowed to open a current account for receiving payments (to be further disbursed to employees) through credit to their account. Some government organizations (those registered as societies, statutory corporations, etc.) operate outside the Treasury control and they operate bank accounts to receive money from Government of India, the state government and others in the form of grants.

- 8.20 The chief aim of internal audit in respect of cash would thus be to ascertain the adequacy of compliance with regulations and procedures for effective receipt, remittance, reconciliation and accounting. Internal Audit must specifically check whether any bank account has been opened by auditee and if so, whether there are adequate controls (such as bank reconciliation) to ensure proper accounting of receipts and disbursements from it. At another level, they involve diligence in collection of receipts (that revenues due to government are correctly assessed and collected promptly) and observance of propriety in incurring expenditure from public money. Risks associated with receipts are as below:
- a. Cash is received on behalf of the government but is not deposited in government account; and
  - b. Cash received by the Department is utilized to meet the expenditure against the rules.
- 8.21 AP Financial Code (Arts. 2, 7 to 11) stipulates the following in respect of receipts:
- a. The receipts should be remitted into the government account under the relevant head of account.
  - b. Receipt number should be noted against each receipt item in the cash book.
  - c. Before signing the receipt, the receiving officer should ensure that the receipt of money has been duly recorded in the cash book and should initial with date the relevant in the cash book.

- d. When the money is remitted into the Treasury, entry should be made in the cash book while signing the challan. It should be attested only on receipt of the challan after remittance.
  - e. Amounts received on the encashment of bills and cheques at the Treasury/bank, should be supported by relevant entries in the Treasury Bill Register or Un-disbursed Pay Register or Permanent Advance (PA) Register.
- 8.22 Risks associated with payments are:
- a. Cheques are mishandled, stolen, drawn in favour of a wrong person.
  - b. Cash received under Permanent Advance / imprest is spent for other expenditure than the approved purpose.
- 8.23 The AP Financial Code prescribes following controls in respect of payments:
- a. The closing balance from the old register should be correctly carried forward to the new Register under the attestation of the Head of the office.
  - b. Whenever, there is a change in the incumbent government servant, the incoming official should personally verify the cash and record a certificate of verification in the cash book under his own hand and affix his dated signature.
  - c. Amounts drawn for meeting any expenditure of the department is drawn from the Treasury under the appropriate head and is not met from the receipts.
  - d. Expenditure must be sanctioned by a competent authority by a general or specific order.
  - e. The cheque should be signed by approved signatory.
  - f. A cheque register has to be maintained.
  - g. Vouchers and their enclosures must be reviewed at the time of signing of the cheques.
  - h. Bank reconciliation must be done at prescribed intervals.

## Audit of fixed assets (including stores)

- 8.24 Government spends large amount of its budget to procure and build tangible fixed assets to assist it in effective delivery of goods and services to the public. Despite possessing such large number and value of assets, this is a relatively ignored area. The objective of auditing fixed assets is to ensure that the assets are protected from misuse, deterioration and loss.
- 8.25 The Government of Andhra Pradesh has issued GO 667 which provides instructions to the Departments on enumerating and recording the assets in the prescribed format. APFC Volume I categorizes assets into two categories viz. stores and works. Chapter VII deals with stores that include furniture & fixtures and other office equipment and with the accounting, allocation, inspection and verification of the stores (Art 122-146). Chapter VIII (Art.147-208) deals with 'Works' including buildings, their construction, repairs, maintenance, etc. Article 317 of APFC Vol I deals with the disposal of Government land and buildings.
- 8.26 The key risks are:
- a. asset is not properly recorded in the books of accounts and the loss or misuse of asset may be not known;
  - b. poor control over the use and allocation of the asset may lead to its misuse or misappropriation;
  - c. poor control over the maintenance of the assets may lead to the asset deteriorating in value; and
  - d. obsolescence of assets
- 8.27 The following internal controls would mitigate the problem to some extent:
- maintenance of fixed asset register; and
  - annual physical verification of assets; and
- 8.28 The key risks associated with stores are:
- a. Poor control over indenting procedures and accounting may lead to excess procurement, redundancy, obsolescence, unanticipated shortages, and so on affecting the service delivery

- b. Stores purchased but not accounted for in the books leading to their misappropriation;
  - c. Poor control over receipt, issue and storage may lead to loss of stores through theft, fraud, negligence or accident; and
  - d. Payments made before the actual receipt of the goods may lead to acceptance of poor quality or substandard stores,
- 8.29 The following internal controls would mitigate the problem to some extent:
- a. Physical verification for each item of stores and stock at least once in a year before close of the financial year. (Memo. No. 10970/228/TFR/90-1, Fin & Plg. Dt 10-11-1992).
  - b. Clerk maintaining the stock account must himself receive each item newly supplied and record its receipt. (Art. 137 APFC Vol I)
  - c. Competent government servant may condemn stores that are unserviceable recording the reasons for condemnation. (Art. 140 APFC Vol I)
  - d. Audit of stores and stock accounts in accordance to Appendix 10, APFC Vol II.

### Audit of Establishment

- 8.30 Audit of establishment covers a wide range of subjects such as the sanction of posts, pay and allowances, other emoluments, increments, claims, etc. Owing to the wide variety of rules applicable to different classes of employees, establishment forms a very complex function that is vulnerable to risk of errors. Internal controls in the context of establishment are laid down in the following manuals:
- Fundamental Rules and Subsidiary Rules that deal with service aspects such as general conditions of service, pay, pay fixation, increments, removal, suspension, retirement, etc.
  - Andhra Pradesh Leave Rules
  - Pension Rules and
  - AP Financial Code and Treasury code.

**Audit of pay and allowances**

- 8.31 The risks associated with pay and allowances are as below:
- a. Major risk in the pay and allowances is the payment of full salaries and increments in respect of employees who are:
    - non-existent,
    - under suspension – as per FR 53, employees under suspension are only eligible for subsistence allowance equal to leave salary on half pay, plus dearness allowance on the basis of such leave salary;
    - on leave without pay;
    - transferred or
    - on foreign service
  - b. Actual staff strength is higher than the sanctioned strength;
  - c. Improper pay fixation and sanction of increments;
  - d. HRA, other allowances, medical reimbursement, etc. do not conform to the rules / government orders / instructions; and
  - e. Discrepancies in the recovery of loans and advances from the employees.
- 8.32 While some internal controls are prescribed in codes and manuals in respect of pay and allowances as listed below, it must be remembered that these are not exhaustive. Internal auditors should be conversant with FR and SR, Financial Code and other government orders on the subject.
- a. Cadre strength register is maintained in the prescribed format consisting columns enumerating the designation / nomenclature of the post, G.O and the date sanctioning the post, number of posts – permanent and temporary; each duly signed by the CCO or SCO.
  - b. Service registers in the format as laid down in the G.O Ms. No 200 Finance & Planning dated 10-12-99 are maintained and kept in the personal custody of the head of the office.
  - c. Every government is provided his service book for verification and his signature is obtained in the service book in acknowledgement.

- d. Provisions under FR 19, 22, 22-B, 23, 26, 30 and 31 dealing with pay fixation have been followed.
- e. Annual service verification certificate is recorded each year.

### Audit of Claims

- 8.33 The risks associated with claims are as below:
- a. Non recovery of loan and advance when the employee resigns or retires or is transferred.
  - b. LTC claims for journeys not undertaken or claims for places for which permission is sought but not visited.
  - c. Claims for journeys undertaken by ineligible means.
  - d. Double claims.
  - e. Improper medical reimbursement claims – diseases not covered, treatment in hospitals other the ones identified as referral hospitals, claiming more than what is the actual cost of treatment, etc.
  - f. T.A claims made for tours not undertaken
- 8.34 Some of the controls prescribed in codes and manuals to mitigate the above risks are as below.
- a. Claims are supported by the prescribed certificates, receipts and vouchers.
  - b. Bills are countersigned by the controlling officer.
  - c. In case of travel claims, ensure that the journey was necessary and authorised by competent authority by general or special orders. Copy of the tour program of the officer is enclosed
  - d. Mode of travel, class of accommodation and rates of daily allowance are applicable under the rules.
  - e. In case of claims of LTC, the claim is to be supported with money receipts in original. G.O. Ms. No. 15 & G.O. Ms. No.228 F&P (FW.TA) Dept. dated 7.9.1981.
  - f. Location of hometown is mentioned in the service register.

- g. S.R. entry is made and certificate in token of having availed the facility is furnished with the bill. (Rule 11(h) of LTC Rules)
- h. For medical reimbursement, sanction order is supported by the medical bills in original along with the application in prescribed format and essentiality certificate.
- i. Official seal of the hospital is included.
- j. In case of house building advances – details of the plot number, survey number, clear title deed, etc. are mentioned
- k. Cheque is issued in favour of the vendor from whom the loanee proposes to purchase the site and not in favour of the drawing officer. G.O. Ms. No. 105 Finance Dept dated 19-04-1975.
- l. Amount to be released in fixed installments are paid accordingly.
- m. Certificate that the loan applicant's spouse is not a government employee is enclosed.
- n. In case of repairs, additions/alterations and improvements, a certificate that the plans and estimates duly approved by the competent authority is enclosed.
- o. A watch register observing the recovery of all HBA advances sanctioned is maintained.
- p. A personal security bond is furnished in form II duly executed by the borrower together with a permanent government employee drawing a salary more than the borrower as surety guaranteeing the repayment of the advance. Art 227 2(i) of APFC.
- q. Verification of the LPC at the time of the transferred employee joining the new office to verify the recovery of the loans & advances.

### **Audit of Pension**

- 8.35 The Department has limited role to play in the disbursement of pension. Calculation of the pension amount is done on the basic pay of the last drawn salary. The HoD sends the pension application along with the service register and the other requisite documents to the AG (A&E) who verifies the documents,

calculates pension and other retirement benefits and issues necessary authority for payment to the District Treasury under a special seal. The Treasury disburses the pension to the pensioner through the Bank/post office per the pensioner's request. The Department should, however, check the following:-

- a. The statement of qualifying service as compiled by the concerned head of the office.
- b. Computation of the pension on the basis of the basic pay of the last drawn salary.
- c. The date of retirement shown in the printed Application Form, the Service Records and the Last Pay Certificate should agree.
- d. The Last Pay Certificate should be examined to see the last pay drawn, outstanding dues, etc.
- e. The statement of average emoluments and the last pay drawn should be checked with the service records.

8.36 Following are the source documents that are reviewed during audit of establishment:

- Service Registers
- Register of increments
- Sanctioned staff strength
- Pay bills
- Pay bill register
- Leave account - temporary and permanent staff, encashed leave
- Pay fixation
- Pay Slips and other similar authorisations issued by the competent authorities,
- Last Pay Certificates
- Allowances sanctioned and their orders and records
- LPC register
- Register of loans
- Register of recoveries

- Reconciliation with Bank – payment of salaries
  - Pension register
- 8.37 An important consideration while auditing establishment is its computerization. In most government offices, pay roll is computerized. Internal Auditors should be familiar with auditing computerized systems. In case they lack the skills required for auditing a computerized system, they can still carry out the audit around the computer verifying computer outputs (pay bills) with source documents and by manually re-computing pay of some sample employees.

### Audit of Contingent Expenditure

- 8.38 As defined in the AP Financial Code (Article 91), contingent charges refer to the incidental expenditure that any office incurs in the day-to-day functioning. Such expenditure should be non-recurring i.e. should not involve any commitment beyond single payment unless the authority concerned is fully empowered to sanction such recurring expenditure. Money under contingencies is drawn from the public account in the following ways:
- 8.39 **Permanent advance:** The permanent advances are provided to every office to meet urgent and unforeseen petty expenses which cannot be postponed for fulfilling the formalities of the Treasury. As a general rule, withdrawal of money from the Treasury can be done only on the presentation of a proper voucher. However, the permanent advance is an exception to the general rules and is maintained in the APTC Form 89.
- 8.40 **Fully vouched bills:** Amounts drawn for the payments of transactions, done on credit, require the presentation of the bills along with the supplier invoices and advance stamped receipts.
- 8.41 **Abstract Contingent bills:** AC bills are drawn for items of contingencies that require scrutiny and counter-signature of the controlling officer after payment (Article 102, APFC Volume I). The detailed contingent bills should be sent to the controlling authority for close scrutiny and counter signature. The abstract bills presented for payment at the Treasury do not contain the full details of the charges.

- 8.42 **Temporary advance:** Temporary advances may be drawn for meeting contingent expenditure of a specified kind or on a specific occasion and it is not covered by standing sanction given by the government. An application for sanction must be submitted to the government. The advance should be adjusted by detailed bills and vouchers as soon as possible (Article 99 APFC Vol. I).
- 8.43 According to Article 103 of APFC, all contingent charges are recorded in a special register with the detailed classification of expenditure and progressive total as against the budget allocated and funds sanctioned. This is to keep a check on the expenditure as against the budgeted amounts and review the requirements of supplementary estimates during the course of the financial year.
- 8.44 The risks of error in respect of contingent expenditure are as below:
- a. Excess amounts are drawn under contingent expenditure
  - b. Rates are extravagant and the standards of financial propriety are not observed while incurring expenditure
  - c. Bills are forged
  - d. Amount sanctioned under permanent advance used for purposes other than those prescribed in Articles 94 to 99
- 8.45 The associated controls are:
- a. Expenditure is incurred for those contingencies as defined under Art 91 APFC Volume I.
  - b. Bi-weekly review of the Bills Register by the drawing officer.
  - c. The head of the office or the gazetted government servant authorized to incur the contingent expenditure should initial against the date of payment in respect of each item (Article 105 b, APFC Volume I).
  - d. Certificate is to be recorded when new bills register is opened.
  - e. Certificate is to be recorded when the old bill register is completed.
  - f. Every bill that is to be presented at the Treasury must be entered into the Treasury Bill Register.

- g. Every office presenting bills at the Treasury must maintain a TBR in the prescribed Form 70 of APTC (Instruction 33–TR–16).
  - h. Fresh entry has to be made in the TBR in case the bill has been rejected by the Treasury and it has been presented again after rectification.
  - i. Every AC bill is supported with a DC bill at the earliest.
  - j. Every voucher for the expenditure incurred from the Permanent Advance (PA) must be entered in the PA register maintained in Form 89 of APTC (SR 5 – TR 32).
  - k. When the contingent bill is prepared to recoup the PA with reference to paid vouchers, the vouchers should be cancelled to avoid the possibility of double withdrawal at a later date.
  - l. The amount of PA sanctioned, the order in which sanctioned and the amount drawn should be noted on the front page of the register and attested by the Head of the office.
  - m. The DC bills should be countersigned by a competent authority and the figures are transcribed into register in the same form as that of the disbursing officer's register (Art.110, APFC Volume I).
  - n. A monthly return of the A.C. bills drawn and the DC bills submitted should be sent in APFC forms 23 & 26 to the countersigning officers.
- 8.46 Following are the documents that need to be reviewed during internal audit:
- a. Documents containing the details of the Grants and appropriations from the Government and the details of the funds allocated to the office by the HoD.
  - b. Contingent charges register.
  - c. The AC and DC bills.
  - d. Vouchers and sub-vouchers, bills, challans, etc.
  - e. Supply orders, tenders and contracts.
  - f. Log books, if any to verify the maintenance and usage of the machinery, vehicles, etc.
  - g. Sanction orders from the concerned authority.

