

Regulations on Audit and Accounts

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Comptroller and Auditor General of India

2007

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In pursuance of Section 23 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (Act No.56 of 1971), the Comptroller and Auditor General of India hereby makes the following Regulations, namely:-

CHAPTER 1

Preliminary

1. **Short title, application and commencement**

(1) These Regulations may be called the 'Regulations on Audit and Accounts, 2007'.

(2) These Regulations shall apply to the officers and staff of the Indian Audit and Accounts Department and all ministries and departments of the Union Government, State Governments and Union Territory Governments as well as bodies, authorities and enterprises, to which the audit or accounts jurisdictions of the Comptroller and Auditor General of India extend.

(3) These Regulations shall come into force with effect from the date of their publication in the official gazette.

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2. **Definitions**

In these Regulations, unless the context otherwise requires,

(1) **Accountant General (Accounts and Entitlement*)*** means the head of the department of an accounts office of the Comptroller and Auditor General of India by whatever designation called;

(2) **Accountant General (Audit)** means the head of the department of an audit office of the Comptroller and Auditor General of India by whatever designation called;

(3) **Accounts Office** means an office of the Comptroller and Auditor General of India responsible for compilation of accounts from the initial and subsidiary accounts rendered by the treasuries, offices or departments responsible for keeping of such accounts and for entitlement work in relation to Government employees and other categories of employees;

(4) **Accounts Officer** means an officer, irrespective of designation, authorised by the Comptroller and Auditor General of India by a general or special order for accounts or entitlement or related work;

(5) **Audit** means examination of accounts, transactions and records in performance of duties and exercise of powers of the Comptroller and Auditor General as prescribed in the Constitution of India and the Act and includes performance audit or any other type of audit determined by the Comptroller

and Auditor General of India. When used as a noun, it refers to Audit Department as a whole or any part thereof as per context;

(6) **Audit Board** means the Audit Board constituted by the Comptroller and Auditor General of India for performance audits of Central Public Sector Undertakings;

(7) **Audit department or Audit institution** means the offices of the Indian Audit and Accounts Department under the Comptroller and Auditor General of India responsible for audit under the Constitution of India and the Act;

(8) **Auditable entity** means an office, authority, body, company, corporation or any other entity subject to audit by the Comptroller and Auditor General of India;

(9) **Audit mandate** means the authority of the Comptroller and Auditor General of India for audit under the Constitution of India and the Act and includes audit entrusted by the Government under the Act;

(10) **Audit memorandum** means a memorandum or letter issued during the course of audit for eliciting information, confirmation of facts or any other matter considered necessary by the audit officer in conduct of audit;

(11) **Audit note** means a note issued by an audit office containing the results of audit conducted with reference to data, information or documents available in an audit or accounts office;

(12) **Audit office** means an office of the Comptroller and Auditor General of India responsible for audit;

(13) **Audit officer or auditor** means an officer, by whatever designation called, authorised by the Comptroller and Auditor General of India by a general or a special order to conduct audit;

(14) **Audit report of the Comptroller and Auditor General** means a report of the Comptroller and Auditor General of India under Article 151 of the Constitution of India or under Section 19A of the Act or under Section 49 of the Union Territories Act, 1963;

(15) **Audit Review Committee** means the committee constituted by an Accountant General (Audit) for finalisation of performance audits of State Public Sector Enterprises;

(16) **Auditing Standards** means the auditing standards issued by the Comptroller and Auditor General of India unless the context otherwise requires;

(17) **Comptroller and Auditor General or the C&AG** means the Comptroller and Auditor General of India appointed under Article 148 of the Constitution of India;

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(18) **Entitlement** for the purpose of these Regulations means functions relating to pay, provident fund or pension and related work which the Comptroller and Auditor General is to perform under Article 149 of the Constitution of India and the Act;

(19) **Government** means the Union Government, the Government of a State and/or Government of the Union Territory as the context may require;

(20) **Government company** means a Government company as defined under Section 617 of the Companies Act, 1956 (Act No.1 of 1956);

(21) **Deemed government company** for the purpose of these Regulations means a company covered under Section 619B of the Companies Act, 1956;

(22) **Guidelines** are the guidelines issued by the Comptroller and Auditor General for carrying out the mandate. These are generally on professional matters especially on emerging and important areas of audit or accounts. The guidelines are to be consistent with these Regulations and are to be followed by the audit officers and the accounts officers;

(23) **Inspecting officer** means an officer in charge of an audit team deputed for audit;

(24) **Inspection report** means a report issued by an audit office containing the results of an audit;

(25) **Local fund auditor** means an auditor, by whatever designation called, generally appointed by a State Government for audit of accounts of panchayati raj institutions and/or urban local bodies;

(26) **Major irregularity** means (a) an instance of suspected material fraud or corruption coming to the notice in audit, or (b) an irregularity of serious nature involving public funds, particularly that relating to mismanagement, loss, waste, nugatory expenditure or loss of revenue, exceeding the monetary limit prescribed by the Comptroller and Auditor General in this regard.

(27) **Mandate** of the Comptroller and Auditor General means the authority vested in him in regard to accounts and audit under the Constitution of India and the Act;

(28) **Practice notes** are the detailed instructions on audit or on accounting matters. These need to be consistent with the Regulations, standing orders and guidelines issued by the Comptroller and Auditor General;

(29) **Separate audit report** means an audit report containing audit observations on the accounts of an authority, body or corporation whether or not required to be laid before the legislature;

(30) **Standing orders** of the Comptroller and Auditor General are the orders, including orders on administrative matters, of permanent nature issued in

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fulfillment of the mandate. These are to be consistent with these Regulations and are to be followed by the accounts officers and the audit officers;

(31) **Statutory auditor** means an auditor or an auditing firm appointed under the Companies Act, 1956 for the audit of accounts of a Government company or a deemed Government company; and

(32) **The Act** means the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (Act No. 56 of 1971);

All other expressions used in these Regulations but not defined herein shall have the meaning respectively assigned to them in the Constitution or in the Act.

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CHAPTER 2

General

3. **Role of the C&AG in regard to audit**

The Comptroller and Auditor General is the sole authority prescribed in the Constitution entrusted with the responsibility of audit of accounts of the Union and of the States. It is the duty of the Comptroller and Auditor General to audit receipts and expenditure of the Union and each State and the Union Territory Governments. The audit reports of the Comptroller and Auditor General are placed before Parliament or the legislature of the State or the Union Territory, as the case may be.

The duties of the Comptroller and Auditor General also extend to audit of Government companies and corporations and bodies and authorities in accordance with the laws made by the legislature and rules made thereunder.

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4. **Broad objectives of audit**

The broad objectives of audit are to ensure legality, regularity, economy, efficiency and effectiveness of financial management and public administration mainly through assessment as to:

(1) whether the financial statements are properly prepared, are complete in all respects and are presented with adequate disclosures (financial audit);

(2) whether the provisions of the Constitution, the applicable laws, rules and regulations made thereunder and various orders and instructions issued by competent authority are being complied with (compliance audit); and

(3) the extent to which an activity, programme or organisation operates economically, efficiently and effectively (performance audit).

5. **All audits to be as per Mandate, Regulations, etc.**

All audits undertaken by the Comptroller and Auditor General, or on his behalf, shall be as per the Constitution of India and the Act. These Regulations, standing orders, guidelines and practice notes issued by the Comptroller and Auditor General shall guide the conduct of such audits.

6. **Authority of the C&AG in regard to audit**

Under Section 18 read with Section 2(e) of the Act, the Comptroller and Auditor General has the authority:

(a) to inspect any office of accounts under the control of the Union or of a State or of a Union Territory having a legislative assembly;

(b) to require that any accounts, books, papers and other documents which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may appoint for his inspection; and

(c) to put such questions or make such observations as he may consider necessary, to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which it is his duty to prepare.

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

7. **Participation in management committees**

Auditors should ordinarily not become members of management committees and if advice is to be given, it should be conveyed as audit advice or recommendation and acknowledged clearly as such.

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8. **Advice by Audit on certain issues**

Audit should be ready to advise the executive in such matters as accounting standards and policies and the form of financial statements.

9. **No power of direction with the executive in relation to Audit**

It is important for the independence of the Comptroller and Auditor General that there is no power of direction by the executive in relation to the performance of the audit mandate. The Comptroller and Auditor General is not obliged to carry out, modify or refrain from carrying out an audit or suppress or modify audit findings, conclusions and recommendations in the light of any directions by the executive. This, however, does not preclude requests to the Comptroller and Auditor General by the executive proposing matters for audit. Decision in this regard shall rest finally with the Comptroller and Auditor General.

10. **Utilising specialised skills from external sources**

The Comptroller and Auditor General may, in special circumstances and if so required, utilise specialised skills from external sources in carrying out an audit or accounts task.

11. **General or common Regulations to apply in all cases**

General or common Regulations shall apply in all cases subject to specific provisions made in particular chapters in these Regulations.

CHAPTER 3

Scope and Extent of Audit

12. **Authority for determination of scope and extent of audit**

Under Section 23 of the Act, the scope and extent of audit shall be determined by the Comptroller and Auditor General.

13. **Scope of audit**

(1) Within the audit mandate, the Comptroller and Auditor General is the sole authority to decide the scope and extent of audit to be conducted by him or on his behalf. Such authority is not limited by any considerations other than ensuring that the objectives of audit are achieved.

(2) In the exercise of the mandate, the Comptroller and Auditor General undertakes audits which are broadly categorised as financial audit, compliance audit and performance audit, as elucidated in Chapter 5, 6 and 7 respectively.

(3) The scope of audit includes the assessment of internal controls in the auditable entities. Such an assessment may be undertaken either as an integral component of an audit or as a distinct audit assignment.

(4) The Comptroller and Auditor General may, in addition, decide to undertake any other audit of a transaction, programme or organisation in order to fulfill the mandate and to achieve the objectives of audit.

14. **Extent of audit**

Extent of audit means the quantum of audit including the period, the units of the auditable entity, the extent of test check and the boundaries of audit enquiry to be covered in an audit.

15. **Power to dispense with detailed audit**

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

16. **Conduct of audit**

Audit will be conducted (a) with reference to such accounts, vouchers and records as may be received in the audit office and/or in the accounts office and may include on-line data, information and documents of the auditable entity; and (b) in the office of the auditable entity or at the site where the relevant records for audit are available or at such other place as may be decided by Audit.

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17. **Request for special audit**

(1) The Comptroller and Auditor General or any officer so authorised shall give due consideration to a request for special audit of a programme, project or organisation within the audit jurisdiction provided that every such request:

(a) is made with the approval of the Secretary to Government of the concerned department;

(b) shall state the justification and reasons that necessitate a special audit, including the results of any preliminary inquiry, investigation or study that may have already been conducted; and

(c) specify the period to be covered in the special audit.

(2) The decision of the Comptroller and Auditor General or any officer so authorised in regard to the special audit shall be final.

18. **Reporting the results of special audit**

(1) The Accountant General (Audit) shall report the results of the special audit to the Secretary to Government of the concerned department and in case of a State or a Union Territory with legislative assembly, also report these results to Secretary to Government, Finance Department.

(2) The Comptroller and Auditor General reserves the right to communicate the results of any special audit to the Ministry of Finance, Government of India and to include them in the audit report.

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CHAPTER 4

Guiding Principles of Auditing Standards

19. **Definition**

Auditing standards prescribe the norms which the auditors are expected to follow in conduct of audit. These provide guidance to the auditor to help determine the auditing steps and procedures that should be applied in audit and constitute the criteria or the yardstick against which quality of audit results is evaluated.

20. **Relevance and application**

(1) Auditing standards provide the framework for performing high quality audit. Compliance with these standards is expected to ensure that a high quality of audit is performed for achieving the audit objectives.

(2) Auditing standards shall apply both to the individual auditor and the audit department.

(3) All audits on behalf of the Comptroller and Auditor General are required to be conducted as per the auditing standards. In other words, auditing standards shall apply to all types of audit including financial audit, compliance audit and performance audit.

(4) Auditing standards shall be consistent with the guiding principles of auditing standards as contained in this Chapter.

21. **Consideration of international auditing standards while prescribing auditing standards**

The international auditing standards may be considered and suitably adapted keeping in view the Constitution of India, the Act, other relevant statutes, extant rules and these Regulations while prescribing the auditing standards of the Comptroller and Auditor General.

22. **Scope of auditing standards**

The auditing standards shall *inter alia* include the following:

(a) Basic postulates
(b) General standards
(c) Field standards
(d) Reporting standards

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(a) Basic Postulates

23. **Definition**

The basic postulates for auditing standards are the basic premises and requirements which help in developing auditing standards and guide the auditors in forming their opinions and reports, particularly in cases where no specific standards apply.

24. **Framework of basic postulates**

The basic postulates for auditing standards shall *inter alia* include the following:

(1) The auditing standards shall be complied with by the auditors in all matters that are deemed material.

(2) The auditors shall apply their own judgement to the diverse situations that arise in the course of audit.

(3) There shall be an effective accountability process in operation.

(4) The Government shall be responsible for establishment, development and enforcement of adequate information, control, evaluation and reporting systems within the Government to facilitate the accountability process.

(5) Appropriate authorities in Government shall ensure the promulgation of acceptable accounting standards for financial reporting and disclosure that are relevant to the needs of the Government and that result in true and fair presentation of financial position and results of operations.

(6) The Government shall establish an adequate system of internal control to minimise the risk of errors and irregularities.

(7) The Government shall ensure cooperation of auditable entities in providing access to all relevant data, information and documents necessary for audit.

(8) All audit activities shall be consistent with the audit mandate of the Comptroller and Auditor General.

(9) Audit shall avoid conflict of interest between the auditor and the auditable entity.

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(b) General Standards

25. **Definition**

The general standards describe the qualifications of the auditor and the audit institution, the compliance of which enables them to carry out the tasks related to conduct of audit and reporting of audit findings in a competent and effective manner. These standards establish a foundation for credibility of work of the auditor and the audit institution.

26. **Framework of general standards**

The general standards shall *inter alia* include:

(a) **Independence:** The auditor and the audit institution should be independent in all matters relating to audit work so that their opinions and reports are impartial.

(b) **Professional competence:** The auditor and the audit institution should possess adequate professional competence for performance of work. The audit institution should assess skill needs to consider whether its workforce has the essential skills that match those necessary to fulfill the audit mandate. Accordingly, the audit institution should have a process for recruitment, hiring, continuous development, assignment and evaluation of personnel to maintain a competent workforce.

(c) **Due care:** The auditors should exercise due care and caution in complying with auditing standards particularly in planning audits, specifying, gathering and evaluating evidence and in reporting findings, conclusions and recommendations.

(d) **Professional judgement:** The auditors should use professional judgement in all aspects of carrying out their professional responsibilities. Professional judgement represents the application of the collective knowledge, skills and experience of all personnel involved with an assignment as well as the professional judgement of the individual auditors. In addition to personnel directly involved in the audit, professional judgement may involve collaboration with other stakeholders, outside experts and the management in the audit institution.

(e) **Quality control:** The audit institution should establish a system of quality control that is designed to provide reasonable assurance that the institution and its personnel comply with standards. The system of quality control encompasses the audit institution's emphasis on performing high quality work, and the organisation's policies and procedures designed to provide reasonable assurance of complying with standards. The audit institution should document its quality control policies and procedures and communicate them to its personnel.

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(c) Field Standards

27. **Definition**

The field standards provide an overall framework for conducting and managing an audit. Separate field standards may be formulated for financial audit, compliance audit and performance audit.

28. **Relationship with general standards and reporting standards**

The field standards are related to the general standards which set out the basic requirements for undertaking the tasks covered by the field standards. They are also related to the reporting standards which cover the communication aspect of auditing, as the results from carrying out the field standards constitute the main source for the contents of the audit findings, opinions or reports.

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29. **Framework of field standards**

The field standards shall *inter alia* include:

(1) **Planning:** The auditor should plan 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.

(2) **Supervision and review:** The work of audit staff at each level and audit phase should be properly supervised during audit and a senior member of the audit staff should review documented work.

(3) **Examination and evaluation of internal control:** The auditor, in determining the extent and scope of audit, should examine and evaluate the reliability of internal control. Auditors should obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing and extent of checks to be performed.

(4) **Compliance with applicable laws, rules and regulations:** The auditor shall verify compliance with applicable laws, rules and regulations and highlight deviations, if any.

(5) **Audit evidence:** Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement as well as conclusions regarding the organisation, programme, activity or function under audit.

(d) Reporting Standards

30. **Definition**

The reporting standards provide an overall framework for the auditor and the audit institution for reporting the results of audit.

31. **Application**

The reporting standards shall apply equally to all kinds of reports submitted by the Government auditors to the executive and the legislature, including inspection reports, audit reports and audit certificates on financial statements or statements of expenditure.

32. **Framework of reporting standards**

The reporting standards shall *inter alia* include the following:

(1) Reporting standards shall be meant to assist, and not to supersede, prudent judgement of the auditor in framing and reporting audit findings, conclusions and recommendations.

(2) The reports should be complete, accurate, objective, convincing, clear, concise, constructive and timely.

(3) The form and content of all audit opinions and reports need to be consistent with the principles laid down in regard to (a) objectives and scope, (b) completeness, (c) addressee, (d) identification of subject matter, (e) legal basis, (f) compliance with standards, and (g) timeliness.

(4) In formulating the audit opinion or report, the auditor should *inter alia* give due regard to the materiality of the matter keeping in view the amount, nature and context.

(5) Auditors should report on significant instances of non-compliance and abuse that were found in audit. In some circumstances, auditors should report illegal acts promptly to the audited entity without waiting for the full report to be prepared after the audit.

(6) When auditors conclude, based on evidence obtained, that fraud or corruption has either occurred or is suspected to have occurred, they should report relevant information. Such information that is clearly inconsequential either in a quantitative or qualitative sense need not be reported. When fraud involves financial assistance directly or indirectly from the Government and if the management fails to take remedial steps, the auditor may report it directly to the concerned Government and the grantor agency where such assistance is indirect and routed through such agency. Reporting of the cases of fraud and corruption noticed in audit directly to any other authorities shall be governed by the general or special orders of the Comptroller and Auditor General. The

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reporting of instances of fraud and corruption need not wait for final report of the auditor where promptness in such reporting is desirable due to special circumstances.

(7) Auditors should report deficiencies in internal control that they consider significant.

(8) Compliance audits, besides reporting on individual cases of non-compliance and abuse, also require reporting on weaknesses that exist in systems of financial management and internal control. The auditor should also report the results of examination of rules, regulations, orders and instructions and their consistency as well as significant irregularities and instances of fraud and corruption.

(9) In the report on the financial statements, the auditor should *inter alia* either (a) describe the scope of the auditor's testing of compliance with laws, rules and regulations and internal control in preparation of financial statements and present the results of those tests or (b) refer to the separate report(s) containing that information. In presenting the results of those tests, the auditor should report fraud, corruption, illegal acts, other material non-compliance, and significant deficiencies in internal control over financial reporting.

(10) The performance audit report should state clearly the objectives and scope of the audit. Reports may give independent information, advice or assurance as to whether and to what extent economy, efficiency and effectiveness are being or have been achieved. Performance audit reports should not concentrate solely on adverse assessment of the past but should be constructive. Recommendations should, as far as feasible, suggest what improvements are needed and how to achieve them.

(11) In follow up of recommendations, the auditor should maintain objectivity and independence and focus on whether identified weaknesses are corrected rather than on whether specific recommendations are adopted.