## Audit of Grants-in-Aid

- 8.47 The main aim of audit of grants-in-aid is to ensure that the amounts allocated as grants for a purpose are not mis-utilized and standards of financial propriety are maintained in the expending of resources. Internal audit would also bring forth the weaknesses in the system, failures and fraud in the management of the scheme.
- 8.48 The risks of mis-utilization of grant-in-aid are as follows:
- a. Diversion of the grant amount to other expenditure
  - b. Misappropriation of the grant amounts
  - c. Under utilization of the grants
  - d. In case of scholarships/stipends, improper disbursements of the sanctions
  - e. Frauds in the identification of the beneficiaries
  - f. Beneficiaries enjoying the scholarships/stipends beyond the stipulated time frames
- 8.49 The following are some controls in respect of grants-in-aid:
- a. Every order sanctioning a grant should clearly specify the object of the grant and conditions related, if any.
  - b. Before any grant is paid to any public body or institution, the sanctioning authority must insist on obtaining an audited statement of the account of the body or institution concerned, in order to see that grant-in-aid is justified by the financial position of the grantee and to ensure that any previous grant was spent for the purpose for which it was intended (Article 211 of APFC)
  - c. A utilization certificate should invariably be furnished for all the grants from the administrative, technical and financial point of view.
  - d. The utilization certificate must clearly mention the use of the grant
  - e. Grant sanction order must indicate if the grant is a recurring or non-recurring expenditure.
  - f. No grant is disbursed until the grantee utilizes substantial amount of the grant.

- g. While disbursing the scholarships/ stipends the bank details of the beneficiaries is to be mentioned in the application form into which the subsistence allowances would be transferred.
  - h. Physical verification of the existence of the beneficiary is required.
  - i. Registers have to be maintained with the names of the beneficiaries listed.
  - j. Stipend/scholarship vouchers must contain the names of the beneficiaries.
- 8.50 Following documents and registers need to be verified during the audit of grants-in-aid:
- a. Order sanctioning the grants;
  - b. Utilization certificates;
  - c. Bonds with sureties, if any;
  - d. Bills for the withdrawal of the grants;
  - e. Bank pass books, if the amounts are transferred through the banks; and
  - f. Register of Grants.

### **Audit of Procurement of goods and services**

- 8.51 The APFC has laid down rules for entering into contract on behalf of the government for procurement of goods and services. Specific rules regarding the tenders and contracts, purchase of stores, maintenance of the stock accounts, works contracts, inspections, payments etc have been laid down in specific departmental manuals and Financial Code. Internal audit of procurement and contract is necessary to ensure that the rules and regulations provide reasonable security against malpractices, verify the propriety of such procurement, and check if the contracts or agreements have led to any loss or wastage of public money.
- 8.52 Following are some risks associated with procurement:
- a. Stores procured without proper sanction or utility.

- b. Proper forecasting of stores not done which leads procuring goods in emergency deviating from the rules of procurement laid in (Articles 122 & 123 APFC)
- c. Stores are procured unnecessarily to avoid lapse of the budget grant.
- d. Tenders called for without proper sanction or in accordance to the rules.
- e. Lowest tender reject without adequate justification.
- f. Inferior quality goods/services received.
- g. Change in the terms of contract, price or quantity of goods supplied.
- h. Misrepresentation in the distances in the claims of carriage of goods
- i. The stocks procured not entered into the stock register

8.53 The following is the list of some controls in respect of procurement of goods and services:

- a. Procurement of the stores is supported by administrative approvals and technical sanctions.
- b. Contracts are called for in accordance with Article 122, APFC volume I.
- c. If the lowest tender is not accepted, the reasons of non-acceptance are recorded in the concerned file (Article 123 II (3), Art 127 APFC Vol I).
- d. Agreement is signed between the supplier and the government servant authorized to sign on behalf of the government detailing the conditions, process and quality of goods/services to be supplied.
- e. Change in the terms of contract has to be signed by the competent authority.
- f. Standing contracts should be reviewed periodically.
- g. Register of contracts is maintained.
- h. Bills for the payment of contracts must be presented with the supporting agreements and copies of contracts with a certificate signed by the competent authority to the effect that the claim is correct.

- i. The purchasing officer concerned should sign in ink all copies of the acceptances of tenders, supply orders, etc. including all attachments containing details of the rates/prices and other important conditions.
  - j. Security deposit, if any, should be furnished in the appropriate form, of the correct amount, and within the period stipulated in the contract.
  - k. Inspection certificates are furnished with the bills in cases where the contract stipulates inspection in stages.
  - l. Claims of carriage are duly supported by cash receipts and the other necessary documents establishing the shipping location.
- 8.54 Following are the documents that need to be verified during internal audit
- a. Contract files maintained by the departments or institutions.
  - b. Accounts and payment vouchers received from the treasuries.
  - c. Administrative Approvals and Technical Sanctions of the competent authority forming the basis of the contracts.
  - d. Supplier Bills for supply of Stores.
  - e. Copies of Contracts and Agreements.
  - f. Any other documents that would establish the propriety of contract.

### **Budgetary Controls**

- 8.55 Budgetary controls are first level of accounting controls. Government budgetary process is an elaborate exercise and comprises of number of controls. Appropriation is the first step that authorizes expenditure from Government account. However, this control lies with Legislative Assembly, hence out of scope of Internal Audit. Re-appropriation of funds is delegated to the Head of Department.
- 8.56 As a part of fiscal reforms, the Government has delegated certain powers to the Heads of the Departments/Chief Controlling Officers to re-appropriate funds at their level, subject to certain restrictions. The delegation of powers are stipulated in Para 20.4 of AP Budget Manual read with Government Memo No. 6413-A/184/BG/A1/2002, dated 11.03.2002.

- 8.57 The re-appropriation of funds between different grants or between revenue, capital and loans within the same grant is not permissible. Similarly, re-appropriation shall not be sanctioned by Head of the Department from Plan to Non-Plan and vice-versa. A separate register to note the re-appropriation done by the Head of the Department from time to time requires to be maintained. Re-appropriation should be done strictly as per the following guidelines:
- Re-appropriation of funds between Revenue-to-Revenue, Capital-to-Capital and Loan to-Loan within the same grant.
  - Re-appropriation from one Unit of appropriation (Detailed Head) to another.
  - Re-appropriation to Detailed/Sub-Detailed Head to 130/131 Utility Payments from other detailed Heads/Sub-Detailed Heads, but not vice versa.
  - Re-appropriation from Salaries to Salaries and Travel Expenses to Travel Expenses can be done from one sub-head to another sub-head.
- 8.58 No re-appropriations are permitted in respect of the following cases:
- From one Grant to another Grant.
  - Expenditure constituting new service.
  - From Plan to Non-Plan and vice versa.
  - Re-appropriation should not be done to 510 motor vehicles, 530 major works, 270 minor works, 272 maintenance, 520 machinery and equipment, 210 supplies and materials, from other Detailed Heads and vice versa.
  - From any Detailed/Sub-Head to give loans and advances to the employees under the Section Loan account.
  - Deliberate re-appropriations from Unit Head to another, as temporary device in the expectation of restoring the debited amount from the savings should not be done.
  - Re-appropriation should not involve the recurring liability beyond the current financial year.
  - Re-appropriations under Non Plan for the 4th quarter provisions should not be done after fixing the Revised Estimates of the current financial year.

- Re-appropriation should invariably be in multiples of Rs.1000/-.
- 8.59 The Head of the Department should immediately surrender the savings under all Units immediately after their identification. All anticipated savings should be surrendered before 25<sup>th</sup> of February. In exceptional cases, only the Finance Department will accept surrender of savings up to 25<sup>th</sup> March with full explanation as to how the savings could not be foreseen. Hence, the proposals for surrender of funds with the savings obtained from Subordinate Controlling Officers should be sent to the Finance Department as soon as they are foreseen without waiting till the end of the financial year along with the proposals for ratification of the excess expenditure from overall savings of the Department / Grant, if any, to the Government.
- 8.60 Unavoidable and unforeseen circumstances may arise in the course of the financial year making it necessary to urgently incur fresh expenditure under one or more detailed heads or on a new service not contemplated in the original budget estimates. In such cases, savings in other appropriations by postponement or curtailment of least urgent expenditure may be re-appropriated except when it is on account of a new service (Para 20.11 of Budget Manual) Expenditure on a “New Service” not contemplated in the Budget Estimates whether the expenditure is charged or voted for the year should not be incurred and it cannot be met by way of re-appropriation until it is included in a supplementary estimate presented to the Legislature and eventually in an Appropriation Act. If the expenditure can be met from the savings within the grant, wholly or in part, it will be sufficient, if a token sum of Rs.1000/- or the balance actually required, as the case may be, is included in the supplementary grant. In another way, pending authorization of funds by the Legislature, an advance may be sanctioned by the Government from the Contingency Fund to enable urgent expenditure being incurred on a new service. Advance from the Contingency Fund does not lapse at the end of a financial year. Proposals for supplementary estimates for recoupment of advances sanctioned and incurred from the Contingency Fund or sanctioned by the Government in relaxation of Treasury Control orders, as additional amount in excess of Budget Provision should be sent by the CCOs to the Finance Department through the Administrative Department concerned before 5th of February every year. Every care should be taken by the CCO to incorporate all expenditures incurred by the departments, the Budget provision in the

supplementary estimates. The CCO should send the Supplementary Estimates through the Administrative Department under a copy to the Secretary, Finance (FWL: BG) Department directly. A separate register noting the amounts sanctioned by the Government over and above the budget provision in relaxation of Treasury Control or from Contingent Fund requires to be opened to watch the regularization of amounts sanctioned by the government.

### Assessment of computerised systems

- 8.61 Once Internal Auditors have determined the necessity of assessment of reliability of computerised systems based on its application (such as payroll, pension payments, etc.), they should carry out some simple tests such as the following:
- In case of payroll, they could manually compute the gross and net emoluments in some test cases and compare the results with the computer generated pay bill;
  - The input figures such as basic pay and allowances can be compared with the source documents;
  - Allowances such as DA, Dearness Pay, HRA, etc. which are a percentage of the basic pay can be manually computed and compared with the computer output;
  - While the above can be done without the use of the computer, auditors could with the assistance of auditee staff seek checking the reliability of data entry process by seeking to enter values outside the acceptable range - such as name of a person not working in the organisation, salary which is outside the normal range (say, Rs 100,000), etc. If the processing is reliable, the computer system should reject such items as invalid.
- 8.62 The skills required to conduct a complete information systems audit would depend upon the application. Internal Auditor department should have a small pool of auditors trained in IS audit, so that their services could be used on need basis. Otherwise, for most systems, internal auditors could assess the reliability by conducting simple checks outside the computer system as explained above. However, it is recommended that a decision to involve trained IS auditors should be taken only after assessing the level of risk of the system. For example, risk level should be considered high if the system is used to authorise payments, account for receipts, some authorizations take place on the system itself with no

paper trail, or if it is used for taking significant decisions. The following situations require specialized technical skills:

- a. organization's systems, automated controls, or the manner in which they are used are complex;
- b. data are extensively shared among the systems (uses an ERP system with work flow automations involving on-line authorizations);
- c. organization participates in electronic commerce;
- d. organization uses emerging technologies such as electronic fund transfer; or
- e. significant audit evidence is available only in electronic form.

In above cases, Internal Audit Department should seek the assistance of qualified persons from outside in case it does not have skilled persons of its own.

- 8.63 Computer systems usually place a great deal of emphasis on prevent controls. It is seen that excessive reliance on simplistic sign-on codes fail in reality due to user ignorance or laxity. Therefore, auditors should look at what detect controls are in place and assess whether they are being used in operation. Most computer systems maintain history of log-ins like the closed circuit TV in a high security building captures images of persons in the premises. These are of no use if they are reviewed periodically. Generally, such a review does not take place. A review of log-ins can point to unusual activities - e.g. failed attempts to log in to the system; or log-in after office hours or on holidays; they should alert the system administrator to investigate any breach of security.

### **Assessment of risk of fraud**

- 8.64 *When auditors conclude, based on evidence obtained, that significant noncompliance or abuse either has occurred or is likely to have occurred, they should report relevant information. The term "noncompliance" comprises illegal acts (violations of laws and regulation) and violations of provisions of contracts or grant agreements. Abuse occurs when the conduct of a government*

*organisation, program, activity or function falls far short of societal expectations for prudent behavior.*<sup>9</sup>

- 8.65 Internal Auditor should maintain professional skepticism in conducting audits. The audit team should bear in mind possibility of existence of fraud and take cognizance of fraud indicators. Undue pressure to deliver, incentive for performance and absence of effective controls could be some of the factors that may permit fraud. The following are some of the fraud conditions that may exist:
- Transactions not recorded on timely manner
  - Discrepancies or unsupported transactions
  - Unexplained reconciliations
  - Vague responses to audit queries
  - Unusual relationships with management
  - Denial of access to records
  - Un-due time pressures
- 8.66 Auditor should document fraud indicators encountered during the audit, his response to it and should consider reporting the same to the senior management.
- 8.67 A material weakness is a reportable condition in which controls fail to reduce the risk of error or fraud. While it is advisable to communicate at the earliest, timing of such communication and appropriate authority to communicate depends on the judgment of the auditor based on the severity of the weakness. Communication should be in writing as far as possible. In case of oral communication, the same should be documented and preserved in audit working papers. Communication at this stage should be accompanied by a disclaimer that the finding is as a result of preliminary observation and not through a detailed audit procedure.
- 8.68 As per Chapter III Field Auditing Standards in Government Auditing, the following deficiencies in internal controls are considered to be in reportable condition:
- a. *Absence of appropriate segregation of duties consistent with appropriate control objectives;*

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<sup>9</sup> Chapter III: Field Standards in Government Auditing, sub-head: Non-compliance and abuse

- b. Absence of appropriate reviews and approvals of transactions, accounting entries or systems output;*
- c. Inadequate provisions for the safeguarding of assets;*
- d. Evidence of failure to safeguard assets from loss, damage or misappropriation;*
- e. Evidence that a system fails to provide complete and accurate out put consistent with the auditee's control objectives because of the misapplication of control procedures;*
- f. Evidence of intentional override of internal control by those in authority to the detriment of the overall objectives of the system;*
- g. Evidence of failure to perform tasks that are part of internal control, such as reconciliation not prepared or not timely prepared;*
- h. Absence of a sufficient level of control consciousness within the Organisation;*
- i. Significant deficiencies in the design or operation of internal control that could result in violations of laws and regulations having a direct and material effect on the financial statements; and*
- j. Failure to follow up and correct previously identified deficiencies in internal control.*

### **Investigation of fraud**

- 8.69 Internal Audit may be called upon to investigate a fraud or misappropriation. The objectives of such an investigation are to (a) determine whether the suspected irregularity has occurred; (b) determine and document the sources and amount of funds involved; (c) identify the individuals responsible for the loss; and (d) provide recommendations for corrective actions to improve prevention and detection procedures.
- 8.70 For an effective fraud investigation as for effective internal audit, the internal auditors should have unhindered access to records and people in the organization. This as already mentioned earlier is a matter that should be clearly mandated in the Internal Audit charter.

8.71 It would be useful for internal auditor to be clear about the following terms while conducting fraud investigation.

**Assets:** Money, negotiable instruments, data, physical property whether owned or rented;

**Conflict of interest:** When government resources or assets are diverted from, or made less effective in their intended purposes by virtue of an individual's activities, association, or interests outside his or her primary affiliation with the government. A very simple example of conflict of interest is a doctor in government hospital having own practice. Although sometimes permitted as an incentive, there is a clear conflict of interest as the doctor gains more by treating the patient in his clinic rather than in the government hospital. Similarly, school teachers are prohibited from undertaking tuitions as this activity is in conflict with their and their institution's role in providing education to the children in the school.

**Defalcation:** Defalcation which is synonymous with misappropriation is to appropriate government assets fraudulently for own uses. These include any dishonest act which involves:

- unauthorized use, taking or destroying government property for personal gain or to purposely deprive government of its use; (a government servant who himself or his close relative runs business of photocopying nearby the office may damage the office photocopier to further his business);
- forgery or alteration of cheques, drafts, promissory notes, assignments, etc.
- any irregularity in handling or reporting of cash transactions.

- Irregularity:** Intentional mistakes or distortions in financial statements, such as misrepresentation or misappropriation of assets.
- Error:** Unintentional mistakes in financial or accounting data. An error may include:
- mathematical or clerical mistakes in the underlying records and accounting data;
  - oversight or misinterpretation of facts; or
  - misapplication of accounting policy.