(12) Audit reports shall be forwarded by the audit department to the appropriate authorities of the audited entity. Copies shall also be sent to other officers who may be responsible for taking action on audit findings, conclusions and recommendations.

(13) Systems and procedures should be in place to assess whether adequate, prompt and proper follow up action has been taken on audit reports. In subsequent audits, the auditor should examine and report whether satisfactory action was taken on the audit reports.

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CHAPTER 5

Financial Audit

33. **Audit of annual accounts of the Government**

Under the Constitution of India and the Act, it is the duty of the Comptroller and Auditor General to audit and report on the accounts of the Union Government and of the Governments of each State and Union Territory having a legislative assembly. These reports are submitted to the President or the Governor of a State or the Administrator of a Union Territory having a legislative assembly, as the case may be, for being placed before the appropriate legislature.

34. **Certification of Finance and Appropriation Accounts**

The Comptroller and Auditor General examines and certifies the Finance Accounts and the Appropriation Accounts of the Union and of each State and the Union Territory having a legislative assembly, irrespective of the agency that is responsible for their compilation.

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35. **Finance Accounts of the Government**

The Finance Accounts of the Government show the receipts and disbursements of the Government for the financial year, together with the financial results disclosed by the revenue and capital accounts, the accounts relating to public debt and assets and other liabilities as prescribed.

36. **Appropriation Accounts of the Government**

The Appropriation Accounts of the Government show the expenditure of the Government compared with the amounts authorised by the legislature with explanations for significant variations between the two by way of saving or excess beyond the prescribed limits of such variations.

37. **Checks in financial audit**

The primary purpose of financial audit is to verify whether the accounts of Government are properly prepared, are complete in all respects and are presented with adequate disclosures. Financial audit thus verifies:

(1) books of accounts and the financial statements for their compliance with the applicable laws, rules and regulations and accounting principles, policies and acceptable standards including conformity with the form of accounts prescribed by the President on the advice of the Comptroller and Auditor General;

(2) completeness of the books of accounts and the financial statements; this also includes a critical review of the amounts that are not adjusted to their final classification;

(3) accuracy of the books of accounts and the financial statements including consistency between the related statements;

(4) timeliness of the books of accounts and the financial statements;

(5) adequacy of disclosures including appropriate and necessary explanations for any entry or amount that is *prima facie* unusual; and

(6) in the case of Appropriation Accounts, in addition to the above, (a) the amount of actual expenditure for its legal availability for and application to the service or purpose in accordance with the scope and intent of the grant; (b) the orders of re-appropriation and surrender of funds for their legality, competence and propriety; and (c) the explanations for the significant variations between the amounts of actual expenditure and the amounts authorised by the legislature, beyond the prescribed limits of such variations, for their veracity.

38. **Requirement for sending copies of orders of re-appropriation and surrender of funds**

Government departments shall send copies of all orders of re-appropriation and surrender of funds to the audit office and the accounts office as soon as these are issued. A consolidated statement of all such orders issued during a financial year shall also be sent to the audit office and the accounts office so as to reach within one month after the close of the financial year. A nil statement shall be sent if no such order was issued.

39. **Orders of re-appropriation and surrender of funds to state reasons explicitly**

The orders of re-appropriation shall comprehensively and explicitly state the reasons for the transfer of funds between different units of appropriation. The reasons for surrender of funds should also be similarly stated.

40. **Reasons for excesses and shortfalls to be furnished**

Government departments shall furnish to the audit office and the accounts office, within such time as may be specified, reasons for any excess or shortfall in expenditure beyond the limits prescribed for the purpose under any unit of appropriation vis-à-vis the amount provided for it.

41. **Supply of specific documents and information to the audit officer**

Without prejudice to the generality of other provisions in this regard in these Regulations, Government departments and the agency responsible for the compilation

of accounts and financial statements shall *inter alia* supply the following to the audit officer:

(1) the reasons for any significant variations between the amounts of expenditure and the amounts of receipts of the year of accounts and the corresponding amounts for the preceding year;

(2) the statement of periodic book adjustments together with the copies of the general or special orders authorising such adjustments;

(3) the explanation for differences, if any, in the cash balance as per the books of accounts and the balance as per the books of the Reserve Bank of India;

(4) the explanation for any items that are *prima facie* unusual including adverse and insufficient balances ;

(5) the reasons for variations, if any, between the closing balances of the preceding year and the opening balances of the year of accounts in respect of heads of accounts that do not close to Government account;

(6) the confirmation of the outstanding amounts of loan and interest on loans;

(7) the details of overdue loans and interest on loans;

(8) the explanation for and analysis of variations, if any, between the amounts as per the detailed accounts kept in the form of ledgers and the corresponding aggregate amounts as per the books of accounts and financial statements;

(9) the statement of outstanding guarantees including the amounts (original amounts as well as the amounts outstanding at the end of the year);

(10) the confirmation of the amounts of guarantees (original amounts as well as the amounts outstanding at the end of the year) from the parties on whose behalf the guarantees were issued;

(11) the details of guarantees invoked during the year;

(12) the amount of guarantee fee received and the amount in arrears;

(13) the details of incomplete works costing more than the limit prescribed by the audit office from time to time; and

(14) year-wise analysis of the amounts outstanding under 'Remittance' and 'Suspense' heads of accounts.

42. **Action plan for certification of financial statements**

The audit office and the agencies responsible for preparation and compilation of accounts shall prepare an annual action plan for the timely completion of certification of financial statements and monitor its implementation.

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CHAPTER 6

Compliance Audit

(a) Broad Principles

43. **Examination of transactions in compliance audit**

Compliance audit examines the transactions relating to expenditure, receipts, assets and liabilities of Government for compliance with:

(1) the provisions of the Constitution of India and the applicable laws; and

(2) the rules, regulations, orders and instructions issued by the competent authority either in pursuance of the provisions of the Constitution of India and the laws or by virtue of the powers formally delegated to it by a superior authority.

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44. **Examination of rules, regulations, orders, etc. in compliance audit**

Compliance audit also includes an examination of the rules, regulations, orders and instructions for their legality, adequacy, transparency, propriety and prudence and effectiveness, that is whether these are:

(1) *intra vires* the provisions of the Constitution of India and the laws (legality);

(2) sufficiently comprehensive and ensure effective control over Government receipts, expenditure, assets and liabilities with sufficient safeguards against loss due to waste, misuse, mismanagement, errors, frauds and other irregularities (adequacy);

(3) clear and free from ambiguity and promote observance of probity in decision making (transparency);

(4) judicious and wise (propriety and prudence); and

(5) effective and achieve the intended objectives and aims (effectiveness).

45. **Examination of rules, regulations, orders, etc. for consistency**

Compliance audit also examines whether the rules, regulations, orders and instructions are consistent.

46. **Endorsement of copies of rules, regulations and orders by Government departments**

Government departments shall invariably endorse or otherwise send to the audit office(s) and the accounts office(s) copies of all rules, regulations and general orders regulating the raising of revenues, incurring of expenditure and liabilities and management of assets and liabilities, as soon as these are issued.

47. **Reference of revision of rules or codes to Audit for scrutiny before issue**

Wherever possible, any revision of rules or substantive codes undertaken by the Government departments and having financial, accounting or auditing implications may be referred to the concerned Accountant General (Accounts and Entitlement) or Accountant General (Audit), as the case may be, for scrutiny before issue.

(b) Audit of Expenditure

48. **Authority of the C&AG in regard to audit of expenditure**

Section 13 of the Act authorises the Comptroller and Auditor General to audit all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a legislative assembly. Section 13 read with Section 2(e) of the Act also authorises the Comptroller and Auditor General to audit all transactions of the Union and of the States and Union Territories relating to Contingency Funds and Public Accounts.

49. **Examination of systems and procedures and checks to be applied in audit of expenditure**

Audit of expenditure incurred from the Consolidated Fund examines and verifies whether adequate, proper and sound systems and procedures are in place and are being complied with, both in letter and spirit, for spending public money. Audit *inter alia* checks the expenditure for:

(1) Appropriation, that is, the availability of funds in the budget, including supplementary grant(s) and re-appropriation; this also includes (a) examination of the orders of re-appropriation for their legality, competence and propriety; and (b) confirmation that the expenditure is within the scope and intent of the grant and does not attract the limitation of new service or new instrument of service;

(2) Authorisation by the authority that is competent to do so;

(3) Compliance with the requirement of the applicable laws, rules, regulations, orders and instructions in actual disbursement;

(4) Evidence by way of vouchers, payees' acknowledgements, etc;

(5) Record in the books of the spending officer, including cross-verification with the records of the treasury, pay and accounts office, bank, etc;

(6) Accounting in the books of the Government; and

(7) Monitoring, control and reporting as prescribed in the Government rules.

The above carries an embedded, but essential, requirement of the examination of expenditure for compliance with the broad and general principles of financial propriety. Audit shall bring to light not only significant cases of irregularity and breach of rules, regulations and orders but also every matter which, in the judgment of the audit officer, appears to involve significant unnecessary, excessive, extravagant or wasteful expenditure of public money and resources despite compliance with the rules, regulations and orders.

50. **Endorsement of copies of sanction orders and contract agreements to Audit**

Copies of all orders sanctioning expenditure issued by Government departments shall be endorsed or otherwise sent to the audit office as soon as these are issued. The orders shall cite reference to the authority by way of rules, regulations, etc. in terms of which the expenditure is sanctioned. Heads of departments shall also send to the audit office quarterly statements on the 15th day of each of the months of July, October, January and April, of all sanctions issued in respect of their department during the preceding quarter. A nil statement shall be sent in case no such order was issued during the preceding quarter.

The Comptroller and Auditor General may, by a general or special order, exempt any department or a particular class or classes of orders from the requirement of sending copies to audit office.

Copies of contract agreements need not be sent to the audit office. Only quarterly statements (including nil statements) of all contracts entered into in the preceding quarter need to be sent to audit office as per time schedule given above.