8.72 **Preliminary investigation:** During the preliminary investigation, the internal auditor should

- identify each account or set of related accounts that were affected by the defalcation, determine the purpose of each account and how it can be used;
- identify the types of transactions / documents used to make entries, adjustments, and who may initiate authorize such transactions;
- determine the source of funds involved in the fraudulent activity;
- determine the types of questionable activities that have occurred, how the possible irregularities were committed, all likely means of conducting the alleged activities and the level of personnel potentially involved;
- develop detailed audit program for establishing the facts of the case and recommendations that will promote better internal controls.

8.73 **Investigation:** The investigation may be done to substantiate the size and type of loss and / or to identify the responsible individuals. During this phase, the internal auditor must select the specific auditing procedures that in his judgment are necessary to successfully complete the investigation.

## Chapter 9 - Concluding the audit and reporting the findings

### Concluding procedures

- 9.1 The audit is concluded once all the audit procedures and checks are completed. The internal audit team leader should finally review the working papers to see that the audit has been conducted according to plan and it has achieved its objectives. He should make note of any audit procedures that could not be completed because records were not produced by the department or due to lack of time. It is time to decide finally whether all audit observations would find place in the report or some would be dropped in view of the department's reply. Team leader should check the supporting evidence for each observation that is proposed to be put in the report. He should satisfy himself about the sufficiency and relevance of the evidence. He should then prepare a draft report which will include his report on:
- Effectiveness of controls and any major / minor weaknesses in them;
  - Non-compliance with law, codes and government orders with assessment of possible loss; and
  - Any matters relating to propriety of transactions.
- 9.2 The format of the draft report shall be same as final report and all the applicable quality checks equally hold good for draft report also except that the title of the report shall be “Draft Internal Audit Report”.

### Exit Conference

- 9.3 Internal Auditor should seek appoint for an exit conference with preferably the head of the department once the final draft report is ready. A copy of the draft report should be given to the HoD at least a couple of days in advance so that he and his team have time to study it and prepare themselves for the meeting. The purpose of exit conference is to give the department an opportunity to place additional facts, its views, etc. on the audit findings. Essentially, it is an opportunity for IA to seek confirmation of facts given in the audit report and the department's views on the audit recommendations. If the exit conference takes

place in right spirit, the audit report becomes an agreed document between the department and the internal audit. Request for exit conference can be made through a formal letter to the management enclosing the draft audit report or by personally meeting the HoD. The following should be the approach to the exit conference:

- Auditee department should be given opportunity to initiate the discussions and offer their views on the report;
- In case of disagreement, auditee department should be able to substantiate their views with supporting evidence; and
- Auditor may agree to reconsider his conclusions in the light of the information provided by the management.

9.4 A record of discussions of exit conference should be kept on file as a part of audit working papers. It is not necessary for the department's representative to sign it. A copy of the record prepared by IA may be given to the department for their information. In case they disagree with any part of the record it is for the department to convey it to the IA. The record helps document reasons for dropping any audit paragraph.

### Reporting audit findings

9.5 Audit report is the final deliverable of audit process reflects the quality of audit. Hence, auditor should take utmost care in drafting the report. Auditing standards suggest standardization of report to the extent possible.

### Elements of Audit Report

**Title:** Report should have appropriate title. Titling the report as “Internal Audit Report” would be appropriate and helps in demarcating the report from other reports

**Addressee:** Should be addressed to the appropriate authority as mentioned in the charter. In case legal requirement arises to send audit report, it should be addressed to appropriate authority mentioned in the relevant law or regulation.

**Executive summary:** Should mention period covered under audit and mention that establishing appropriate internal controls and preparation of financial statement are the responsibilities of management and responsibility of auditor is to express opinion on efficiency of internal controls in achieving management objectives

**Scope paragraph:** Nature of audit with reference to audit charter or engagement letter should be mentioned. Scope refers to terms of engagement, requirements under relevant legislation and applicable standards to be followed by the auditor. Auditor should mention scope with reference to control environment. It should also state auditor's observance of Internal Auditing standards issued by IIA, US and those of Comptroller and Auditor General of India in conducting audit. The reader needs this as an assurance that the audit has been carried out in accordance with established standards.

**Audit Observations:** A paragraph should give reference to the control environment and legal compliance required by the department in conducting its operations and should be supplemented by report of observations split into two sections along with auditor's opinion on effectiveness of controls. It should carry a statement that the opinions are based on audit work designed, performed to identify and check the material weaknesses in controls and observations are based on evidence collected.

Audit observations should be split into separated each for each section in the department i.e. cash section, establishment section, engineering section etc. Within each section report should be split into

**Part I. A** – Serious irregularities in which corrective action can be taken immediately e.g. minor changes in the current organization structure or introduction of a new MIS report for effective monitoring.

**Part I B** – Serious irregularities where corrective action need some time e.g. creation of a separate cell for monitoring quality / Appointment of a senior officer etc.

**Part B – Other irregularities**

**Follow-up Report:** Status report of the follow-up actions taken by the department to the earlier report should be annexed.

**Date of Report:** Date of report is the date on which the report is signed. Significance of the date is that auditor has considered effect financial transactions on cut-off till the date of signing the report. This date in no case can be prior to the some important dates like of entry conference or date on which draft report is discussed with the management etc.

**Place of signature:** Report should mention the location, which is city where audit report is signed

**Signature of the auditor:** Report should be signed by appropriate authority in the audit department. Name of the officer and designation should be mentioned under the signature.

9.6 It is a good practice is to categorize Audit Findings by Risk Severity. A priority designation (High, Medium and Low) may be assigned to each of the key areas of focus detailed in the report based on auditors' assessment of the severity of the issue. The rating (High, Medium and Low) indicate the need for auditee to put priority focus which is as follows:

**High** – Issue is high priority and should be given immediate attention and considered imperative to ensure that auditee is not exposed to high risks (i.e. failure to take action could result in major consequences and issues).

**Medium** – Issue is medium priority and considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).

**Low** – Issue is not critical and considered desirable and should result in enhanced control or better value for money.

9.7 Another good practice is to classify possible causes of audit findings so that the auditee may address the causes of audit findings as follows:

Compliance	Failure to comply with prescribed regulations, rules and procedures.
Guidelines	Absence of written procedures to guide staff in the performance of their functions
Guidance	Inadequate or lack of supervision by supervisors.
Human error	Mistakes committed by staff entrusted to perform assigned functions.
Resources	Lack of or inadequate resources (funds, skills, staff, etc) to carry out an activity or function.

### Quality check of Audit Report:

As per Field Standards for Government Auditing, issued by Comptroller and Auditor General of India, auditor report should be

- Complete
- Accurate
- Objective
- Convincing
- Clear
- Concise
- Constructive and
- Timely

Further to the above, auditor may perform the following checks:

- Report should be concise, free of unnecessary detail
- Contents in various sections i.e., executive summary, scope and audit observations are consistent
- Report is logically presented and easily understood
- Report is based on facts and is free from personal criticism
- Acronyms are defined
- Findings are worded constructively

- Recommendations are directed toward achieving objectives and not step by step actions.
- Report has proper spelling, grammar, and punctuation and is free of other surface errors.
- Spacing is proper and consistent
- Fonts and formatting are proper and consistent
- Report addressee name and title are proper and correctly spelled
- Names mentioned in 'copy to' columns are correct; names and titles are correctly spelled
- Audit Report number and subject title are included on the report and are correct.

### Following up audit report

9.8 Internal Audit Committee should set up a framework for effective follow-up. Follow-up guidelines should be issued by them and checked independent of audit field work. The following are the indicative guidelines for effective monitoring:

Action	Time frame
Issue of Draft Report to Head of the Department	Immediately on completion of field work
Exit conference	Within one week from issue of draft report
Issue of Final Audit Report	Within 10 days from exit conference
Action on I A irregularities	Within 20 days from the issue of final report
Action on I B irregularities	Within 6 months from the issue of final report
Action on other irregularities	Within 2 months from the issue of final report

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## Checklists

This part deals with certain sample checklists and questionnaires of some generic audit areas applicable across all the Government Departments. These checklists and questionnaires have explicit reference to the various Codes and Manuals: AP Financial Code, Accounts Code, Treasury Code and The Handbook on Financial Accountability, developed by the CGG.

## Cash

### Internal Control Questionnaire

Control	Yes	No
The receipt of money is in accordance to the Treasury Code.		
The amount is deposited into the Treasury under the proper head		
The realized receipts are immediately deposited in Treasury / Bank and not kept in the cash chest		
Departmental receipts are not used for Departmental expenditure.		
Watch register is being maintained		
Irrecoverable arrears are recorded and reported		

### Check list I

S No	Check
1.	Whether two different cash books- one for the Government transactions and another for the non-Government transactions are being maintained.
2.	Whether Counterfoil of the printed receipt for every entry on the receipt exists.
3.	Whether Printed receipt book is available
4.	Whether Relevant entry in the receipts side of the cash book is supported with the relevant receipt number.
5.	Whether Cash / credit to account / demand drafts / bankers cheques received from the Treasury is supported by relevant entries in the TBR, UDP, non-Govt. cash book, PA. Register etc.
6.	Whether Proof of disbursement of the amount (acquittance) is present and supports the entry in the cash book
7.	Whether A memorandum of verification is recorded in the cash book duly counting the cash, DD and Banker Cheques and verified with the book balance as shown in the cash book and all other sub-cash registers after they have been closed for the day and then signed by the Drawing Officer as below: A. Balance as per Cash Book Balance as per UDP Register Balance as per P.A. Register Balance as per Non-Govt. cash book _____ Total Book Balance _____

	<u>B. Amount held in cash</u> a) Amount held in the shape of cheques and drafts <u>b) Amount in the DDO Current account</u> C. Cash balance ascertained by counting
8.	Whether adequate physical facilities exist to safeguard the cash. (S.R 1&2 T.R. II of APTC Vol. I)

### Cash Receipts -Check List 2

S.No.	Check
1	Are all monies received made payable to department/office?
2	Are the receipts restrictively endorsed immediately upon receipt?
3	Are cash receipts kept in secure storage until deposited?
4	Are deposits made daily to the cashier's office?
5	Are cash receipts deposited intact with no expenditures made from collections?
6	Is cash that has been received and deposited reconciled monthly?
7	Are cash receipts recorded and used only for the purpose for which they were received?
8	Are cash handling responsibilities rotated among two or more employees when possible?
9	Are numerically controlled receipt slips used for all cash receipts received in the department?
10	Are numerically controlled cash-receipt slips accounted for and reconciled on a regular basis?
11	Is the DDO maintaining receipts of money in accordance to Articles 2, 7-11 of the AP Financial Code i.e. - assessing the demand - watching progress of collection against the demand. - maintaining proper accounts of collection - taking steps to collect arrears - reconciling his accounts with that of the Treasury.
12	Do controls exist over the collection, timely deposit, and recording of collections in the accounting records in each collection location?
13	Are receipts controlled by cash register pre-numbered receipts, or other equivalent means if payments are made in person (over the counter)?

14	Are receipts accounted for and balanced to collections on a daily basis?
15	Are receipts accounted for and balanced to collections on a daily basis?
16	Whether rules as under Article 274 of AP Financial Code are followed for the cashing bills or in the remitting of the money from one office to another.
17	Whether surprise cash counts of department petty cash and change funds performed on a regular, random, and unannounced basis
18	Whether petty cash funds kept in secure storage
19	Whenever a demand draft/cheque is received towards the government dues, it is entered in the Cash Book and Register of Cheques
20	Whether the name of the individual making the payment towards the Government dues is mentioned on the challan.
21	Whether Challan number and date is noted against the relevant debit entry in the cash book and also in the Register of Cheques.
22	Whether Regular reconciliation of the cash book and Register of Cheques with the bank is done.

### Cash Disbursement

#### Internal Control Questionnaire

Control	Yes	No
1. Whether Bills are signed and approved		
2. Whether AC and DC bills are presented in the prescribed formats in time.		
3. Whether Cheques are properly authorized.		
4. Whether Invoices are - paid in time, if not, reasons? - paid twice, if yes, why?		
5. Whether Invoices are compared to purchase orders before payments are made.		
6. Whether Procedures exist for effective reconciliation, particularly_ <ul style="list-style-type: none"> <li>• Comparison of Cheques in appropriate details of disbursement records</li> <li>• Comparison of deposit amounts and dates with cash receipts entries</li> </ul>		

**Checklist 3 (Articles 3, 4, 38 to 44 and 45 of APFC Vol. I)**

S No.	Check
1	Whether the expenditure has been sanctioned by a general or special order of the authority competent to sanction such expenditure.
2	Whether sufficient funds have been provided for expenditure in the budget of the financial year or by way of re-appropriation of funds or by supplementary estimates sanctioned by the competent authority.
3	Whether it is ensured that the expenditure has not exceeded the Budget provision
4	Whether it is ensured that on no account have funds been reserved or appropriated by transfer to a deposit head or drawn from the Treasury and kept in the cash chest to avoid lapse of appropriation
5	Whether it is ensured that the amount of any allowance such as Traveling Allowance granted to meet expenditure of a particular type is regulated that it is not a source of profit to the recipient.
6	Whether it is ensured that there is no undue rush of expenditure towards end of financial year.
8	Whether procedures exist to notify to the banks whenever there is change in incumbency.
9	Whether the cheque is given to the person authorized by the firm / supplier / contractor.
10	Whether the signature on the bill / claim is verified and tallied with the Specimen signature available in the office.
11	Whether the claim is supported by the proper sanction by the competent authority.

## Audit of Establishment expenditure

Check list of registers to be maintained by DDO

1. Treasury Bill Register
2. Pay bill Register (APTC Form 47).
3. T.A. Bill Register (APTC Form 52).
4. Misc. Bills Register (APTC Form 40).
5. Register of contingent charges (APFC 7).
6. Office copy of GPF bills Register.
7. UDP Register
8. UD Contingencies Register
9. Permanent Advance Register
10. Budget Control Register
11. Court Attachment Watch Register
12. Non-Govt. Recoveries Watch Register
13. Acquittance Register for Payment of Pay and allowances (APTC Form 88).
14. Misc. acquittance Register for payment of T.A., F.A. (APTC Form 58) and other payments.
15. Office copy of LPC issued Register.
16. Register of true copies of LPCs received.
17. A.C. Bills Watch Register.
18. Register of advances of Pay & T.A.
19. Tour Advance Register.
20. Register of recoveries of advance on transfer.
21. Register of recoveries of festival advance.
22. Register of recoveries of medical advances.

23. Register of recoveries of loans granted to Govt. servants for purchase of Bicycle, House Building, Marriage, Motor Cycle etc.,
24. Register of recoveries of GPF.
25. Register of recoveries of A.P.G.L.I. (See Appendix 26 of APFC Vol. II).
26. Increment Watch Register (Gazetted & Non-Gazetted Separately).
27. Register showing the service books received from other offices and sent to other offices.