51. **Audit of transactions of Public Account and Contingency Fund**

The basic principles of audit of expenditure incurred from the Consolidated Fund apply *mutatis mutandis* to any expenditure that may be incurred from the Public Account or from the Contingency Fund. Audit may also examine the transactions for their legality, competence and propriety and:

(1) in the case of Public Account, for the availability of credit for any withdrawal; and

(2) in the case of Contingency Fund, for the availability of sufficient balance in the Fund for any amount of advance as well as timely resumption to the Fund of any such amount.

52. **Endorsement of copies of sanctions of advance from Contingency Fund**

The Ministry of Finance or Finance Department shall endorse or otherwise send to the audit office and the accounts office, copies of all sanctions of advance from the Contingency Fund as well as resumption of the advance to the Contingency Fund as soon as these are issued.

(c) Audit of Receipts

53. **Authority of the C&AG for audit of receipts**

Section 16 of the Act authorises the Comptroller and Auditor General to audit all receipts (both revenue and capital) of the Government of India and of Governments of each State and of each Union Territory having a legislative assembly and to satisfy himself that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed.

54. **Examination of systems and procedures and their efficacy**

Audit of receipts includes an examination of the systems and procedures and their efficacy in respect of:

(1) identification of potential tax assessees, ensuring compliance with laws as well as detection and prevention of tax evasion;

(2) pursuit of claims with due diligence and that these are not abandoned or reduced except with adequate justification and proper authority;

(3) prompt investigation of losses of revenue through fraud, default or mistake including, if required, through the review of other similar cases;

(4) exercise of discretionary powers in an appropriate manner including levy of penalties and initiation of prosecution;

(5) appropriate action to safeguard the interests of the Government on the orders passed by departmental appellate authorities;

(6) any scheme as may be introduced by the Government from time to time;

(7) any measures introduced to strengthen or improve revenue administration;

(8) amounts that may have fallen into arrears, maintenance of records of arrears and action taken for the recovery of the amounts in arrears;

(9) other ancillary and non-assessment functions including expenditure incurred by the departments;

(10) achievement of targets, accounting and reporting of receipts and their cross-verification and reconciliation with the accounts records;

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(11) amounts of refunds, rebates, drawbacks, remissions and abatements to see that these are correctly assessed and accounted for; and

(12) any other matter, as may be determined by the Comptroller and Auditor General.

55. **Integrity of data, information and documents forming basis of policy**

The scope of audit of receipts includes examination of integrity of data, information and documents which form the basis of a policy.

56. **Access to assessment files and records and computerised database**

(1) The audit officer shall have access to individual assessment files as may be necessary subject to provisions of applicable laws and rules. The department concerned shall provide access to the assessment records and also any computerised systems including the databases maintained by it in hard copy or/and electronic form.

(2) As regards third party records and additional information thereon, provisions in this regard in Chapter 12 refer.

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57. **Follow up action on systemic faults or high risks pointed out by Audit**

Where the audit officer points out systemic faults or identifies high risks, the department should take appropriate action to address these faults and mitigate the risks so identified.

58. **Intimation of follow up action taken by the department**

The department shall furnish within six months of the close of each financial year, an annual statement to the Accountant General (Audit) containing the details of follow up action taken on audit observations, including recoveries, in respect of accepted paragraphs included in the audit reports laid before Parliament or legislature till the end of that financial year.

(d) Audit of Assets and Liabilities

Stores and Stock

59. **Authority of the C&AG for audit of stores and stock**

Section 17 read with Section 2(e) of the Act authorises the Comptroller and Auditor General to audit and report on the accounts of the stores and the stock kept in any office or department of the Union or of a State or of a Union Territory having a legislative assembly.

60. **Manner of keeping accounts of stores and stock**

The accounts of stores and stock shall be kept in the manner prescribed by the Union Government in consultation with the Comptroller and Auditor General.

61. **Audit of stores and stock**

Audit of stores and stock is primarily an extension of audit of expenditure. Additionally, it involves verifying that adequate and sound systems and procedures are in place and complied with for:

(1) establishment of the need for procurement of stores;

(2) proper assessment of requirement of stores, including, where applicable, determination of reserve stock limits;

(3) authorisation of procurement of stores;

(4) procurement of stores in a cost-effective manner in accordance with the prescribed systems and procedures;

(5) receipt, inspection, custody, issue and accounting of stores including appropriate segregation of duties of personnel and reconciliation of store accounts with books of accounts;

(6) verification of physical balances at prescribed intervals, and reconciliation and resolution of discrepancies between physical balances and balances as per the records without delay; and

(7) identification of obsolete and surplus stores, their disposal by way of sale and/or transfer to other units, divisions, etc. and accounting of corresponding receipts, or write off after proper investigation.

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62. **Right of Audit to investigate stores balances**

Audit shall not normally assume responsibility for physical verification of stores which rests with the Government. It, however, reserves the right to investigate store balances and highlight discrepancies.

Other Assets and Liabilities

63. **Authority of the C&AG in regard to audit of other assets and liabilities**

Section 13 read with Section 2(e) of the Act authorises the Comptroller and Auditor General to audit trading, manufacturing and profit and loss accounts and balance sheets and other subsidiary accounts kept in any department of the Union or of a State or of a Union Territory having a legislative assembly and to report on accounts so audited by him.

Accordingly, besides store and stock, audit by the Comptroller and Auditor General shall extend to all other assets and liabilities of the Union and of States and of Union Territories having a legislative assembly including ongoing and completed works, investments, loans and advances, deposits, cash balances, internal and external borrowings, guarantees given by the Governments, reserves and sinking funds.

64. **Broad principles of audit to apply**

Broad principles of audit shall apply to audit of assets and liabilities.

65. **Audit to be governed by orders of the C&AG**

Audit of assets and liabilities shall further be governed by any general or special orders issued by the Comptroller and Auditor General.

(e) Audit of Grants-in-aid and Loans

66. **Audit of grants-in-aid and loans**

Audit of grants-in-aid and loans is primarily an extension of audit of expenditure and the broad principles of audit of expenditure shall apply. Additionally, it examines whether the amount of Government assistance is utilised for the intended purpose.

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67. **Verifications to be done during audit of grants-in-aid and loans**

Audit of Government assistance in form of grants-in-aid or loans shall be conducted to verify whether systems and procedures are in place and are being complied with for:

(1) clear enunciation of purpose for the sanction of the Government assistance;

(2) proper and transparent identification and selection of persons, bodies and authorities for Government assistance with reference to their antecedents, absorptive capacity, financial position, systems and management practices;

(3) determination of amount of assistance and its timely release;

(4) proper accounting of assistance by the grantee or the loanee including maintenance of accounts in such form as may be prescribed;

(5) ensuring the fulfillment of conditions of Government assistance;

(6) monitoring and ensuring the economical, efficient and effective end use of assistance including achievement of the objectives of assistance;

(7) refund to the Government of any unutilised amount; and

(8) in the case of loans, their repayment as prescribed and recovery of interest including penal interest according to applicable conditions.

CHAPTER 7

Performance Audit

68. **Definition**

Performance audit is an independent assessment or examination of the extent to which an organisation, programme or scheme operates economically, efficiently and effectively.

69. **Three Es of performance audit**

Performance audit assesses:

(a) **Economy –** Economy is minimising the cost of resources used for an activity, having regard to appropriate quality. Economy issues focus on the cost of the inputs and processes. Economy occurs where equal-quality resources are acquired at least cost.

(b) **Efficiency –** Efficiency is the relationship between the output, in terms of goods, services or other results and the resources used to produce them. Efficiency exists where the use of financial, human, physical and information resources is such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

(c) **Effectiveness –** Effectiveness is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity. Effectiveness addresses the issue of whether the scheme, programme or organisation has achieved its objectives.

70. **Responsibility for development of measurable objectives, performance indicators, etc.**

The responsibility for the development of measurable objectives and performance indicators as also the system of measurement rests with the Government departments or heads of entities. They are also required to define intermediate and final outputs and outcomes in measurable and monitorable terms, standardise the unit cost of delivery and benchmark quality of outputs and outcomes.

71. **Review of the measurable objectives and performance indicators in Audit**

In reviewing performance against the outputs and outcomes, Audit may critically review the measurable objectives and performance indicators for their reasonableness and soundness. Audit may also set criteria for reviewing programme performance based on best practices.

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72. **Interaction with auditable entity during performance audit**

Performance audit envisages a high degree of interaction with the auditable entities, right from the selection of subject(s) for review to all subsequent stages like definition of audit objectives and criteria, preparation of detailed audit programme, development of audit findings, formulation of recommendations and other related matters. Government departments shall ensure adequate and timely response to the audit officer at all stages.

73. **Holding of entry conference**

Before commencing detailed work of performance audit, the Accountant General (Audit) shall hold an entry conference with the Secretary to Government of the concerned department.

74. **Topics for discussion in entry conference**

The discussions at the entry conference shall *inter alia* include the scope and coverage of audit, audit objectives and criteria, proposed techniques of evidence collection, overall timeframe and tentative time schedule. The Accountant General (Audit) shall give full consideration to any suggestion that may be made by the Secretary to Government of the concerned department. A written record of the proceedings of the entry conference, duly signed by both parties, shall be kept on record.

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75. **Nomination of an officer for coordination and cooperation with Audit**

The Secretary to Government of the concerned department shall nominate a sufficiently senior officer of the department who shall be responsible for coordinating with the concerned officers and the field offices of the department and ensuring their cooperation with the audit officer.

76. **Holding of exit conference**

The Accountant General (Audit) shall, after the draft performance audit report is ready, hold an exit conference with the Secretary to Government of the concerned department. A written record of the proceedings of the exit conference, duly signed by both parties, shall be kept on record. The Accountant General (Audit) shall give full consideration to the observations and comments of the Secretary while finalising the draft performance audit report for inclusion in the audit report of the Comptroller and Auditor General.