## Check list 4 - Pay &amp; allowances

S No	Check
1	Whether the bill is prepared in the prescribed APTC Form No. 47.
2	Whether separate bills are prepared for temporary and permanent and Plan and Non-Plan posts (SR 7 of T.R. 16).
3	Whether correct schedules of deductions are enclosed with the bill (SR 2[1] TR 16).
4	In case of <b>first appointment</b> following items need to be ensured: a) Allotment by APPSC or DSC or Employment Exchange is verified (Act. 2 of 1994). b) Age and Health certificates are attached (FR 10). c) If appointment is made on compassionate grounds, the authority and method, including nodal agency, has to be verified.
5	Whether in case of <b>Increment</b> , the periodical increment certificate is signed by the competent authority (SR 13 of TR 16) and an Increment Watch Register is maintained.
6	Whether in case of <b>subsistence allowance</b> , the provision in FR 53 is followed.
7	Whether in case of <b>Foreign service</b> claim, competent authority has sanctioned the same. (SR 127).
8	Whether in the case of <b>Foreign service</b> , the lending authority shall ensure receipt of leave salary and pension contribution
9	In the case of <b>Foreign service</b> , the lending authority shall ensure the repatriation of the Govt Servant on completion of stipulated period (maximum 5 years).
10	<b>In the case of Time barred and Arrears claims</b> (Art. 52 to 54 of APFC Vol-I and orders in G.O. Ms. No. 161, Finance and Planning Dept. dated 27.04.91 and further instructions thereon). Is there sanction from competent authority?
11	<b>Additional pay (FR 49).</b> <ul style="list-style-type: none"> <li>• Competent authority to sanction the pay: Up to 3 months – HoD; Beyond 3 months – Government.</li> <li>• Period to should exceed 14 working days.</li> <li>• No Addl. charge is given to Class IV, Chowkidars, Drivers and Record Assistants.</li> </ul>

	<ul style="list-style-type: none"> <li>• Addl. charge is not permissible from a retrospective date.</li> <li>• Addl. charge allowance is not permissible for a lower post.</li> </ul>
<b>12</b>	<p><b>Encashment of Earned Leave (EL):</b></p> <p>a) Surrender of E.L. 15 /30 days for 12 / 24 months respectively while in service.</p> <p>b) Surrender of E.L. is permissible during June / July, in case E.L. accumulation is more than 285 days while in service.</p> <p>c) Encashment of E.L. on retirement or death – Maximum 300 days</p> <p>d) No IR is admissible for encashment of E.L.</p>
<b>13</b>	<p><b>a) A.P. Employees Welfare Fund:</b> Rs. 50/- is deducted from fresh appointees; for others Rs. 20/- deducted from the salary of March paid in April in each year.</p> <p><b>b) Flag Day Contribution:</b> Rs. 50/- for Gazetted officers and Rs. 20/- for Non-Gazetted staff is deducted from the salary of December paid in January each year.</p>
<b>14</b>	<b>APGLI</b> – Ensure deductions of subscriptions, enhancements and loan recoveries as per prescribed slab rates.
<b>15</b>	<p><b>APSEGIS (1984):</b></p> <p>a) Ensure deductions of subscriptions and enhancements as per prescribed group rates.</p> <p>b) Ensure up to date entries in the Service Register.</p>
<b>16</b>	<b>FBF-</b> Ensure entries up to 31-10-1984 in the Service Register.
<b>17</b>	<b>Profession Tax:</b> Ensure deductions as per slab rates.
<b>18</b>	<p><b>Deduction of Income Tax:</b></p> <p>Ensure Income Tax deduction in accordance with the provisions of Income Tax Act 1961 (Art. 86 of AP Financial Code)</p>
<b>19</b>	<p><b>Payment of Obsequies Charges</b></p> <p>a) Payment of obsequies charges in respect of Government employees who died while in service is Rs. 5,000/-</p> <p>b) Payment of obsequies charges in respect of <b>service pensioners</b> only is</p> <p>Rs. 5,000/- or one month pension which is higher.</p>
<b>20</b>	<p><b>Subsistence Allowance</b> – the DDO shall ensure:</p> <p>a. Copy of suspension orders issued by the competent authority is enclosed to the bill. [Authority: FR 53 read with G.O.Ms.No.215 GAD (Ser.C) Dt.17-03-90].</p>

	<p>b. Payment of subsistence allowance up to 3 months from the date of suspension is equal to leave salary on half pay leave “i.e.” half pay + proportionate DA + full HRA and CCA without interim relief. [Authority: FR 53 [I] [ii] [a] ]</p> <p>c. No increment is sanctioned during suspension period.</p> <p>d. No leave is sanctioned during suspension period. [Authority: FR 55]</p> <p>e. The suspended official has submitted a certificate to the competent authority that he/she is not engaged in any other employment, business, profession every month while getting subsistence allowance. [Authority: FR.53 [2]</p> <p>f. The vacant post of suspended official is not filled in by way of promotion, appointment by transfer or regular transfer except making additional charge arrangements.[Authority: G.O. Ms. No. 189 GAD [SER.C] Dept. dated 20-04-99 read with Memo. No.20225/219/FR.II/99 dated 23-07-99 of F&amp;P]</p> <p>g. If an employee dies, while under suspension, the period between date of suspension and the date of death is treated as duty and the family is paid full pay and allowances, after deducting the subsistence allowance and other allowances paid to the employee, if any [Authority: Rule 54-B[2]]</p> <p>h. The recovery of A.P.G.L.I and G.I.S. P.T. is made compulsorily during the suspension period also.</p> <p>i. The subscription and recovery of loan of G.P.F. has not been made at the request of the suspended official during suspension.</p> <p>j. Declaration is given by the suspended employee.  <i>Certified that I have not been engaged in any profession or trade or employment during the period from..... to .....for which the Subsistence allowance was drawn and paid during the previous month.</i></p>
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**UDP – Undisbursed Pay Register**

The amounts drawn for disbursal and have not yet been disbursed are accounted for in the UDP. This register is used for entering the undisbursed amounts of both pay & allowances and contingencies.

S No	Controls
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1	Register is maintained in the APTC form 20 with the prescribed columns.
2	The serial numbers are assigned consecutively for each year and the entry is rounded off when the amount is completely disbursed.
3	Undisbursed amount is not kept beyond 15 days
4	The register is signed by the DDO on the date of transaction
5	Closing balance of the UDP is taken to the general cash book
6	Bi-weekly verification and review is done by the DDO

### Checklist 5 - Pay Fixations & Automatic Advancement Scheme

S no	Check
1	The pay of the employee is to be fixed on promotion involving assumptions of duties or responsibilities of greater importance in the time scale under <b>FR 22(a)(i)</b> from the date of promotion.
2	The pay is also to be re-fixed under <b>FR 31(2)</b> on the date of accrual of increment in the lower cadre.
3	If the Govt. servant promoted to the higher post after appointment to Automatic Advancement Scheme holding SG/ SPP scale is promoted to 1st level promotion post in the lower post, the pay of the individual shall not be fixed under <b>FR 22(B)</b> if the promotion is between 1-8-1993 to 30-6-2003.
4	If the Govt. servant promoted to the higher post from the lower category with out getting appointment to the AAS, the pay of the individual is fixed under <b>FR 22(B)</b> by allowing notional increment at the time of fixation
5	If a Govt. servant opted to fix his pay under <b>FR 22(B)</b> from the date of promotion, one increment has to be added notionally to the pay already drawn in the lower post and fix the pay so arrived in the next stage in the promotion post.
6	If a Govt. servant opted to fix his pay under <b>FR 22(B)</b> from the date of accrual of increment in the lower category, one increment has to be released as per FR 26 (regular increment in the lower category) and add another increment notionally to the pay already drawn in the lower post, and fix the pay so arrived in the next stage in the promotion post
7	In respect of Government servant who is promoted, they may be given only one opportunity to revise their options provided such revised option is within a period of one year from the date of promotion (G.O.Ms.No.102, F

	& P (FW FR II) Dept.Dt.19-03-91)
8	The Govt. servant who promoted from the lower category shall exercise his option for fixation of pay within 30 days from the date of joining in the promotion post
9	Where a Government servant has reached the maximum of the time scale, or if he has drawn all stagnation increments, option is not necessary and his pay is fixed from the date of promotion only and his next increment will be released after completion of one year from the date of promotion only. In such cases fixation under <b>FR 22(a)(i) read with FR 31(2)</b> .
10	Family planning increments, higher education qualification increments do not count for fixation of pay in the higher post.
11	In respect of typists and stenographers, whose services have been regularized prior to 24-08-98, their special pay is taken into consideration for pay fixation in the promotion post. (G.O.Ms.No.190, F & P, (FW FR II) Dept.Dt.24-08-98)
12	An employee after completion of eight years incremental service in one cadre is eligible for appointment to the special grade post and his pay is fixed in the SG post scale under <b>FR 22(a) (i) read with FR 31(2)</b>
13	An employee after completion of <b>16</b> years incremental service in one cadre and after acquiring the requisite qualification for appointment to the 1 <sup>st</sup> level promotion post is eligible for appointment to the special promotion post and his pay is fixed in the SPP post scale under <b>FR 22(a) (i) read with FR 31(2)</b> only.
14	An employee who does not acquire requisite qualification to become eligible for promotion (1 <sup>st</sup> level promotion) should not be eligible for appointment to the SPP scale even after completion of <b>16</b> years of service.
15	An employee who has relinquished the right of promotion to the 1 <sup>st</sup> level promotion post under Rule 28 of AP State and Subordinate Service Rules 1996, should not be appointed to SPP – I (16 years). (Govt. Memo. No. 0007/375/PRC I/88. Dt.26-10-88) The re-fixation should be made from date of appointment to 16 years scale but the payments already made need not be recovered.
16	The services rendered in two different categories i.e. Typist/Junior Assistant can be computed for the purpose of appointment in SPP I
17	The Automatic Advancement Scheme is applicable to the employees holding posts only up to certain grades.

18	Pay fixation statements and appointment orders for AAS is enclosed in original with ink-signed copy to the bill and also necessary increment certificates wherever necessary be enclosed to the bill.
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### Checklist 6 - Pensions (Rule 51 of A.P.R.P. Rules of 1980)

S No	Check
1	Verification of the service register
2	Other items to be verified. a. A.P.T.C. Form No.47 is used and the head of Account M.H. 2071 – Pension and other retirement benefits. b. The anticipatory pension is adjusted against the final pension. c. No anticipatory pension has to be sanctioned, where disciplinary proceedings are in progress, however provisional pension under Rule 52 to be sanctioned (Rule 9). d. Anticipatory pension should be 4/10 <sup>th</sup> of last pay drawn based on qualifying service with time to time DR.
3	<b>Anticipatory Family Pension</b> i) 75% of the admissible family pension following the date of death is sanctioned without DR. ii) This is adjusted in full from the family pension.
4	<b>Anticipatory Gratuity</b> i) 80% of the admissible gratuity is sanctioned. ii) No anticipatory gratuity is sanctioned when disciplinary proceedings are contemplated against the pensioner.
5	No dues certificate issued by the Head of the office
6	Recomputation of the pension based on the last pay drawn
7	Verification of the LPC

### Checklist 7 - Leave Travel Concession

S No.	Check
1	LTC is sanctioned only to the government servant who has put in 5 years service. (G.O. Ms. No.20 Finance [PC] Department. dated 18.01.1972, G.O. Ms. No.15 Finance [PC] Department dated. 17.01.1973).
2	The permission granted to avail the L.T.C. is given by the authority competent to sanction leave other than casual leave (Govt. Memo No.

	55427/TA/76-1 dated 12-07-76 of F&P [PC] Department).
3	Prior permission is obtained before commencing the upward journey (Govt. Memo 1165/PC/72-1 dated 12.05.72 of F&P [PC] Department).
4	Verify, whether : a. The government servant has touched the destination for which he/she is permitted (Govt. Memo No. 39873/1005/TA/85-1, dated 16.12.85 of F& P [FW.TA] Dept). b. The LTC concession is availed correctly with reference to block periods. c. Hometown declared and recorded in the service register is a place within the state or out side the state, before sanctioning LTC. If the Home Town is situated outside the State, the claim is limited to the last point within the state in that direction.
5	The claims are supported by original used tickets of journeys performed as per Circular Memo No. 11818/48/A2/TA/2001, dt. 7-3-2002.
6	The claim is preferred by the government servant within 30 days from the date of return journey, or otherwise 15% cut is imposed on the claims preferred up to one year (G.O. Ms. No. 312 F&P [FW.TA] Dept. dated 02.09.1977).
7	The certificates as prescribed by the Government are furnished (G.O. Ms. No. 15 read with G.O. Ms. No. 247 F&P [FW.TA] Dept. dated 20.09.1982).
8	S.R. entry is made and certificate in token of having availed the facility is furnished with the bill (Rule 11[h] of L.T.C. Rules).
9	Certificate stating whether spouse is employed either in State, Central, Quasi Government, etc., where similar facilities are available and but not availed separately is obtained from the employer of spouse (Rule 11[a] (i) and (ii) of L.T.C. Rules, G.O. Ms. No. 15 read with Govt. Memo No. 83808/C/564/ TA/79-1, dated 23.01.1979.)
10	Bill is preferred in T.A. bill form (APTC Form No.52).
11	a) If the places are connected by train, journey is performed by train only. b) In case the journey is performed by bus (APSRTC & AP Tourism Development Corporation), the fare is limited to bus fare or train fare of eligible class which ever is less.

	c) Claims for journeys by private services or car, hired car, private taxis, vans, etc., have not been entertained.
12	A LTC Advances Watch Register to watch the recovery of amounts advanced is maintained.
13	<ul style="list-style-type: none"> <li>i) The parents of gazetted officers shall not be treated as family members</li> <li>ii) The Parents of married female non gazetted employees will be treated as members of family provided they are depended on them.</li> <li>iii) The children born on or after 1-4-1996 will not be treated as family members, if the number of children born prior to 1-4-1996 were 2 or more.</li> <li>iv) The parents of non gazetted employees shall not be treated as dependents if either of them is a pensioner (including family pensioner) (Rule 7)</li> </ul>

The following certificates are to be verified for the authenticity of the claims:

**Certificates to be insisted upon from the Claimant for LTC Bills:**

a) *Certified that for the block period of \_\_\_\_\_, I have not submitted any claim so far for leave travel concession in respect of the persons for whom traveling allowance is claimed in this bill.*

b) *Certified that the advance of traveling allowance for the leave travel concession has been fully adjusted in this bill.*

c) *Certified that the persons for whose journey the claim is preferred in this bill performed the journeys to and from\_\_\_\_\_.*

d) *Certified that my wife/husband is not a Government employee/is an employee of \_\_\_\_\_ and that the concession has not been availed of by her/him separately for herself/himself for any of the family members covered by this claim for the block period\_\_\_\_\_.*

e) *Certified that the family members for whom claim has been made in this bill are wholly dependent on me.*

f) *Certified that my parents for whom the claim is made in this bill are wholly dependent on me and they are not pensioners/job holders.*

**Checklist 8 - Traveling Allowance**

S No	Check
1	D.A. is admissible only when a government employee reaches a point outside a radius of 8 km from the headquarters (Rule 38).
2	D.A. is regulated correctly irrespective of mode of travel (Rule 37): a) Full D.A. for absence of 12 hours and above b) Half D.A. for absence of 6 hours and more but less than 12 hours c) No D.A. for absence of less than six hours d) One D.A. is admissible for 24 hours of absence from headquarters
3	Those who draw house rent allowance at the rates admissible to a qualified town on the ground that the place of duty is within 8 kilometers from that qualified town are not eligible for traveling allowance/daily allowance when they perform journey to that qualified town for official purpose (Rule 39 (6) (4)).
4	Permission is obtained to perform journey outside the jurisdiction within the State and also for journey outside the State by the competent authorities. (Rule 47).
5	When C.L. is availed while on tour, D.A. is not admissible (Rule 40 [1] to [3]).
6	The Government servant should resume duty after availing C.L. while on tour. Otherwise the fare for the return journey is not admissible (Rule 48[4] & [5]).
7	Reimbursement of boarding and lodging charges is made on production of original receipts in and outside the State and DA is regulated accordingly (Rule 41).