77. **Furnishing of reply by department and processing of material for audit report**

The Secretary to Government of the concerned department shall furnish reply to the draft performance audit report within the specified time and the Accountant General (Audit) shall take into account such reply before finalising the material for audit report of the Comptroller and Auditor General. The provisions of Chapter 15 relating to processing of material for the audit reports of the Comptroller and Auditor General and the follow up action thereon shall apply.

CHAPTER 8

Audit of Bodies and Authorities other than Government Establishments and Companies

(a) Broad Principles

78. **Authority of the C&AG for audit of bodies and authorities**

The audit of bodies and authorities, other than Government establishments and companies, by the Comptroller and Auditor General is governed by the provisions contained in Sections 14, 15, 19(2), 19(3), 19A and 20 of the Act.

79. **Meaning of the expression 'body' and 'authority'**

The expression 'authority' means a person or body exercising power or command vested in it by virtue of the Constitution or any law made by the legislature. The expression 'body' means an aggregate of persons, whether incorporated or unincorporated, and includes an institution or organisation set up as an autonomous organisation under a specific statute or as a society registered under the Societies Registration Act, 1860 or Indian Trusts Act, 1882 or any other statute, voluntary organisation or non-Government organisation, urban or rural local self Government institution, co-operative society, society or club, etc.

80. **Provisions of Section 18 of the Act to apply to bodies and authorities**

The provisions of Section 18 of the Act shall apply to bodies and authorities that are under the audit jurisdiction of the Comptroller and Auditor General.

81. **Accounts of bodies and authorities to be made available to Audit**

The body or authority under the audit jurisdiction of the Comptroller and Auditor General shall make its duly approved accounts available for audit as per time schedule that may be prescribed by the laws governing such body or authority or else by the Comptroller and Auditor General.

(b) Audit of Bodies and Authorities substantially financed from Union or State Revenues

82. **Audit of bodies and authorities under Section 14 of the Act**

(1) Section 14(1) of the Act authorises the Comptroller and Auditor General to audit the receipts and expenditure of a body or authority if (a) the amount of Government grant or loan paid to it in a financial year is not less than rupees twenty-five lakh and also (b) the amount of such grant or loan is not less than seventy-five

per cent of its total expenditure during the year. Audit under this Section is subject to the provisions of any law applicable to the body or authority.

(2) Section 14(2) of the Act provides that the Comptroller and Auditor General may, with the previous approval of the President or the Governor of a State or the Administrator of a Union Territory having a legislative assembly, as the case may be, audit all receipts and expenditure of a body or authority where the amount of Government grants or loans to the body or authority in a financial year is not less than rupees one crore.

(3) Where the receipts and expenditure of a body or authority are audited by the Comptroller and Auditor General under sub-section (1) or (2) of Section 14 for a particular year, the Comptroller and Auditor General is authorised under Section 14(3) of the Act to continue to audit its receipts and expenditure for a further period of two years even if the conditions stated in sub-section (1) or (2) are not satisfied during any of the two subsequent years.

83. **Sanctions of grants and loans and forwarding of copies**

Government departments and other officers empowered to sanction grants and/or loans to any body or authority shall:

(1) endorse a copy of each letter of sanction of grant or loan to the audit office;

(2) mention in the sanction, the amount of the budgeted expenditure of the body or authority; and

(3) ensure that the assisted body or authority makes available all the relevant records to the audit officer for audit, wherever and whenever necessary, and that a requirement to this effect is incorporated in the letter of sanction to the grant and/or loan.

84. **Forwarding of statement of bodies and authorities receiving assistance**

Governments and heads of departments which sanction grants and/or loans to bodies or authorities shall furnish to the audit office by end of July every year a statement of such bodies and authorities to which grants and/or loans aggregating rupees ten lakh or more were paid during the preceding year indicating (a) the amount of assistance; (b) the purpose for which the assistance was sanctioned; and (c) the total expenditure of the body or authority.

85. **Computation of quantum of Government assistance**

For arriving at the quantum of Government assistance for the purpose of ascertaining auditability under Section 14 of the Act:

(1) the aggregate of the amounts of grant(s) and loan(s) paid to a body or authority shall be reckoned together;

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(2) the amounts of grant(s) and loan(s) paid to a body or authority by the Union Government, the State Government(s) and the Union Territory Government(s) shall be aggregated; and

(3) the amounts of grant(s) and loan(s) paid during a year shall include any amounts remaining unspent out of grant(s) and loan(s) paid to the body or authority during preceding year(s) but not refunded to the Government.

86. **Audit of receipts and expenditure and review of internal controls and financial records**

Audit of the receipts and expenditure of a substantially financed body or authority shall be conducted in accordance with the Regulations prescribed in Chapters 6 and 7 to the extent relevant. The Comptroller and Auditor General may also conduct a critical review of its system of internal controls and financial records as well as the tests performed by its auditor for expression of an opinion on its accounts.

87. **Communication of results of audit and their inclusion in audit report**

The audit office shall communicate the results of audit to the chief executive officer of the body or authority and shall also forward a copy of the inspection report to the department(s) of the Government(s) that paid the grant(s) or loan(s) to the body or authority. Important points noticed in audit that need to be brought to the notice of the legislature may also be included in the audit report of the Comptroller and Auditor General submitted to the President or the Governor of a State or the Administrator of a Union Territory having a legislative assembly, as the case may be, for being laid before the appropriate legislature.

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(c) Scrutiny in case of grants and loans given to bodies and authorities for specific purpose

88. **Audit of bodies and authorities under Section 15 of the Act**

(1) Under Section 15 of the Act, where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any Union Territory having a legislative assembly to any authority or body, not being a foreign state or international organisation, the Comptroller and Auditor General is authorised to scrutinise the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which such grants or loans were given.

(2) The President or the Governor of a State or the Administrator of a Union Territory having a legislative assembly, as the case may be, if he is of the opinion that it is necessary to do so in public interest and after consultation with the Comptroller and Auditor General, may relieve the Comptroller and Auditor General from making any such scrutiny in respect of any body or authority receiving such grant or loan.

89. **Access to books and accounts of grantee body or authority**

(1) Under sub-section (1) of Section 15, the Comptroller and Auditor General is authorised to have access, with reasonable previous notice, to the books and accounts of the grantee body or authority for the purpose of scrutinising the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions attached to the Government assistance.

(2) Under sub-section (2) of Section 15, except where he is authorised so to do by the President, the Governor of a State or the Administrator of a Union Territory, as the case may be, the Comptroller and Auditor General shall not have, while exercising the powers conferred on him by Section 15(1), right of access to the books and accounts of any corporation to which any such grant or loan as is referred to in Section 15(1) is given if the law by or under which such corporation has been established provides for the audit of the accounts of such corporation by an agency other than the Comptroller and Auditor General. No such authorisation shall be made except after consultation with the Comptroller and Auditor General and after giving the concerned corporation a reasonable opportunity of making a representation in this regard.

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90. **Communication of results of audit and their inclusion in audit reports**

The audit office shall communicate the results of scrutiny of the procedures conducted in terms of Section 15 of the Act to the department(s) of the Government(s) that paid the grant(s) and/or loan(s) to the body or authority. Important points that need to be brought to the notice of the legislature may also be included in the audit report of the Comptroller and Auditor General submitted to the President or the Governor of a State or the Administrator of a Union Territory having a legislative assembly, as the case may be, for being laid before the appropriate legislature.

(d) Audit of corporations set up by or under law made by Parliament

91. **Audit of corporations under Section 19(2) of the Act**

As per Section 19(2) of the Act, the duties and powers of the Comptroller and Auditor General in relation to audit of accounts of corporations established by or under law made by Parliament are performed and exercised in accordance with the provisions of the respective legislations.

92. **Conduct of audit of corporations**

Subject to the provisions of the respective legislations, the conduct of audit of corporations established by or under any law made by Parliament shall be governed by the provisions of these Regulations.

93. **Copies of agenda notes and minutes of meetings of board of directors and audit committees to be furnished to Audit**

Every corporation that is subject to audit by the Comptroller and Auditor General shall send copies of the agenda notes and minutes of the meetings of its governing body, by whatever name called, and the audit committee, if formed, to the Accountant General (Audit).

94. **Applicable standards and verifications required in audit of accounts**

Where the Comptroller and Auditor General is the sole auditor of a corporation, the financial audit is conducted in accordance with the auditing standards issued by the Comptroller and Auditor General. Audit shall verify whether systems and procedures are in place and implemented to ensure that the accounts:

(1) comply with the requirements of the applicable law(s), rules and administrative instructions;

(2) comply with the accounting standards prescribed by the Institute of Chartered Accountants of India;

(3) contain adequate disclosures in respect of financial transactions; and

(4) present a true and fair view of the corporation's financial position.

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95. **Audits other than financial audit of accounts by the C& AG**

(1) In addition to the financial audit of accounts of a corporation, the Comptroller and Auditor General may conduct any other type of audit including the following:

(a) test check of transactions entered into by the corporation with a view to examining their legality, competence and propriety and report on cases of infraction, waste, mismanagement, frauds and other irregularities; and

(b) performance audit with a view to ascertaining the extent to which the corporation operates economically, efficiently and effectively for the achievement of the stated objectives.

(2) The scope of above audits may extend to more than one financial year.

(3) The Regulations contained in Chapters 6 and 7 shall apply to the compliance and performance audits conducted under sub-Regulations (1) and (2) to the extent relevant.

96. **Audit certificate as warranted by circumstances**

The audit certificate may be subject to such observations and qualifications as the circumstances may warrant. An adverse certificate may be given if the observations and qualifications are of such nature as may not warrant certification of accounts as presenting a true and fair view of the financial position of the corporation.