8	Taxi or auto fare is permissible from the arrival point outside the State to place of stay and vice versa and for going to offices, etc., subject to certification of expenditure if Government vehicle is not provided (Rule 40[6 & 7]).
9	Reimbursement of cancellation charges of Railway tickets purchased in connection with Railway journey is permitted if the journeys were cancelled solely in the public interest and to be certified by the controlling officer (Rule 27[6]).
10	If journey is performed by Regular Public Motor service, between places connected by Rail, payment of actual bus fare or the railway fare of the entitled class, whichever is less, is made (Rule 23 [1]).
11	For journey performed by Regular Public Motor service, if not connected by rail, he/she is entitled for the actual bus fare (not Air Conditioned bus) (Rule 23[2]).
12	If not connected either by Rail or Public Motor service, the employee is entitled for payment of mileage allowance (Rule 23[2]).
13	No daily allowance is admissible in addition to the mileage allowance (Rule 24[2]).
14	The Insurance Premium paid by Government officers to cover the risk of Air Travel is reimbursed subject to furnishing the certificate by the claimant to the effect that Insurance premium was actually paid to the Insurance Company (Rule 34[3]).
15	Cancellation charges paid by Government employees on Air ticket in connection with the tour is reimbursed through their T.A. bill if certified that the cancellation is due to circumstances, which were unavoidable, and beyond the control of the Government employee (Rule 44).
16	TA Watch Register is maintained to watch the recovery of amounts advanced.
17	TA counter-signature register is maintained in each office.

**Certificates to be insisted upon along with the Tour Traveling Allowance Bill:**

*a) I certify that for the Railway journeys included in this bill were actually travelled by \_\_\_\_\_ class for which Railway fare is claimed.*

b) I certify that the bus fare claimed in this bill was actually paid by me for the journeys performed by bus.

c) I certify that the places, for which mileage allowance is claimed in this bill, are not connected either by Rail or by a regular public motor service.

d) I certify that I was not provided with any Government conveyance or any other conveyance at Government expenses, for the journeys included in this bill.

e) I certify that neither boarding nor lodging nor both were provided to me free of cost.

f) I certify that my own motor car/motor cycle was used for the distance for which mileage allowance is claimed under rule.

I certify that no traveling allowance/daily allowance is claimed by me for the period during while I was on casual leave or availed public holiday/optional holiday.

#### Checklist 9 - Transfer Traveling Allowance

S No	Check
1	Copy of Transfer Order, cash receipts towards transportation of personal effects and loading and unloading charges, date of relief at old station and date of joining at new station and list of family members are furnished in the bill.
2	(a) Journey by family members between places connected by Rail, entitled to draw for each adult member and ½ fares for child (Rule 57). (b) If traveled by Public Motor service, the claim to be limited to train fare of entitled class or bus fare whichever is less.
3	Officers eligible to maintain their own conveyance if carried along with the officer, the actual charges incurred limited to the total number of mileages admissible to the government employee and family be allowed (Rule 57).
4	Traveling allowance on retirement: a) The claim for journey on retirement is regulated as per Govt. Orders (G.O. Ms. No. 80 Finance and Planning (FW& TA) Department, dated 20.03.1975). b) The concession is availed within six months from the date of

	retirement. c) T.A. bill on retirement has to be preferred where the last pay was drawn. d) The claim for personal servants, when included, is not admissible.
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**Certificates to be insisted upon along with Transfer TA Bills:**

a) I certify that myself and members of my family and personal servants have actually traveled in \_\_\_\_\_ for which the claim is made in this bill for rail journeys.

b) I certify that myself and members of my family and personal servants actually traveled by road for which bus fare and/or mileage allowance is claimed in this bill for the road journeys.

c) I certify that the personal effects were actually transported by road and I spent a sum of Rs. \_\_\_\_\_ (Rupees \_\_\_\_\_) towards their freight and the claim is limited to the amount that would be admissible, had the maximum number of kilograms of personal effects, been taken by goods train at the rate of Rs. \_\_\_\_\_ (hereby specify the goods rate) per kilogram.

d) I certify that the claim made for the members of my family is in respect of those who are actually residing with me at the time of receipt of orders of transfer and they are wholly dependent on me.

e) I certify that the personal effects (including conveyances) transported as claimed in this bill were actually under my possession at the time of receipt for orders of transfer.

**Checklist 10 - Medical Reimbursement (Rule 5(3) (iii) of A.P.M.A. Rules, Appendix III)**

S No	Check
1	Sanction orders are supported by medical bills in original along with application in prescribed proforma (Appendix II) and Essentiality Certificate.
2	Cash memos and Essentiality Certificate are countersigned by Medical Officer authorized (treating doctor) to do so.
3	The office seal of the Hospital to which the AMO is attached or the seal of the dispensary, including the name of the hospital to which the dispensary is attached, is affixed.
4	The medical reimbursement bill is countersigned by the controlling

	officer.
5	The bill is received within 6 months after the last date of the period of treatment. In case of delay, a cut of 15% has been imposed.
6	The cash memos contain the name of the patient.
7	The period of treatment and nature of illness is clearly indicted in the Essentiality Certificate by AMO.
8	The reimbursement claim is not made in respect of items, which are not medicines but are primarily foods, tonics, toilet preparations and disinfectants.
9	The bill does not contain any consultation or other fees. (Rules 4[5] of APMA Rules 1972).
10	Ceiling of Rs.2,00,000/- for each spell of treatment for second and subsequent operations, even operation for the same ailment is maintained.
11	Bills are drawn on APTC Form No. 47
12	A Watch Register to watch the advances sanctioned and their recovery is maintained in each office.

#### Check List 11 - Educational Fee Reimbursement

S No	Check
1	Sanction orders are supported by school fee receipts in original or school fee card in the event of school fee receipts having been lost. (Government Memo No.155-P2/66-4, dated 16.03.1966 of Education Department)
2	The School is recognized by Government of A.P. irrespective of whether grant-in aid is received or not. (Registered schools or recognized by CBSE or studying in institutions of other states) (G.O. Ms. No. 1725 Education Department, dated 26.04.1959) (Rule 206 of A.P. Educational Rules published in supplement to Part I of A.P. Gazette, dated 26.05.1966):
3	Concession has been withdrawn where the pupil remained for more than one year in the same class. The concession thus withdrawn has been revived when the pupil got promoted to the next higher class.
4	Concession has not been admitted if one of the parents is a Gazetted Officer and the other is a Non-Gazetted Officer (NGO).
5	Certificate stating whether spouse is employed either in State, Central, Quasi Government, etc., where similar concessions are available and have

	not been availed is to be furnished by the Government servant and attested by the DDO.
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### Checklist 12 - Marriage Advance

S No	Check
1	A certificate to the effect that no previous advance is pending recovery is enclosed
2	The advance sanctioned is drawn and disbursed not earlier than two (2) months of the anticipated date of marriage.
3	The date of marriage is furnished in the proceedings on a separate certificate indicating the same.
4	The personal security bond in Form-II is obtained and retained in the office and certificate indicating is enclosed to the bill.
5	A certificate to the effect that his/her spouse is not a Government servant or if he/she is a Government servant, no marriage advance is sanctioned to him/her, is obtained and enclosed.
6	Full eligible amount is sanctioned (Govt. Memo. No.36851/1413/A1/A&L/ 83, Finance Department, dated 18.11.1983).
7	For self-marriage, the following certificate is obtained and enclosed to the bill. a) A certificate to the effect that father and mother are not Government employees. b) Certificate to the effect that the individual has completed 5 years of regular service.
8	A Watch Register observing the recovery of the advance sanctioned is maintained.

### Checklist 13 - Cycle/Motor Car / Cycle Advances

S No	Check
1	Full eligible amount of advance is sanctioned as per Government Memo 36851/ 1413/A1/A&L/83, dated 18.11.1983 of Finance Department.
2	Certificate is furnished to the effect that agreement and security bonds have been obtained from the individuals and retained in the office.
3	Certificate that no previous advance is pending and that the earlier advance is fully recovered with interest and a clearance certificate obtained from the Accountant General, Andhra Pradesh is enclosed if the M.C.A. is sanctioned

	for the second time.
4	Certificate that the loanee has not been sanctioned any other conveyance advance during the preceding five years be enclosed.
5	As per para (4) of G.O. Ms. No.333, Finance Department, dated 14.12.1983, Account Payee cheque is issued in favour of the dealer from whom the driver intends to purchase the vehicle and cheque is not to be issued in favour of the Drawing Officer.
6	A watch Register observing the recovery of the advance sanctioned is maintained.
	<b>b. Cycle Advance</b>
7	Certificate that Agreement and Security bonds have been obtained from the loanee and retained in the office is enclosed.
8	Certificate that the loanee has not been sanctioned any other conveyance advance during the preceding three years is enclosed.
9	Correct Head of Account as per the budget book is furnished on the bill.

**Checklist 14 - House Building Advances**

S No	Check
	<b>Purchase of site (partly for site and partly for construction)</b>
1	The cheque is issued in favour of the vendor only from whom the loanee proposes to purchase the site and not in favour of the Drawing Officer. (G.O. Ms. No.105 Finance Department, dated 19.04.1975)
2	Certificate that he has not been sanctioned any kind of House Building Advance previously is furnished.
3	Certificate that Agreement Bond (in Form-IV) and surety bond are obtained from the individual is furnished.
4	Certificate that his/her spouse has not availed the House Building Advance.
5	Correct Head of Account as per Budget book is furnished.
6	Details of the Plot number, Survey number, Location, etc., of the site proposed to be purchased is furnished.
7	Proceedings are enclosed in duplicate duly signed in ink.

<b>For Construction</b>	
8	An amount equal to 1/3 <sup>rd</sup> of the total amount sanctioned is to be released in each installment.

9	Certificate that the site owned by the applicant is mortgaged in favour of Government in Form VII A along with the house to be built thereon (For 1 <sup>st</sup> installment) is furnished.
10	Certificate that the loanee has not been sanctioned any other kind of House Building Advance previously.
11	The amount to be released in the installments fixed tallies.
12	Certificate that Agreement and Security Bonds have been obtained from the loanee and retained in the office.
13	Head of Account is indicated as per the Budget book.
	<b>For ready built house/repairs, additions/alterations to houses</b>
14	House number and location of the house proposed to be purchased is furnished.
15	The cheque is to be issued in favour of loanee only and not in the name of Drawing Officer. (G.O. Ms. No. 105 Finance & Planning (F.W.) Department, dated 19.04.1975)
16	The agreement bond in Form-VI is obtained from the individual.
17	House number, location, etc., of the house for which repairs are proposed to be undertaken are furnished.
18	Certificate that plans and estimates duly approved by the competent authority (not below the rank of Dy. Executive Engineer) have been obtained from the individual be enclosed.
19	Certificate that Mortgage deed has been obtained from the loanee and filed in the office is enclosed.
20	Certificate that agreement and surety bonds have been obtained from the loanee is furnished.
21	Certificate that two surety bonds have been obtained in lieu of Mortgage of house at _____ is furnished as required in Government Memo No.3135-A/ 387/A&L/86, dated 31.07.1986.
22	A proceeding duly signed in ink is enclosed in duplicate.
23	A watch Register observing the recovery of all HBA advances sanctioned is maintained.
24	Calculation of the interest to be recovered from the loanee: $I = A \times R / 100 \times 1/12$ , where I = Interest, A = Cumulative total of outstanding advance R = Rate of Interest per year Internal auditor has to re-compute the interest to be recovered for

	verification.
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### Checklist 15- General Provident Fund

S No	Check
1	Form 40-A is also annexed to Form 40 for drawl of G.P.F. temporary or part final withdrawals.
2	Sanction order issued by the competent authority duly quoting the rule and purpose under which the temporary advance/part final withdraw sanctioned. [Authority: G.O.Ms.No. 42 Finance [Pensions.II] Department dt. 09-01-2003].
3	Original latest slip issued by the AG/DTO/PAO is enclosed to the bill. [Authority: DTA Memo. No. E2/14255/2001 dt. 01-04-2004]
4	Calculation sheet for arriving at the balance of the credit of the subscriber.
5	Appendix-I is required to be enclosed to the bill for drawl of temporary advance
6	Appendix-O- is required to be enclosed to the bill for drawl of part final withdrawal.
7	Final withdrawal authorizations issued by the AG/DTO/PAO are enclosed to the bill by the DDO in original.
8	The fact of withdrawal of G.P.F. is recorded on the reverse of the original G.P.F. slip duly attested by the STO concerned. [Authority: DTA Memo. No. E2/ 14255/2001 dt. 01-04-2004]
	<b>a. Eligibility for subscription:</b>
9	Compulsory to all regular Government employees on completion of one year service [FR 16].
10	Last Grade Servants who completed 5 years of service or whose date of Retirement is at least 10 years ahead.
11	The recovery of subscription shall commence only after the account number is assigned.
12	If the subscription is recovered without allotment of GPF account number, it will be credited to suspense account and may lead to missing credits.
	<b>b. Rate of Subscription</b>
13	6 % on basic pay to the Regular employees if insured with APGLI/LIC/PLI. If not 12% on basic pay.
14	4% on basic pay to the Class -IV employees.

	<b>c. Other conditions:</b>
15	1. The subscription may be enhanced twice and reduced once in a financial Year: but enhancement should not be made during the last four months of the Financial year, to avoid income tax [Authority: Government Cir. Memo. No.23374/ 47/GPF/ Pen.II/ 95 dt. 11-08-1995].
16	Subscription should be made during all period of duty, including foreign service, leave salary, except suspension period and during last four months of his service.
17	The subscriber may elect not to subscribe during the leave which does not carry the leave salary.
	<b>d. Temporary Advances</b>
18	Temporary advance should not exceed 3 months pay or half of the balance at the credit of subscriber [Authority: Rule 14[1]]
19	Temporary advances shall not be granted in excess of 3 months pay (or) half of the balance except for special reasons to be recorded in writing.
20	Temporary Advance is sanctioned to meet expenses in connection with prolonged illness [Authority: Rule 14 (i) [a] (i)]
21	Temporary advances is sanctioned to meet <ol style="list-style-type: none"> <li>1. Costs for overseas passage for reasons of health or education. [Authority: Rule 14 (i) [a] [ii]]</li> <li>2. Cost of higher education beyond high school stage- outside India for --- academic, technical, professional or vocational courses [Authority: Rule 14(i) [a][ii] [a]]</li> <li>3. To pay obligatory expenses in connection with marriage or other ceremonies [Authority: Rule 14 (i) [a] [iii]]</li> <li>4. To meet the cost of legal proceedings instituted against the subscriber [Authority: Rule 14(i) [a] [iv]]</li> <li>5. To meet the cost of his defence where the subscriber is prosecuted by the Govt. or the subscriber engages a legal practitioner [Authority: Rule 14 (i) [a] [v]]</li> <li>6. To meet the cost of building or acquiring a house including site, repairs, &amp; repaying of outstaying loan taken for this purpose. [Authority: Rule 14(i) [a] [vi] &amp; [vii] &amp; [viii] ]</li> <li>7. To meet the cost for acquiring a farm land or business premises within 6 months of date of retirement. [Authority: Rule 14(i) [a]</li> </ol>

	[ix]] 8. To meet the cost of purchasing a motor car [Authority: Rule 14(i) [a] [x]]
	<b>e. Recovery of Advance:</b>
22	Recovery is completed within 36 months from the date of sanction. [Authority: Rule 15(i)]
23	Recovery shall not be made during the last four months of service of subscriber.
	<b>f. Other Conditions:</b>
24	No advance is sanctioned during the last four months of service [Authority: Rule 14-1]
25	Normally no second temporary advance should be sanctioned until the repayment of the last installment of any previous advance [Authority: Rule 14[1] [c]
26	But in exceptional circumstances, to be recorded in writing, second temporary advance may be sanctioned while previous advance is pending [Authority: Rule 14[c]]
27	The validity of the sanction order for drawl of temporary advance is 3 months from the date of sanction [Authority: Note 3 under Art. 50 of A P Financial Code Vol.I]
28	Temporary advance and part final withdrawal for the same purpose is not be sanctioned.
29	A Watch Register overseeing the recovery of the GPF temporary advance is maintained ( <i>Annex-25</i> ).
	<b>g. Part Final Withdrawal</b>
30	The subscriber has completed 20 years of service or has less than 10 years left over service for retirement.
31	Not more than 2 withdrawals in a financial year with a gap of 6 months between one and another.
	<b>Medical Grounds:</b> [Rule 15A (i) [c] and 15[c]
32	The subscriber has completed 20 years of service or has less than 10 years left over service for retirement.
33	6 months pay or half of the balance, which ever is less and relaxed up to 3/4 <sup>th</sup> balance
34	Only one part final withdrawal is allowed for the same purpose and illness of different persons/ occasions will not be treated as the same.

	<b>House Building Purpose: Rule 15A [2] and 15-E</b>
35	The subscriber has completed 15 years of service or less than 10 years left over service for retirement.
36	3/4 <sup>th</sup> balance or actual cost or subject to limitation of H.B.A. rules as per G.O.Ms.No. 264 F&P dated 17-6-94.
	<b>For Purchase of House Site or Repaying of Outstanding Loan</b> [Rule 15A [2] B and 15 F]
37	a. The subscriber has completed 15 years of service or has less than 10 years left over service or retirement.
38	1/4 <sup>th</sup> of the amount at credit (or) actual cost, which ever is less.
	<b>h. Final Withdrawal</b>
39	The final withdrawal shall be paid in time irrespective of the out come of the appeals if any, in case of dismissal, removal or compulsory retirement.
40	If a subscriber dies while in service the nominee shall be paid Rs.20,000/- under booster scheme authorized by the AG/DTO/PAO as the case may be provided that the balances at his credit for last 36 months before his death shall not fall short of the following limits: Gazetted - Rs.8,000/-; NGOs – Rs.6,000/-; Office Subordinates – Rs.2,000/- [G.O.Ms.No 42, Finance (Pen II) Dept, dt. 29-1-2003] read with Rule 30(A).

**Checklist 16- Temporary Advances to Employees [Non Interest bearing]**

[Authority: G.O.Ms.No. 186 Finance dated 16-5-1962 and G.O.Ms.No. 146 Finance dt. 21-4-1962]

S No	Check
<b>Festival advance</b>	
1	Ink signed copy of the sanction order is enclosed to the bill containing details of the FA sanctioned in connection with the festival, date, amount sanctioned, name of the individual for whom advance sanctioned, head of A/c etc.,
2	The advance sanctioned is being recovered in [10] equal monthly installments.
3	A certificate to the effect that the Government servants included in this bill have not been sanctioned or paid earlier is furnished.
4	A certificate to the effect that no previous advance is outstanding for recovery has been furnished.
5	F.A. is sanctioned once in a financial year
6	A Watch Register on the recovery of the Festival Advance is maintained.
<b>Educational advance</b>	
7	Sanction of Education Advance is to be issued by the Competent authority.
8	If wife and husband are government employees only one of them is eligible for this advance.
9	Only one such advance in the period from May to April is being made.
10	This Advance is sanctioned subject to the budget provision and Treasury control to those regular employees who have completed 2 years of service are eligible for this advance.
11	The recovery is being completed in 8 equal monthly installments.
12	A government servant should furnish a declaration to the effect that they are not having more than two children along with application.
13	The application is made in the prescribed proforma.
14	The advance is drawn and disbursed during the month of May only.
15	A watch register on the recovery of the Educational Advance is maintained

## Contingent Expenditure

### Checklist 17

S.no	Item
1	Certificate stating the call of tenders limited/open/single has been made and the lowest accepted is furnished.
2	Contingent bill has not been made on proforma invoice.
3	<ul style="list-style-type: none"> <li>a. Copy of supply order is present.</li> <li>b. Extension of delivery time for supply of goods, if ordered is furnished.</li> <li>c. Stock entry certificate with page nos. on the vouchers is appended.</li> <li>d. Authorized Budget provision is furnished.</li> <li>e. Sub-vouchers for the amounts exceeding Rs.1000/- duly passed by the competent authority are furnished.</li> <li>f. Certificate to the effect that sub-vouchers for the amounts less than Rs.1000/- are cancelled and retained is furnished</li> <li>g. Sanction from competent authority is obtained and furnished.</li> <li>h. Special sanction from superior authority wherever necessary is furnished.</li> <li>i. Sanction of the damage charges to be included in the freight charges to be paid as demurrage.</li> <li>j. Certificate of the goods being received in good condition is furnished.</li> </ul>
4	<p>Log book entry duly indicating page numbers has to be verified to ensure that the usage of the vehicle or machinery is in conformity to the maintenance charges. Log books entries to be verified are –</p> <ul style="list-style-type: none"> <li>a. consumption of fuel</li> <li>b. in case of ceilings on the consumption of fuel has been exceeded, sanction orders from the next higher authority have to be furnished.</li> <li>c. Repairs to vehicles from recognised workshops</li> <li>d. the number of days and the names of the drivers running the vehicle.</li> </ul>
5	<p>Claims for conveyance bills:</p> <ul style="list-style-type: none"> <li>a. Claim for conveyance is not resorted as a routine manner</li> <li>b. Claims for conveyance are restricted to bus fares.</li> </ul>
6	<p>Telephone bills:</p> <ul style="list-style-type: none"> <li>a. Certificate stating that the telephone calls included in the telephone bill are official is furnished.</li> <li>b. Original challan towards private calls, if any, is furnished.</li> </ul>

	c. Ceilings prescribed by Government for the use of telephones on local calls and STD facility is being followed.
7	AC/DC bills a. Certificate as required for the drawal of second AC bill is furnished. b. DC bill is countersigned by the controlling officer. c. Sanction is accorded by the competent authority for drawal of advance on AC bill. d. According to the G.O 507, dt.10-4-2002, after 2 AC bills no additional AC bill is permitted to draw without submission of the DC bill corresponding to the 1 <sup>st</sup> AC bill.
8	Every receipt for a sum exceeding Rs.5,000/- is duly stamped by the payee with a Re.1/- revenue stamp.
9	Cheques are properly authorized.
10	Verify the date of the delivery of goods to ensure that invoices are not - paid too late - paid twice
11	Comparison of warrants or cheques in appropriate detail with disbursement records
12	Reconciliation Register is maintained for all financial transactions i.e. Receipts and Payments.
13	In case of transactions through bank, proper bank reconciliation is taking place.
14	Two columns in the accounts – bank and cash column are maintained and are updated regularly.
15	The DDO current accounts shall be reconcile with the bank authorities on a monthly basis.

## Checklist 18 - Permanent Advances

The permanent advances are provided to every office to meet urgent and unforeseen petty expenses. As a general rule, withdrawal of money from the Treasury can be done only on the presentation of a proper voucher. However, the permanent advance is an exception to the general rules and is maintained in the APTC Form 89.

S No	Check Art. 94-98, 106-107, of APFC Vol I
1.	P.A is not larger than necessary.
2.	It is limited to meet the unforeseen urgent petty expenses
3.	Amount sanctioned, order in which sanctioned and the amount drawn is noted on the first page of the register and is attested by the Head of the office
4.	Acknowledgment is sent to the sanctioning authority: <ol style="list-style-type: none"> <li>a. When the P.A. is sanctioned for the first time.</li> <li>b. When there is a revision in the quantum of P.A</li> <li>c. When there is a change in the incumbent of the post</li> <li>d. On the 15<sup>th</sup> of April every year showing the position as on 31<sup>st</sup> March, in the form prescribed.</li> </ol>
5.	Recoupment of the PA is done in accordance to Art. 106 of APTC
6	Every voucher for the expenditure incurred from the PA is entered in the register.
7	Contingent bill is prepared to recoup the PA with reference to the paid vouchers
8	The recouped vouchers are cancelled – to avoid double drawal
9.	The un-recouped and cancelled vouchers are kept in safe custody in serial order with the Head of the Office
10.	The closing balance of the PA register is taken to the cash book
11.	Consecutive serial numbers are assigned to each of the vouchers for the amounts spent from the P.A. and the number is entered in the register.

## Grants-in-aid

### Checklist 19

S No	Check
1	The order sanctioning the grant clearly specifies the object for which it is given and the conditions, if any.
2	If the sanctioning authority has not prescribed any time frame for the purpose, the grant will be spent upon the specified object within a reasonable time, which would normally be a period of one year from the date of issue of the sanction.
3	Necessary utilization certificates have been submitted, specifying the usage of the grants.
4	In cases of disbursement of scholarship, verification of the caste certificate, physical verification of the presence of the beneficiary done by the ASWO.
5	Application form contains the bank account number of the beneficiary into which the maintenance allowance is transferred.
6	Acquittance certificate and utilization certificate are submitted.
7	Ensure that the Grants are spent for the purposes for which they are sanctioned.
8	Ensure that the unspent grants are remitted to the Govt. account without loss of time.

## Procurement

The following check lists have been prepared for verifying effectiveness of the internal controls in the process of procurement in the Departments. Procurement typically possesses three stages – pre-bid, evaluation and negotiation stages. Internal control checks have to be in place at all stages of procurement. Answers to the following questionnaire reviews the existing control points and sets tone for improvisation. The entire questionnaire has been divided into following sections:

- The general activity
- Pre-bid, evaluation and negotiations
- Internal control identification & assessment

### Checklist 20 - General

Check	Response	Supporting Documents, if any
Has a forecast of the requirement and time of procurement been made?		
Is the authority buying the stores/works competent to make the procurement?		
Is the procurement in accordance to the Financial Code? (Article 125)		
What is the estimated value of the order?		
Is the procurement a tender based or direct purchase?		
In case of works, has the site for construction been selected in accordance with the requirements and adhere to the rules?		

**Check List 21 - Pre-bid phase**

Check	Response	Supporting Documents, if any
Has an advertisement been made for the tenders? If so, how, at what frequency?		
What is the process of bidding that has been called for – <ul style="list-style-type: none"> <li>• Is it a combined bid of Technical and Financial or</li> <li>• Is it a separate bid for Technical and Financial</li> </ul>		
Are there any tender forms available?		
What is the time given for the submission of the forms?		
<ul style="list-style-type: none"> <li>• Does the proforma of the application verify the bidder’s information as prescribed for the pre-qualification?</li> <li>• Description of the bidder</li> <li>• Description of the track record</li> <li>• Financial record and position of the group</li> <li>• Description of the management of the bidder</li> <li>• Any contingent liabilities</li> <li>• Any litigations involving the bidder</li> <li>• Competency of the bidder, failures if any.</li> <li>• Approach and design of completion of the contract.</li> <li>• Quality management system of the vendor</li> </ul>		
Has sufficient time been given to the bidder to submit the form depending upon the value and nature of the work/stores?		
Has the e-procurement details been explained to the tenderer?		

**Check List 22 - Evaluation stage**

Check	Response	Supporting Documents, if any
Was the lowest tender accepted?		
Were there any exceptions in the acceptance of the lowest tender?		
Were the reasons recorded?		
In case of works, was the work given to one contractor or more than one contractor?		
Reasons cited and the percentages of works allocated to each contractor.		

**Check List 23 - Negotiations stage**

Check	Response	Supporting Documents, if any
Has any payment made in advance to the supply of stores? If yes, have the reasons for doing so been cited and verified?		
Has the tenderer paid a security for the fulfillment of the contract? If not, cite the reasons		
Is the security equivalent to 10% of the total value		

**Check List 24 - Receiving/completion of the contract:**

Check	Response	Supporting Documents, if any
Was the quality of the goods checked as per the specifications?		
Were the stores inspected at the time of receiving in terms of <ul style="list-style-type: none"> <li>• quantity as per the purchase order</li> <li>• nomenclature and specifications are as per the purchase order</li> <li>• dimensional specifications in case of proprietary items</li> <li>• In cases of goods needing laboratory testing, sample testing is carried out?</li> </ul>		

Maintenance of stock accounts		
Payment made only after the receipt of the goods and recording in the stock registers		

**Check List 25 -Segregation of duties**

Check	Response	Supporting Documents, if any
Is the purchasing officer competent to call for tenders?		
Has the agreement been signed by an authorized Government Servant?		
Is the authorized Govt. Servant related to the tenderer in any way?		
Were the tenders opened in the presence of the authorized personnel and all the applicants?		

The following are certain control points for the procurement process

Control activities	Yes	No	N/A
Estimates for procurement available			
Purchase order approved by authorized personnel			
Tenders received are in sealed covers			
Pre-qualification check has been done			
Tenders are opened at the stipulated time and in the presence of the authorized personnel			
In case of acceptance of a bid other than the lowest one, reasons have been recorded			
Agreement has been signed between the contractor and the authorized personnel on behalf of the Government			
The contractor is supplying the stores/ completing the works in the stipulated time.			
The rate mentioned in the purchase order matches with that actually paid			
No advance payment is made until specifically mentioned in the contract. The same is recorded			
Payment is made only after the stores are received, checked qualitatively and quantitatively.			
Payment is made in the form of cheques and the bank details of the contractor are mentioned at the time of entering into the contract.			

Security deposit equivalent to 10% of the value of the order has been deposited and in case it is not done so, reasons are cited.			
Timeliness of completion of the contract has been maintained, no additional time has been given without proper reasons being cited and approved.			
Thorough quality check has been done on the stores/works completed			
No payment in addition to the agreed amount has been done. Values are determined and maintained.			
Designs and approach of the works are maintained and verified frequently to ensure there is no deviation in the work.			
Stores procured are entered into the stock register on receiving them.			

### Checklist 26 - Purchase of Stores

Check	Yes	No	N/A
Stores purchased are in accordance to the Art.122 of the AP Financial Code.			
In cases of emergency, the Heads of Departments have obtained the necessary approval from the purchasing committee for procuring the item from any different organization.			
While procuring the stores the preference of procuring the material has been given in the following order: <ul style="list-style-type: none"> <li>a. First preference for stores manufactured in Government Department workshops.</li> <li>b. Second preference in respect of standard items to fully owned government undertakings and Corporations. These corporations need not participate in tenders.</li> <li>c. In respect of Non-standard items, the undertakings have participated in the tenders, if any, called by departments.</li> <li>d. The items reserved for the SSI units are exclusively purchased from them. The list can be had from</li> </ul>			

<p>Director of Industries. These units are exempted from the requirement of lodging earnest money and security deposit for the specified items for which they have been enlisted.</p> <p>e. The goods manufactured in jails are procured from them only. The items include furniture, khaki uniforms, attenders' liveries, ammunition boots for officials of police, fire services and prison departments, phenyl, navar etc. These items are purchased from outside only after a 'No stock certificate' from the Jail Department is obtained.</p> <p>f. Modern office equipment such as computers etc is purchased only through the AP Technology Services Ltd.</p> <p>g. The cloth requirements of offices towards livery etc. are purchased from the APCO. Like wise the woolen carpets are purchased only from AP State Wool Industrial cooperatives, and leather goods from LIDCAP.</p> <p>h. Steel furniture are purchased solely from APSSIDC, while wooden furniture from the jail department. The government centers like PWD workshops, Furniture Mill cum mechanical woodwork shop, Sanathnagar etc, Industries center, Hyderabad should be given next preference.</p> <p>i. Stitching of uniforms is to be entrusted to physically handicapped co-op tailoring industries. Caning of chairs and manufacturing of garden chairs should be entrusted to Physically Handicapped Co-op Cane and Weaving Society. (GO.Ms.No. 467 Fin &amp; Plg, 67 dt: 9-7-90, GO.Ms.No. 770 Ind. And Commerce dt 8-11-90, GO.Ms.No. 717 plg, dt: 20- 12-85, GO.Ms.No. 106 GAD dt: 27-2-86, GO.Ms.No. 594 GAD dt: 22-11-86)</p>			
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<p>j. When comparison of prices of products is made between the manufacturers within the State and those situated outside, the comparison should be on the bare cost exceeding taxes.</p> <p><b>Tenders:</b> Article 125 deals with purchases through tender systems.</p> <p><b>Single Tender System:</b> To be adopted in regard to purchases of a small order which does not exceed Rs.1,000/- and Rs.2000 if more than one kind of article is ordered at one time and propriety items.</p> <p><b>Limited Tender System:</b> Should be adopted when the limits for the single tender system are exceeded and the estimated value of the order is less than Rs. 5000/-</p> <p><b>Open Tender System:</b> Should be followed in regard to purchase of stores of a value of Rs. 5000 and more. In regard to PWD, the limit applies to purchases of a value of Rs. 10,000/- and above.</p> <p>When open tenders are called, circular communication should be sent to dealers of repute apart from vide publicity in news papers, trade bulletins etc. A time gap of at least one month should be given between the date of notification of the tender and the last date of submission of tenders. If the lowest tender is passed over specific reasons, it should be recorded (Art 125)</p> <p><b>Stock Accounts :</b> Separate stock accounts are maintained for expendables and non-expendables such as furniture, equipment etc (Art 133)</p> <p><b>Inspection of Stores:</b> Stores are periodically inspected and action is taken to regularize the shortcoming by recovery front from concerned / write off etc. (Art 139). The unserviceable articles are identified and action taken for disposal and write off in the manner indicated in Art. 143 APFC Vol I.</p>			
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**Check List 27- Verification of the stock registers**

(The following stock registers are maintained for each category of purchases and issues that are verified and certificate of verification issued:

- a. General Stock Register
- b. Library Books Stock Register
- c. Furniture Stock Register
- d. Computer Hardware Stock Register
- e. Stock Register for Computer Stationary (issue)
- f. Usage Register for Computer Stationary
- g. Unserviceable / Condemned Article Watch Register

Check	Yes	No	NA
1. The Head of the Office is maintaining suitable stock account for the stores purchased by him and held in his custody separately for expendable stores and non-expendable stores.			
2. The Head of the Office, who is in-charge of the expendable stores, is checking them at least once in a year and sending a verification report to the competent authority.			
3. Certificate of verification is issued and maintained in the Register.			
4. The following stock registers are to be maintained for each category of purchases and issues that are to be verified and certificate of verification issued: a. General Stock Register b. Library Books Stock Register c. Furniture Stock Register d. Computer Hardware Stock Register e. Stock Register for Computer Stationary (issue) f. Usage Register for Computer Stationary g. Unserviceable / Condemned Article Watch Register			

**Annexure A****(Model) Charter of Internal Audit Department**

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This charter of the internal audit department of Government of Andhra Pradesh defines the internal audit's *purpose, authority and responsibility*. Accordingly it lays down (a) *the internal audit's position*; (b) *authorizes access to records, personnel and physical properties relevant to the performance of engagements*; (c) *defines the scope of internal audit activities*.