97. **Forwarding of draft separate audit report**

On the completion of financial audit, the audit office shall send to the chief executive officer a draft separate audit report that will form part of the audit certificate on the accounts. A copy of the same shall also be sent to the Government in case it contains any observation on which reply of the Government is necessary.

98. **Reply to draft separate audit report**

The chief executive officer of the corporation (and the Government, where a copy of the draft separate audit report is sent to it) shall communicate reply to the draft separate audit report within two weeks from the date of its issue or such other period as prescribed.

99. **Finalisation of audit certificate and separate audit report**

The audit office shall consider the reply received from the corporation (and the Government if a copy is sent to it) before finalising the audit certificate and the separate audit report. In case a reply is not received within the specified period or any extended period agreed to, the audit officer may proceed on the assumption that the corporation (and the Government where a copy of the draft separate audit report is sent to it) has no comments, observation and explanation in the matter.

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100. **Forwarding of audit certificate and separate audit report to Government**

The Accountant General (Audit) shall send the audit certificate and the separate audit report which will form part of the audit certificate on the accounts of the corporation to the Secretary to Government of the concerned department with a copy to the chief executive officer of the corporation.

101. **Placement of audit certificate and separate audit report before governing body and concerned legislature**

The chief executive officer shall place the audit certificate and the separate audit report before the governing body and intimate to the Accountant General (Audit) the date on which these are presented to the governing body. The Government shall cause every audit certificate and separate audit report to be laid before appropriate legislature(s) in accordance with Section 19A of the Act. The Secretary shall intimate to the Accountant General (Audit) the date of presentation of the audit certificate and the separate audit report to the legislature.

102. **Reporting of results of audits other than financial audit of accounts**

The results of other audits including compliance and performance audits of a Government corporation are reported through audit notes, inspection reports and audit reports. Audit reports of the Comptroller and Auditor General are laid before the respective legislature. No comments shall, however, be included in the inspection reports and audit reports except after giving due opportunity to the corporation and the Government to offer their explanation on the matters proposed to be commented upon. The Regulations in Chapters 12 to 15 shall apply to the extent relevant.

103. **Responsibility for settlement of audit observations and constitution of 'audit arrears committee'**

The responsibility for settlement of audit observations is that of the management of the corporation. In case a large number of audit observations included in the inspection reports remain outstanding for more than two years, each such corporation shall constitute an 'audit arrears committee' consisting of sufficiently senior officers of the corporation for speedy settlement and clearance of outstanding audit observations.

The concerned Government may take steps to ensure constitution of these committees and their effective functioning.

104. **Corporations where Audit Board or Audit Review Committee is constituted or where primary auditor is appointed**

In case of central corporations where Audit Board is constituted by the Comptroller and Auditor General, Regulations in Section (g) of Chapter 9 shall apply to the extent relevant. In case of State corporations where Audit Review Committee is constituted, Regulations in Section (h) of Chapter 9 shall apply to the extent relevant. Further, in case of corporations where primary auditor is appointed under the relevant Act, Regulations in Section (d) to (f) of Chapter 9 shall apply to the extent relevant.

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(e) Audit of State Corporations and other bodies and authorities entrusted to the C&AG

105. **Audit under Section 19(3) of the Act**

As per Section 19(3) of the Act, the Governor of a State or the Administrator of a Union Territory having a legislative assembly may, where he is of the opinion that it is necessary in the public interest so to do, request the Comptroller and Auditor General to audit the accounts of a corporation established by law made by the legislature of the State or of the Union Territory, as the case may be, and where such request has been made, the Comptroller and Auditor General shall audit the accounts of such corporation and shall have, for the purposes of such audit, right of access to the books and accounts of such corporation.

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

106. **Audit under Section 20 of the Act**

(1) Under sub-section (1) of Section 20 of the Act, the audit of accounts of any body or authority, the audit of which has not been entrusted to the Comptroller and Auditor General by or under any law made by Parliament may, subject to the proviso contained in Section 20(3), also be entrusted by the President or the Governor of a State or the Administrator of a Union Territory having a legislative assembly, as the case may be, to the Comptroller and Auditor General after consultation with him and

on such terms and conditions as may be agreed to between him and the concerned Government.

(2) As per sub-section (2) of Section 20 of the Act, the Comptroller and Auditor General may propose to the President or the Governor of a State or the Administrator of a Union Territory having a legislative assembly, as the case may be, that he may be authorised to undertake the audit of accounts of a body or authority, the audit of which has not been entrusted to him by law, if he is of the opinion that such audit is necessary because a substantial amount has been invested in or advanced to that body or authority by Government, and the President or the Governor or the Administrator, as the case may be, may, subject to proviso contained in sub-section (3), empower the Comptroller and Auditor General to undertake the audit of accounts of that body or authority.

(3) Under Section 20(3) of the Act, audit under Section 20(1) or 20(2) shall be entrusted to the Comptroller and Auditor General only if the President or the Governor of a State or the Administrator of a Union Territory having a legislative assembly is satisfied that it is expedient to do so in the public interest and after giving reasonable opportunity to the concerned body or authority to make representation with regard to the proposal for such audit.

107. **Conditions for undertaking audit under Section 20(1)**

The conditions for undertaking audit of a body or authority at the request of the President or the Governor of a State or the Administrator of a Union Territory having a legislative assembly under Section 20(1) are the following:

(1) Audit shall be entrusted to the Comptroller and Auditor General preferably for a period of five accounts years. The arrangement will be reviewed after the expiry of this period.

(2) The scope, extent and manner of audit shall be decided by the Comptroller and Auditor General.

(3) The Comptroller and Auditor General may appoint a primary auditor to conduct audit on his behalf and in accordance with the directions or guidelines issued by him.

(4) The Comptroller and Auditor General or any other person so authorised in connection with the audit of accounts of the body or authority shall have the same rights, privileges and authority as the Comptroller and Auditor General has in connection with the audit of accounts of Government.

(5) The Comptroller and Auditor General, or an officer so authorised in this regard, will communicate the results of audit to the governing body of the body or the authority. The governing body shall submit a copy of the report to the concerned Government along with its observations. The Comptroller and Auditor General, or an officer so authorised in this regard, will also forward a copy of the report to the concerned Government.

(6) The Comptroller and Auditor General shall have the right to report the results of audit to Parliament or the State legislature or Union Territory legislature.

(7) Any expenditure incurred by the Comptroller and Auditor General in connection with the audit of the body or authority, including the expenditure incurred for the services of the primary auditor, if any, shall be paid by the body or the authority to the Comptroller and Auditor General.

108. **Proposal for entrustment of audit from Union Government**

The proposal from Union Government including Union Territory without legislative assembly to entrust audit of a body or authority to the Comptroller and Auditor General shall be sent to the office of the Comptroller and Auditor General.

109. **Proposal for entrustment of audit from State or Union Territory Government**

The proposal from State Government or Union Territory Government having a legislative assembly to entrust audit of a body or authority to the Comptroller and Auditor General shall be sent to the concerned Accountant General (Audit).

110. **Letter of entrustment of audit**

The letter of entrustment of audit of a body or authority to the Comptroller and Auditor General shall be issued in the name of the President or the Governor of a State or the Administrator of a Union Territory having a legislative assembly. The letter shall *inter alia* indicate that the prescribed requirements, including the requirement relating to giving reasonable opportunity to the body or authority, where applicable, have been satisfied.

111. **Audit as per provisions of laws and agreed terms and conditions**

The audit under Section 19(3) or under Section 20 of the Act shall be conducted in accordance with the provisions of relevant laws and terms and conditions agreed upon between the Comptroller and Auditor General and the concerned Government, wherever applicable. Subject to the above, the audit of such corporations and the bodies or authorities shall be conducted in accordance with these Regulations.

112. **Audit of corporations set up by State and UT legislatures and other entrustment audits**

The provisions contained in Section (d) of this Chapter shall apply *mutatis mutandis* to the extent relevant to corporations set up by law made by State legislature and Union Territory legislature and other bodies and authorities, audit of which has been entrusted to the Comptroller and Auditor General under Section 19(3) and Section 20 of the Act.

CHAPTER 9

Audit of Government Companies

(a) Mandate

113. **Mandate of the C&AG in regard to audit of Government companies**

As per Section 19 of the Act, the duties and powers of the Comptroller and Auditor General in relation to the audit of accounts of Government companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 1956.

(b) General Provisions

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114. **Application of ICAI standards for public sector enterprises**

The accounting standards and standard audit practices issued by the Institute of Chartered Accountants of India (ICAI) should be kept in view while carrying out the audit of Government companies or deemed Government companies.

115. **Supply of copies of agenda notes and minutes of meetings of the board and other committees**

Every company that is subject to audit by the Comptroller and Auditor General shall send copies of the agenda notes and minutes of the meetings of its board of directors, board level committees and the audit committee, if formed, to the Accountant General (Audit).

116. **Intimation of formation and closure of a Government company or a deemed Government company by the Government**

The administrative ministry/department concerned shall intimate the Comptroller and Auditor General in writing about the formation of a new Government company or a deemed Government company and forward a copy of its certificate of incorporation within one month of its incorporation. The administrative ministry/department concerned shall also intimate to the Comptroller and Auditor General if a Government company or a deemed Government company ceases to be so, within one month of such an occurrence. The administrative ministry/department shall also intimate to the Comptroller and Auditor General about a company becoming a Government company or a deemed Government company within one month of such an occurrence.

117. **Intimation by Government company or deemed Government company of its formation**

A Government company or a deemed Government company shall also intimate to the Comptroller and Auditor General about its formation along with the shareholding

pattern, details of the management and a copy of the memorandum of association and articles of association within one month of its incorporation. Similarly, in the case of an existing company, the intimation about becoming a Government company or a deemed Government company under the Companies Act, 1956 and other details and documents shall be sent by the company within one month of such an occurrence.

(c) Appointment of Statutory Auditor

118. **Appointment of statutory auditor**

The statutory auditor of a Government company or a deemed Government company shall be appointed by the Comptroller and Auditor General from amongst persons qualified to act as auditors under the Companies Act, 1956. The Comptroller and Auditor General shall appoint the statutory auditor for a financial year through a process of selection as may be prescribed and thereafter, subject to the following Regulation, re-appoint him on year to year basis unless special circumstances warrant appointment for a longer period. The total period of appointment including the initial appointment should not ordinarily exceed four financial years. The appointment shall be subject to such terms and conditions as may be prescribed from time to time by the Comptroller and Auditor General.

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119. **Re-appointment of statutory auditor subject to satisfactory performance**

The re-appointment of a statutory auditor shall be subject to satisfactory performance of the audit assignment in earlier year(s) assessed in terms of the criteria prescribed by the Comptroller and Auditor General including the extent of compliance of directions issued to him by the Comptroller and Auditor General relating to the audit.

120. **Communication of acceptance by statutory auditor**

The statutory auditor shall send acceptance of the audit assignment in writing to the Comptroller and Auditor General within three weeks of the date of issue of communication of appointment, failing which the offer of appointment is liable to be cancelled without any notice.

121. **Termination of appointment before expiry of normal tenure**

The Comptroller and Auditor General may terminate the appointment of a statutory auditor before the expiry of the normal tenure of appointment for reasonable and sufficient grounds after following the due administrative process, including giving an opportunity to the statutory auditor to make representation against the premature termination of appointment.

122. **Debar from further appointment in case of serious irregularities**

In case serious irregularities are noticed in the discharge of professional duties by the statutory auditor, the Comptroller and Auditor General may, if considered necessary, on the recommendation of a committee appointed by him and after giving due

opportunity to the statutory auditor to represent, debar him from further appointment as auditor of a Government company or a deemed Government company for such period as may be considered fit and also refer the case to the Institute of Chartered Accountants of India for taking disciplinary action against the statutory auditor.

123. **Responsibility with reference to annual accounts**

While the statutory auditor is responsible for forming and expressing an opinion on the annual accounts of the Government company or the deemed Government company, the responsibility for their proper preparation is that of the management of the company. The audit of the annual accounts does not relieve the management of its responsibilities relating to the maintenance of adequate accounting records, internal controls and safeguarding the assets of the company.

(d) Audit by Statutory Auditor

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124. **Role of the C&AG with regard to audit by statutory auditor**

The Comptroller and Auditor General is authorised to:

(1) direct the manner in which the statutory auditor shall audit the accounts of the company and to give to such auditor instructions in regard to any matter relating to the performance of his functions as such; and

(2) conduct a supplementary or test audit of the accounts of the company.

125. **Preparation of programme of audit by statutory auditor**

To conduct an effective audit in an efficient and timely manner, the statutory auditor should prepare the programme of audit in consultation with the company and the Accountant General (Audit) and plan his work to:

(1) obtain an understanding of the activities, accounting and internal control systems to plan the audit and develop an effective audit approach; and assess audit risk and design audit procedures to reduce the risk to an acceptable low level;

(2) obtain an understanding of the information technology systems and data available for use in audit;

(3) develop an overall plan for the expected scope and conduct of audit and prepare a written audit programme showing the nature, timing and extent of audit procedures based on the understanding of the nature, functions and operations of the company and the directions of the Comptroller and Auditor General with regard to the audit;

(4) discuss important elements of the overall plan and audit procedures with the management of the company and the Accountant General (Audit);

(5) ensure that the audit programme contains sufficient details to serve as a set of instructions to the staff involved in the audit and as a means to control the proper execution of work;

(6) revise and develop the audit plan further, as considered necessary, during the course of audit with due intimation to the management of the company and Accountant General (Audit);

(7) communicate the quality control policies and procedures to the staff in a manner that provides reasonable assurance that these policies and procedures are understood and implemented;

(8) implement quality control policies and procedures designed to ensure that the audit is conducted in accordance with auditing and assurance standards prescribed by the Institute of Chartered Accountants of India; and

(9) supervise and review the work of audit at all levels to provide reasonable assurance that the work performed meets appropriate standards of quality.

126. **Documentation by statutory auditor**

The statutory auditor shall document, in the form of working papers, matters which are important in providing evidence that the audit has been carried out in accordance with the auditing and assurance standards prescribed by the Institute of Chartered Accountants of India and the directions of the Comptroller and Auditor General. The working papers shall include record of audit plan, the nature, timing and extent of auditing procedures performed, audit evidence and the conclusions drawn from the evidence obtained. All significant matters which require the exercise of judgment, together with the statutory auditor's conclusions thereon, may be included in the working papers. In an audit in an information technology environment, some of the audit evidence may be in electronic form. In such case, the statutory auditor shall satisfy himself that such evidence is adequately and safely stored and is retrievable in its entirety as and when required.

127. **Preparation of audit report by the statutory auditor**

On completion of audit, the statutory auditor shall prepare his audit report under the Companies Act, 1956 and submit a copy to the Accountant General (Audit).

128. **Communication of matters of governance to Audit**

The statutory auditor, at the time of submission of his report under the Companies Act, 1956, shall also forward to the Accountant General (Audit) a copy of any communication containing matters of governance issued by him to the management of the company in compliance with the relevant auditing and assurance standards of the Institute of Chartered Accountants of India.

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129. **Responsibilities of statutory auditor vis-à-vis Accountant General (Audit)**

The statutory auditor shall also:

(1) make himself available for discussions with the office of the Comptroller and Auditor General and the Accountant General (Audit) as and when required;

(2) furnish reply to the provisional comments of the Accountant General (Audit) within three days of issue and, if required, attend the meeting called by the Accountant General (Audit) with the management of the company to discuss the provisional comments;

(3) attend the meetings of the audit committee, if formed, held in pursuance of the Companies Act, 1956;

(4) retain the record of work done by him in the form of working papers with sufficient details so as to support his observations and conclusions for a period of five years unless required for a longer period;

(5) make portions of or extracts from his working papers available to the Accountant General (Audit) in cases where it is considered necessary by Audit to verify the authenticity and correctness of the conclusions drawn in his audit report; and

(6) submit to the Comptroller and Auditor General through the Accountant General (Audit), a report under the Companies Act, 1956 in compliance with the directions issued to him.

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(e) Supplementary Audit by the C&AG

130. **Duly adopted and audited accounts to be made available to Audit**

The company shall make available the balance sheet and the profit and loss account and any other statements or documents declared under the Companies Act, 1956 to be part of or annexed to the balance sheet and the profit and loss account (called annual accounts) duly adopted by the board of directors and audited by the statutory auditor to the Accountant General (Audit) within three months after the close of the year of accounts for timely finalisation and issue of comments of the Comptroller and Auditor General, and for consequently holding the annual general meeting of the company within the time stipulated in the Companies Act, 1956. In the case of companies not listed on the stock exchange, the Accountant General (Audit) may extend the said date by one month.

131. **Records of the company to be made available to audit**

The company shall expeditiously provide the required books of accounts, vouchers, data, information and other documents to the officers of the Accountant General (Audit) to discharge their duties and functions under the Companies Act, 1956.

132. **Scope of supplementary audit**

It is the statutory auditor who is primarily responsible for expressing an opinion on the accounts of the company. Supplementary audit of the accounts by the Comptroller and Auditor General is, by its very definition, mainly an instrument of quality control of financial audit of accounts that begins with careful selection of the statutory auditor and continues with the ongoing oversight of his work including review of the conclusions drawn in his audit report. The scope of supplementary audit of annual accounts of a Government company and a deemed Government company by the Comptroller and Auditor General shall include an examination of selected accounting records and a review of the audit report of the statutory auditor including the opinion expressed by him on the annual accounts of the company.

133. **Comments of the C&AG under Companies Act, 1956**

The significant and material observations made in supplementary audit shall be issued as comments of the Comptroller and Auditor General under the Companies Act, 1956 after due consideration of the views, if any, of the statutory auditor and the management of the company.

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134. **Placing of comments before the annual general meeting**

Any comments made by the Comptroller and Auditor General upon or supplement to the audit report on the accounts of the company shall be signed by the Accountant General (Audit) and shall be placed by the management before the annual general meeting of the company at the same time and in the same manner as the audit report of the statutory auditor.

135. **Authority of the C&AG to dispense with supplementary audit**

The Comptroller and Auditor General may, at his discretion, dispense with supplementary audit of the accounts of a company for any particular year.

(f) Test Audit by the C&AG

136. **Scope of test audit by the C&AG**

In addition to the supplementary audit of annual accounts of a Government company or a deemed Government company, the Comptroller and Auditor General may conduct test audits during the year. This audit shall cover transactions entered into by the company with a view to examining their regularity, propriety, probity, economy, efficiency and effectiveness and report on cases of failure of compliance with laws, rules and regulations, waste, mismanagement, other irregularities and frauds and corruption. The scope of test audit may extend to more than one financial year.

The audit shall be conducted in accordance with the Regulations in the relevant chapters.

(g) Audit Board for Central Public Sector Undertakings

137. **Establishment of Audit Board for central public sector undertakings**

With a view to ascertaining the extent to which an activity, programme or organisation operates economically, efficiently and effectively for the achievement of the designated objectives, the Comptroller and Auditor General has, in consultation with the Government of India, established an Audit Board for central public sector undertakings. The Audit Board is a permanent body for performance audits of the central public sector undertakings conducted at periodic intervals focusing on critical areas of their performance. The Audit Board is responsible for reviewing the performance of the central public sector undertakings on thematic issues. The issues may relate to a particular entity or cut horizontally across several entities. The scope of performance audit may extend to more than one financial year.

138. **Constitution of Audit Board**

The Deputy Comptroller and Auditor General (Commercial) shall be the chairperson of the Audit Board, which shall include, as members, senior officers of the Indian Audit and Accounts Department as notified from time to time. One or two technical experts in the related field appointed by the administrative ministry in consultation with the Comptroller and Auditor General may be co-opted as special invitees. An officer shall be appointed to act as Secretary to the Audit Board.