**Position of Internal Audit in the government**

The Government of Andhra Pradesh supports a system of Internal Audit as a staff function and as a coordinator of a State-wide, independent appraisal function to examine and evaluate the activities of the departments and autonomous organizations working under them. The Government supports this staff function as a service to the state administration in improving its efficiency and effectiveness.

**Director of Internal Audit**

The coordination of the internal auditing function is the responsibility of the Director of Internal Audit. The Director of Internal Auditor shall be of the rank of at least Joint Secretary to Government. The post of Director of Internal Auditor may be filled by an officer of Treasury Accounts Service of the rank of Director Treasuries and Accounts, or from one of the central services such as IA&AS in which case he shall have put in at least eight years of service. He shall be appointed for a minimum tenure of minimum three years, unless special circumstances require him to be relieved from the post.

In order to secure independence and objectivity as required by Internal Auditing Standards, the Director of Internal Audit shall report directly to the Chief Secretary / Principal Secretary Finance.

**Human and financial resources**

In order to enable Internal Audit Department to effectively discharge its functions the government shall ensure that a) the Internal Audit Department is

provided with adequate number of posts; b) the posts are by and large filled always and c) it is given adequate budget for travel and other necessary expenses.

### Unrestricted access to records and documents

In carrying out his duties and responsibilities, the Director of Internal Audit will have full, free and unrestricted access to all activities, records, property and personnel of each department and all the autonomous bodies attached to it.

### Scope of internal audit

The internal auditing function consists of audit of transactions in government departments on a sample basis. Considering that the resources available will not be sufficient to subject every department to its audit, the Internal Audit shall conduct its audit in such a manner that it covers potentially high risk areas / transactions on priority. Although the scope of Internal Audit is to verify compliance with internal controls, it may be extended to investigation of specific instances or evaluation of a particular scheme as decided by the Chief Secretary / Principal Secretary Finance.

The Internal Audit Department or its staff shall not be entrusted with any responsibilities for daily operations, planning or designing any activity.

### Response to Internal Audit

All departments shall furnish their replies to internal audit observation promptly. The concerned Heads of Offices and Heads of Departments shall ensure that the replies are furnished without delay. On its part, the Internal Audit should try to resolve as many issues as possible in the exit interview and report only those issues that could not be resolved. It should also pay due regard to materiality and not raise issues that are trivial.

**Chief Secretary**

Copy to All Secretaries / Heads of Departments/ Heads of Autonomous Bodies  
(other than government companies)/ Principal Accountant General (Civil Audit)  
and Accountant General (CRA)

## Institutional Machinery of GoAP

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The Indian constitution is an embodiment of the doctrine of checks and balances and has a clear division of powers among the various entities of Government.

The state administration is carried out through

- Secretariat at the state level
- Heads of Department
- Regional/Zonal administration (in case of certain departments)
- District administration
- Sub District Offices

The Secretariat is the highest policy-making and coordinating body of the State Government. The Secretariat machinery is mostly associated with developing a sound policy framework in conjunction with the political executive; it is responsible for acting as a bridge between the political structures and administration. At this level support is provided to the political executive for law-making and policy formulation. This level also deals with the budget and human resource management for the government as a whole.

At the state implementation level, Heads of Department (HoD) exists whose focus is on providing strategic advice and support to the district/sub district administration; supplying strategic inputs to the higher levels on - 'what works in the field'; monitoring and evaluating the critical feedback emerging from the different districts and sub district and managing change aspects in the districts.

Regional administration in case of certain departments like Labor department, School education, Higher education department is mainly concerned with cadre control and inspection functions.

The District Administration is the level where the policies, programmes and projects of the government get a meaningful end in the form of actual implementation and outreach. It is at this level that service delivery to the public mostly takes place. This level of administration is associated mostly with

managing the complexities arising in ensuring that the implementation takes place and the benefits reach the citizens, especially the poor.

The sub district level administration is the cutting edge level implementation arrangement. The objective of this level of administration is predominantly one of effective and efficient service delivery to the members of society.

### State Executive

The State Executive consists of the Governor, who is the Constitutional head of the State, and the Council of Ministers with the Chief Minister at the head. The Council of Ministers is collectively responsible to the State Legislature. Each minister of the council of Minister is in charge one or more departments and the business of the government is carried out through secretaries functioning at the state level in the secretariat.

### Secretariat

Secretariat is the administrative headquarters that serves the Head of the Government, the Council of Ministers and the Ministers. The main responsibility of the secretariat is the fulfillment of the collective responsibility of the ministers constituting the council. The Secretariat consists of various secretaries heading each department. The structure and the composition of the secretariat is described in the following sections.

### Departments in Secretariat

Currently, there are thirty-one Departments in GoAP. Each GoAP Minister is responsible for one or more Departments and each Department has been allotted a range of subjects for which it is responsible. In addition, each Department is responsible for a series of other bodies that fall into the following categories.

### Departmental hierarchy

Andhra Pradesh does not have a uniform territorial hierarchy in respect of Departmental structures. Some major Departments, such as the Police, Engineering, and Forestry Departments have district, regional and headquarters establishments. Other Departments and corporations have State / Regional /

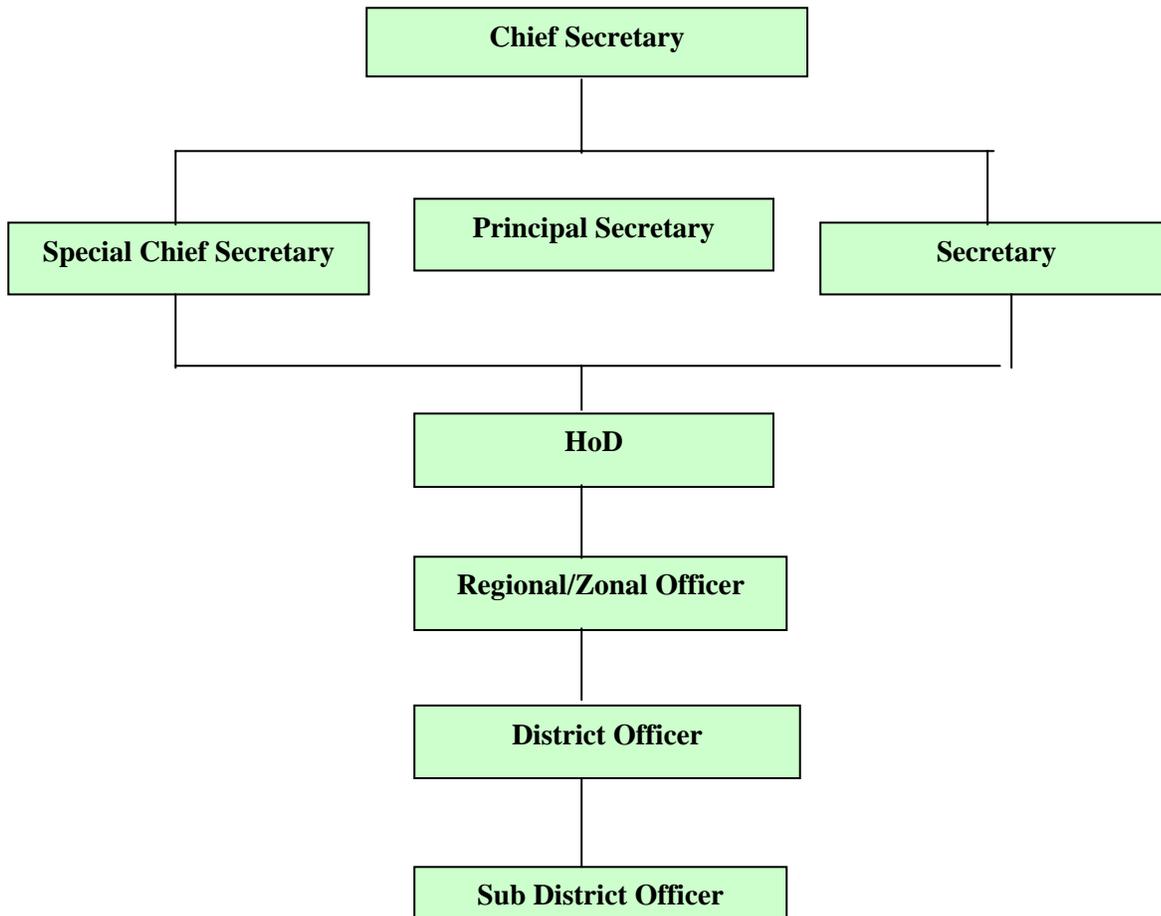
District / Divisional / Mandal and Village organisations, while others primarily have a two-tier Headquarters / District set up.

With regard to revenue collection, unlike in some other states, Andhra Pradesh doesn't have a Divisional Commissioner set up above the District Collector and below the Government. The Board of Revenue, which continued even after independence in respect of Land Revenue Survey Settlements, Civil Supplies, Commercial Taxes, Excise, etc., was abolished, and in its place individual Heads of Department were appointed.

### **Hierarchy in the Machinery of Government**

Each department of the secretariat consists of a Secretary to Government who has one more Heads of Department under his supervision as shown at **Annexure C**, with such other officers and servants as may be required for the disposal of business of that department. The organisation of Government is a basic hierarchical model consisting of the following functionaries within each department. The Chief Secretary is common for all the departments.

### Organisational Structure of the GoAP



### Legal Frame work for Work Process in the Government

The first schedule of the Andhra Pradesh Government Business Rules specifies which GOAP Departments transact various aspects of the business of the State Government. On the advice of the Chief Minister, the Governor allocates the business of the Government amongst the Ministers. A minister can be

responsible for several subjects and, conversely, it is also possible to assign one Department to the charge of more than one Minister. Where there is more than one Minister in a Department, the senior most is responsible for establishment and other common matters within the Department. Residual subjects which remain unallocated to any Minister are the responsibility of the Chief Minister.

### **Functionaries and Functions**

The 'Andhra Pradesh Secretariat Office Manual' lays out in detail the functions performed at the various levels of the Secretariat.

### **Public Financial Management**

It is a generally accepted principle that those responsible for the conduct of public activity and the handling of public money should be held fully accountable for: (a) ensuring that public money is safeguarded and properly accounted for (b) conducting activity in accordance with the law and standards; (c) delivering services in an economic, efficient and effective manner and strengthening service delivery performance, by establishing and seeking to achieve targets and meet community expectations of outcomes.

There is growing realization that effective financial management systems are critical for making progress in reducing poverty. The connection between good financial management system and poverty reduction lies in the fact the latter is not merely a question of spending more, but also using existing resources effectively. In essence, problems in sectors such as health, education, and agriculture can have common origins in weak financial management systems.

Public financial management (PFM) in its broadest sense includes financial planning, budget formulation and implementation, expenditure control, accounting, monitoring and reporting, asset and debt management, contingent liabilities, internal controls, external auditing, legislative scrutiny of public finances and citizens access to information on public finances. Effective stewardship of public resources and efficient provision of services is at the centre of PFM.

*The Constitution of India* is the premier source of financial management and accountability provisions. Andhra Pradesh Business Rules were issued by the

Governor of Andhra Pradesh State exercising the powers conferred by the Constitution

The Business rules confer powers and responsibilities on the Finance Department for development of more detailed rules and procedures, which guide the budget process and financial management of the State. Accordingly, Finance Department has developed four generic Codes and Manuals i.e. Andhra Pradesh Budget Manual, Andhra Pradesh Treasury Code, Andhra Pradesh Financial Code and Andhra Pradesh Accounts Code.

**A.P Budget Manual** outlines the process for formulation of the budget, changes to the Budget Estimates in Budget execution during the year. In particular, it outlines the accountabilities of line departments in the budget process.

**A.P Treasury Code** is primary reference source to the Treasury officials. It contains control systems, procedures for withdrawal, payment, custody of monies, responsibilities of officers and forms to be used for discharge of those responsibilities. It also contains detailed instructions to the Drawing & Disbursing Officers in handling of Government monies.

**A.P Financial Code** is for departmental use, particularly to guide the work of Drawing & Disbursing Officers in line Departments. It has procedures in all areas of departmental financial management and also contains delegation of financial powers.

**A.P Accounts Code** sets out how all financial transactions are to be accounted for. The AP Accounts Code comprises the Comptroller and Auditor General's (CAG) rules together with local rulings relating to local AP variations in accounts procedure. The code sets out the general principles, methods of accounts, forms and the directions of CAG relating to initial accounts to be kept and rendered by Treasuries, Public Works and Forest Departments.

These codes are supplemented by Departmental and Functionary Manuals and Government Orders issued from time to time. These codes and manuals tell clearly about the financial accountability of Chief Controlling Officers, Subordinate Controlling Officers and Drawing & Disbursing Officers.

## Annexure C

## Summary of Departments and Major HoDs

Sl. No.	Name of Department	Major HoDs
1	Agriculture and Cooperation Department	<ul style="list-style-type: none"> <li>• Commissioner of Agriculture</li> <li>• Commissioner for Cooperation and Registrar of Cooperative Societies</li> <li>• Director of Marketing</li> <li>• Director of Horticulture Department</li> <li>• AP Micro Irrigation Project</li> <li>• AP State Agro Industries Development Corporation</li> <li>• AP State Warehousing Corporation</li> <li>• Commissioner of Sericulture</li> <li>• AP State Cooperative Marketing Federation</li> </ul>
2	Animal Husbandry & Fisheries Department	<ul style="list-style-type: none"> <li>• Director of Animal Husbandry</li> <li>• Commissioner of Fisheries</li> <li>• AP Dairy Development Cooperative Federation</li> <li>• AP Livestock Development Agency</li> </ul>
3	Backward Class Welfare Department	<ul style="list-style-type: none"> <li>• Commissioner of Backward Class Welfare</li> </ul>
4	Consumer Affairs, Food & Civil Supplies Department	<ul style="list-style-type: none"> <li>• Commissioner of Civil Supplies</li> <li>• AP State Civil Supplies Corporation Limited</li> <li>• Controller of Legal Metrology</li> </ul>
5	<b>Education Department</b>	
	Higher Education Department	<ul style="list-style-type: none"> <li>• Commissioner of Technical Education</li> <li>• State Board of Technical Education and Training</li> <li>• Director of Collegiate Education</li> <li>• Director of Intermediate Education</li> <li>• Board of Intermediate Education</li> <li>• AP State Council of Higher Education</li> </ul>
	School Education Department	<ul style="list-style-type: none"> <li>• Director School Education</li> <li>• Director for Government Examinations</li> <li>• A.P. Govt. Text Book Press</li> <li>• APREI Society</li> <li>• State Council for Educational Research and</li> </ul>

Sl. No.	Name of Department	Major HoDs
		<ul style="list-style-type: none"> <li>Training</li> <li>Hyderabad Public Schools Society</li> </ul>
	School Education Department, SSA	<ul style="list-style-type: none"> <li>Sarva Shiksha Abhiyaan</li> <li>Director Adult Education</li> <li>AP Open School Society</li> <li>Director State Institute of Educational Technology</li> <li>Director of Public Libraries</li> <li>Director Jawahar Bal Bhavan</li> <li>A.P. Mahila Samatha Society</li> </ul>
6	Energy Department	<ul style="list-style-type: none"> <li>AP Electricity Regulatory Commission</li> <li>AP Genco</li> <li>AP TRANSCO</li> <li>Central Power Distribution Company of AP Limited</li> <li>Director of Boilers</li> <li>Chief Electrical Inspector</li> <li>Singereni Collieries Limited</li> <li>Non Conventional Energy Development Corporation of AP</li> </ul>
7	Environment, Forest, Science & Technology Department	<ul style="list-style-type: none"> <li>AP Forest Development Corporation</li> <li>Chief Conservator of Forest</li> <li>AP Pollution Control Board</li> <li>Environment Protection, Training &amp; Research Institute</li> </ul>
8	<b>Finance Department</b>	<ul style="list-style-type: none"> <li></li> </ul>
	Finance Department	<ul style="list-style-type: none"> <li>Commissioner of Small Savings and State Lotteries</li> <li>Commissioner and Director, Insurance Department</li> <li>Director of Treasuries and Accounts</li> <li>Pay and Accounts Officer</li> <li>Director State Audit</li> </ul>
9	Finance (PMU) Department	<ul style="list-style-type: none"> <li>Commissioner of Small Savings and State Lotteries</li> <li>Commissioner and Director, Insurance Department</li> <li>Director of Treasuries and Accounts</li> <li>Pay and Accounts Officer</li> <li>Director State Audit</li> </ul>
10	Finance (Works & Projects) Department	<ul style="list-style-type: none"> <li>Commissioner of Small Savings and State Lotteries</li> <li>Commissioner and Director, Insurance Department</li> <li>Director of Treasuries and Accounts</li> <li>Pay and Accounts Officer</li> <li>Director State Audit</li> </ul>
11	General Administration Department	<ul style="list-style-type: none"> <li>Commissionerate of Enquiries</li> <li>Vigilance and Enforcement</li> <li>Director, Information and Public Relations</li> </ul>

Sl. No.	Name of Department	Major HoDs
		<ul style="list-style-type: none"> <li>• Director General Anti Corruption Bureau</li> <li>• Dr MCR HRD Institute of AP</li> <li>• Centre for Good Governance</li> </ul>
12	Health, Medical and Family Welfare Department	<ul style="list-style-type: none"> <li>• Commissioner of Family Welfare</li> <li>• Director of Health</li> <li>• Director of Medical Education</li> <li>• AP Vaidya Vidhana Parishad</li> <li>• Institute of Preventive Medicine, Public Health Laboratories, Food (Health Administration)</li> <li>• Director of Insurance Medical Services</li> <li>• Drugs Control Administration</li> <li>• AP Health Medical Housing and Infrastructure Development Corporation</li> </ul>
13	Home department	<ul style="list-style-type: none"> <li>• Director General and Inspector General of Police</li> <li>• A P State Police Housing Corporation</li> <li>• DG &amp; IG of Prisons and Director of Correctional Services</li> <li>• DG, Fire Services</li> <li>• Commissioner, Printing &amp; Stationary and Stores Purchase</li> </ul>
14	Housing Department	<ul style="list-style-type: none"> <li>• AP State Housing Corporation Limited</li> <li>• AP Weaker Section Housing Programme</li> <li>• AP Housing Board</li> <li>• AP Housing Federation</li> </ul>
15	Information Technology & Communications Department	<ul style="list-style-type: none"> <li>• AP Technology Services Limited</li> <li>• Society for AP Network</li> </ul>
16	Industries and Commerce Department.	<ul style="list-style-type: none"> <li>• Commissionarate of Industries</li> <li>• Director of Handlooms and Textiles</li> <li>• Director of Mines and Geology</li> <li>• AP Mineral Development Corporation</li> <li>• AP State Financial Corporation</li> <li>• Commissioner &amp; Director of Sugar and cane</li> <li>• AP Urban Finance and Infrastructure Development Corporation</li> <li>• AP Kahdi and Village Industries Board</li> <li>• AP State Trading Corporation</li> </ul>
17	Infrastructure and Investment Department	<ul style="list-style-type: none"> <li>• AP Industrial Infrastructure Corporation</li> <li>•</li> </ul>
18	Irrigation & C.A.D (Irrigation Wing) Department	<ul style="list-style-type: none"> <li>• Engineer-in-Chief )(Irrigation Wing)</li> <li>• Commissioner for Command Area Development</li> <li>• AP State Irrigation Development Corporation</li> </ul>
19	Irrigation & C.A.D (Projects	<ul style="list-style-type: none"> <li>• Chief Engineer, Inter-State Water Resources</li> </ul>

Sl. No.	Name of Department	Major HoDs
	Wing) Department	<ul style="list-style-type: none"> <li>Chief Engineer NSRSP</li> <li>Chief Engineer Nagarjun Sagar Project</li> <li>Chief Engineer Sriram Sagar Project</li> <li>Chief Engineer Telugu Ganga Project</li> <li>Chief Engineer Tungabhadra Project</li> </ul>
20	Labour, Employment, Training & Factories Department	<ul style="list-style-type: none"> <li>Commissioner of Labour</li> <li>Director of Employment &amp; Training</li> <li>Director of Factories</li> </ul>
21	Minorities Welfare Department	<ul style="list-style-type: none"> <li>AP State Minorities Finance Corporation</li> <li>AP Urdu Academy</li> <li>AP State Wakf Board</li> </ul>
22	Municipal Administration & Urban Development Department	<ul style="list-style-type: none"> <li>Commissioner and Director of Municipal Administration</li> <li>Director of Town &amp; Country Planning</li> <li>Engineer-in-Chief Public Health</li> <li>Hyderabad Urban Development Authority</li> <li>Municipal Corporation of Hyderabad</li> </ul>
23	Planning Department	<ul style="list-style-type: none"> <li>Godavari Valley Development Authority</li> <li>Directorate of Economics and Statistics</li> </ul>
24	Public Enterprises Department	<ul style="list-style-type: none"> <li>Public Enterprise Department</li> </ul>
25	Panchayat Raj & Rural Development Department	<ul style="list-style-type: none"> <li>Commissioner Women Empowerment &amp; Self Employment</li> <li>Commissioner of Panchayat Raj &amp; Rural Employment</li> <li>Commissioner of Rural Development</li> <li>Project Management Unit, AP Rural Livelihoods Project</li> <li>Water Conservation Mission</li> <li>Society for Elimination of Rural Poverty</li> </ul>
26	Revenue Department	<ul style="list-style-type: none"> <li>Chief Commissioner of Land Administration</li> <li>Commissioner of Commercial Taxes</li> <li>Commissioner Prohibition &amp; Excise</li> <li>Commissioner Survey Settlements and Land Records</li> <li>Inspector General Registration &amp; Stamps</li> <li>AP Beverages Corporation Limited</li> <li></li> </ul>
27	Rain Shadow Area Development Department	<ul style="list-style-type: none"> <li>Rain Shadow Area Development</li> </ul>
28	<b>Welfare Department</b>	<ul style="list-style-type: none"> <li></li> </ul>
	Social Welfare Department	<ul style="list-style-type: none"> <li>Commissioner of Social Welfare</li> </ul>
	Tribal Welfare Department	<ul style="list-style-type: none"> <li>Director of Tribal Welfare</li> </ul>

Sl. No.	Name of Department	Major HoDs
29	Transport, Roads and Buildings Department	<ul style="list-style-type: none"><li>• Transport Commissioner</li><li>• APSRTC</li><li>• Chief Engineer Roads &amp; Buildings</li><li>• Director of State Courts</li><li>• AP Road Development Corporation</li></ul>
30	Women Development, Child Welfare & Disabled Welfare Department	<ul style="list-style-type: none"><li>• Director of Women Development &amp; Child Welfare</li><li>• Commissioner of Disabled Welfare</li><li>• AP Foods</li></ul>
31	Youth Advancement, Tourism & Culture Department	<ul style="list-style-type: none"><li>• Director of Tourism, AP</li><li>• AP Tourism Development Corporation</li><li>• Sports Authority of AP</li><li>• Commissioner of Youth Services</li><li>• Director Cultural Affairs</li></ul>

### Summary of important provisions in various codes

#### **Finance Code:**

<b><i>Nature of transaction</i></b>	<b><i>Article</i></b>
<i>Receipts and collection</i>	7-37
<i>Expenditure – Principles and rules</i>	38-60
<i>Establishment, Claims of Government servants and recovery from them</i>	61-90
<i>Contingent charges</i>	91-121
<i>Stores</i>	122-146
<i>Works</i>	147-208
<i>Miscellaneous expenditure</i>	209-218
<i>Loans and advances</i>	219-260
<i>Deposits</i>	261-272
<i>Responsibility for losses for public moneys or property</i>	273-302
<i>Transactions with local bodies</i>	303-313
<i>Allocation of expenditure between capital and revenue and financing capital expenditure</i>	315
<i>Work done for another Government</i>	316
<i>Disposal of Government land and buildings</i>	317
<i>Endowments for scholarships, and prizes</i>	318
<i>Insurance of Government property</i>	319
<i>Rounding off of transactions</i>	320-322
<i>Destruction of official records connected with accounts</i>	326

#### **Treasury Code**

<b><i>Nature of transaction</i></b>	<b><i>Chapter No</i></b>
<i>Location of monies in Government Account</i>	<i>Chapter 1</i>
<i>General system of controls over treasury</i>	<i>Chapter 2</i>
<i>Payment of money into Government Account</i>	<i>Chapter 3</i>
<i>Receipt of money by Government Servant</i>	<i>Chapter 3</i>
<i>Custody of money relating to or standing in Government Account</i>	<i>Chapter 4</i>
<i>Withdrawal of money from Government Account</i>	<i>Chapter 5</i>
<i>Transfer of money standing in the Government Account</i>	<i>Chapter 6</i>
<i>Responsibility for money withdrawn</i>	<i>Chapter 7</i>
<i>Inter-Government transactions</i>	<i>Chapter 7</i>

***Accounts Code***

<b><i>Nature of transaction</i></b>	<b><i>Chapter No</i></b>
<i>General outline of system of accounts</i>	<i>Chapter 2</i>
<i>General Principles and Methods of Accounts</i>	<i>Chapter 3</i>
<i>Directions regarding inter-departmental transfers</i>	<i>Chapter 4</i>
<i>Directions regulating recoveries of expenditure</i>	<i>Chapter 5</i>
<i>Directions regulating exhibition of losses in Government accounts</i>	<i>Chapter 6</i>
<i>Pay, allowances and pensions</i>	<i>Appendix B</i>
<i>Other charges</i>	<i>Appendix C</i>
<i>Receipts</i>	<i>Appendix D</i>

Sample Letter of Intimation of audit and request for Entry Conference

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Date:

To:	From:
Sri / Smt	Sri/Smt
(Designation)	(Designation)
(Name of the Department)	(Head, Internal Audit
Department) (Address)	(Address)

Dear Sir,

Sub: Internal Audit of (Department /Office of ----)

In terms of G.O (Number) the Internal Audit Department proposes to conduct Internal Audit of your department for the period (200\_ - 200\_)

2. We propose to commence audit on (date) and expect to complete by (date). The audit team is headed by (name of the Audit Officer) and the team includes the following members:

(Names of team members)

3. At the beginning of our audit, we would like to meet with you to discuss the audit objectives and seek your views on any special concerns that you may have. I shall be grateful if you could make it convenient to meet the audit team along with your officers at (time) on (date). In case the above is not suitable to you for some reason, I shall be grateful if you could indicate an alternative time and date.

Thanking you

Yours Sincerely

Audit Manager  
Internal Audit Department

## Sample Internal Audit Report

Addressee (Appointing authority)

### Executive summary

With reference to G.O number ----- internal audit department is assigned the responsibility of conducting internal audit in various departments of the State Government. While the departmental heads are responsible for installing and operating internal controls prescribed in various codes, guidelines, orders and instructions issued by the government from time to time, it is the internal audit's responsibility to provide an assurance regarding how effectively these controls are being implemented in actual practice.

Accordingly, internal audit department has conducted audit of department of (name) for the period (start date) to (end date). In conducting the audit, due consideration has been given to Auditing Standards issued by the Comptroller and Auditor General of India and Code of Ethics and International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, U.K. and Ireland.

The coverage of the audit is mentioned in the following table:

S.No	Name and address of office covered	Category of office	Period of coverage	
			From	To
		Secretariat / Head / District office		

### Audit areas covered:

- Physical verification of cash
- Cash receipts and disbursements
- Assets, stores and other inventory
- Establishment expenditure

- Major schemes executed (with details)
- Procurement
- Capital expenses

Audit Observations: Audit is designed to identify potential lapses in key controls and the following observations are based on audit evidence obtained by us:

**Name of the section**

**Part I A: Irregularities:**

Audit observation

Response from Department

Further Remarks

Priority (High, Medium or Low)

Possible causes for deficiency (non-compliance, lack of guidelines or guidance, human error, lack of resources / competence.

Recommendation

**Part I B: Irregularities**

**(Report findings under headings as above)**

**Part B – Other irregularities**

**(Report findings under headings as above)**

**Status of Follow-up Action on previous audit report**

<b>Report / Para Reference</b>	<b>Brief particulars of Para</b>	<b>Action Taken</b>	<b>Remarks</b>

Date:

Signature of the auditor

(Name and designation)

## Reading List

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- a. Code of Ethics and International Standards for the Professional Practice of Internal Auditing - Institute of Internal Auditors, U.K. and Ireland
- b. Internal Control: Providing a Foundation for Accountability in Government - An introduction to internal controls for managers in government organizations (INTOSAI)
- c. Guidelines for the Internal Control Standards for the Public Sector - International Organization of Supreme Audit Institutions (INTOSAI) (2204)
- d. Comptroller and Auditor General of India's Manual of Standing Orders
- e. Audit Manual - National Audit Office, U.K.
- f. Government Internal Audit Standards - Good Practice Guidance HM Treasury, U.K. (2002)
- g. Cooperation between Internal and External Auditors - a Good Practice Guide NAO, U.K.
- h. City of Tampa, Florida - Internal Audit Department Policy & Procedures Manual (2006)
- i. Internal Audit Manual of Metro State College, Denver, USA
- j. Handbook on Financial Accountability - Centre for Good Governance (2207)
- k. Reading material on Financial Management for Drawing and Disbursing Officers - prepared by Dr MCR HRD Institute