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139. **Role of Audit Board**

The Audit Board shall function in an advisory and recommendatory capacity.

140. **Meetings of Audit Board**

The meetings of the Audit Board shall be held with the available members and there shall be no requirement of a quorum. The Secretary to the Audit Board shall keep the minutes of the meetings of the Audit Board.

141. **Discretion of Audit Board to confine itself to selection of topics**

The Audit Board may at its discretion confine itself to making recommendations for the selection of topics for performance audit and the audit may, thereafter, be conducted by the Accountant General (Audit) without any further reference to the Audit Board. The Regulations prescribed in Chapter 7 shall apply in such cases.

142. **Subsequent meetings of Audit Board**

Where the Audit Board decides to guide a performance audit, it shall meet:

(1) to consider and make recommendations on the audit objectives, criteria, guidelines, and methodology; and

(2) to consider the draft audit report and make recommendations for its finalisation.

143. **Requirement of the representatives of the company and the department to attend the meeting of the Audit Board**

The Audit Board shall invite the representatives of the company and the Government department to attend the meeting referred to at clause (2) of the preceding Regulation. The chief executive of the company and the Secretary to Government of the concerned department shall attend such meeting and there shall be no separate exit conference. Subject to the provisions in this Section, Regulations in Chapter 7 shall apply.

(h) Audit Review Committee for Performance Audit of State PSEs

144. **Establishment of audit review committee for performance audit of State PSEs**

The Comptroller and Auditor General has established a system for finalisation of performance audit reports of selected entities, programmes or activities of state public sector enterprises (PSEs) through the mechanism of a committee called the Audit Review Committee for Performance Audit of State Public Sector Enterprises for each State with the following constitution:

(1) The Accountant General (Audit) concerned shall be the chairperson of the committee. Accountant General (Audit) or Accountant General (Accounts and Entitlement) in a neighboring State will be another member. The chairperson may, at his discretion, call a special invitee for seeking opinion on technical issues.

(2) The Secretary to Government of the concerned department and the chief executive of the concerned public sector enterprise shall be the Government and public sector enterprise nominees on the committee. In case some technical issues are involved, the State Government has the option to nominate a technical member for expert opinion.

(3) Deputy Comptroller and Auditor General or Additional Deputy Comptroller and Auditor General (State Commercial) may nominate an officer for attending the meeting of the committee as a representative of the Comptroller and Auditor General.

145. **Processing of audit results under audit review committee**

Immediately after the selection of a public sector enterprise for performance audit, the Accountant General (Audit) concerned shall inform the State Government of the formation of audit review committee so that the Government may issue instructions to the departmental heads and the chief executive of the concerned public sector enterprise. The committee shall discuss the draft report prepared by the office of the Accountant General (Audit) before the same is finalised and issued to the State Government. In case of disagreement on any issue raised in the draft report, the

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management and the Government shall communicate their views in writing and the Accountant General (Audit) concerned shall consider their views and incorporate the same in the report with suitable remarks, after due verification. The Regulations prescribed in Chapter 7 shall apply to performance audit of state public sector enterprises except that there will be no separate exit conference.

(i) Results of Audit

146. **Inclusion of results of audit in the audit report**

The results of audit of Government companies or deemed Government companies may also be included in the audit report of the Comptroller and Auditor General. No comments shall, however, be included in the audit report except after giving due opportunity to the Government company or the deemed Government company and the Government to offer their explanation on the matters proposed to be included in the audit report.

147. **Submission of audit reports to the Government and legislature**

The reports of the Comptroller and Auditor General in relation to the accounts of a Government company or a deemed Government company shall be submitted to the Government concerned under Section 19A of the Act. The Government shall cause every report so received to be laid before each House of Parliament/State legislature, as the case may be. Subject to this, the provisions of Chapter 15 shall apply.

148. **Responsibility for settlement of audit observations and constitution of 'audit arrears committee'**

In case of both Central and State public sector enterprises, the responsibility for settlement of audit observations lies with the management of the company. In case a large number of audit observations included in inspection reports remain outstanding for more than two years, each such company shall constitute an 'audit arrears committee' consisting of sufficiently senior officers of the company for speedy settlement and clearance of outstanding audit observations. The concerned Government may take steps to ensure constitution of these committees and their effective functioning.

CHAPTER 10

Role of the C&AG in audit of Panchayati Raj Institutions and Urban Local Bodies

149. **Arrangements for maintenance of accounts and audit**

Under Articles 243 J and Z of the Constitution, the legislature of a State may, by law, make provisions with respect to the maintenance of accounts and the auditing of such accounts of panchayati raj institutions and urban local bodies. The local fund auditor, who is generally an officer of the State Government, is responsible for audit of panchayati raj institutions and urban local bodies. In the states of Bihar, Jharkhand and West Bengal, the Examiner of Local Fund Accounts, who is an officer of the Comptroller and Auditor General, is responsible for the audit of accounts of panchayati raj institutions and urban local bodies.

150. **Audit under Section 14 of the Act where applicable**

The Comptroller and Auditor General may undertake the audit of panchayati raj institutions and urban local bodies under Section 14 of the Act where such bodies are financed by grants or loans from the Consolidated Fund of India or of any State or Union Territory having a legislative assembly and are auditable under the provisions of this Section of the Act. In such cases, the Regulations for such audits as contained in Chapter 8 shall apply. These Regulations, to the extent relevant, shall also apply in cases where audit of panchayati raj institutions and urban local bodies is entrusted to the Comptroller and Auditor General under Section 19 or Section 20 of the Act.

151. **Model forms of accounts and budget**

The model forms in which the accounts of panchayati raj institutions and urban local bodies may be kept and the forms in which their budgets may be prepared and presented, have been prescribed by the Comptroller and Auditor General.

152. **Arrangements regarding technical guidance and support**

The functions of technical guidance and support to audit of panchayati raj institutions and urban local bodies have been entrusted to the Comptroller and Auditor General under Section 20(1) of the Act in many States.

The salient features of the collaborative arrangement between the Comptroller and Auditor General and the local fund auditor under technical guidance and support as incorporated in various Government orders of State Governments are as follows:

(1) The local fund auditor will prepare by the end of March every year, an annual audit plan for audit of panchayati raj institutions and urban local bodies in the next financial year and forward it to the Accountant General (Audit) of the State;

(2) The audit methodology and procedures for audit of panchayati raj institutions and urban local bodies by the local fund auditor will be as per various Acts and statutes enacted by the State Government and guidelines prescribed by the Comptroller and Auditor General.

(3) Copies of inspection reports in respect of selected local bodies shall be forwarded by the local fund auditor to the Accountant General (Audit) for advice on system improvements and the Accountant General (Audit) shall review the same with a view to make suggestions for improvement of existing systems being followed by the local fund audit department. The Accountant General (Audit) will also monitor the quality of the inspection reports issued by the local fund auditor by scrutinising such inspection reports.

(4) The local fund auditor will furnish returns in such format as may be prescribed by the Comptroller and Auditor General for advice and monitoring.

(5) The Accountant General (Audit) would conduct test check of some of panchayati raj institutions and urban local bodies in order to provide technical guidance. The report of the test check would be sent to the local fund auditor for pursuance of action to be taken by panchayati raj institutions and urban local bodies. The local fund auditor will pursue the compliance of such paragraphs in the inspection reports of the Accountant General (Audit) in the same manner as if these are his own reports.

(6) Irrespective of the money value of the objections, any serious irregularities such as system deficiencies, serious violation of rules and fraud noticed by local fund auditor will be intimated to the Accountant General (Audit).

(7) The local fund auditor shall develop, in consultation with Accountant General (Audit), a system of internal control in his organisation.

(8) The Accountant General (Audit) shall also undertake training and capacity building of the local fund audit staff.

153. **Audit not to include certification of accounts**

Unless specifically provided, audit by the Accountant General (Audit) in terms of paragraph (5) of the preceding Regulation does not include the certification of accounts of panchayati raj institutions or urban local bodies.

154. **Role of Accountant General (Audit) in pursuance of inspection reports**

Notwithstanding anything contained in the Regulations of this chapter regarding pursuance of paragraphs in the inspection reports of the Accountant General (Audit) by the local fund auditor, the Accountant General (Audit) will also ensure their regular pursuance.

155. **Forwarding of results of audit to the Government**

The Accountant General (Audit) will send to the concerned Secretary or Secretaries to the Government by the end of June every year an annual technical inspection report based on the results of audit of panchayati raj institutions and urban local bodies conducted by his office during the preceding year. The Secretary or Secretaries may ensure that appropriate remedial action is taken expeditiously and the Accountant General (Audit) is informed of the action taken. In the States of Bihar, Jharkhand and West Bengal, the technical inspection report shall be prepared by the Examiner of Local Fund Accounts and countersigned by Accountant General (Audit).

156. **Inclusion of results of audit in audit report**

Where the results of audit of panchayati raj institutions and urban local bodies are included in the audit report of the Comptroller and Auditor General and placed before the legislature, the Regulations prescribed in Chapter 15 shall apply as relevant.

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CHAPTER 11

Auditing in Information Technology Environment

157. **Scope of auditing in IT environment**

The term 'auditing in IT environment' encompasses auditing IT systems including those under development, and IT-assisted audits. Auditing in IT environment is a methodology of audit and can be applied to all types of audit, namely, financial audit, compliance audit and performance audit.

158. **Applicability of broad principles of audit**

The broad principles of audit as contained in these Regulations shall apply to auditing in IT environment.

159. **Audit of economy, efficiency and effectiveness of IT systems**

Audit examines the economy, efficiency and effectiveness of the IT systems in the utilisation of resources to achieve the organisational goals.

160. **Audit examination of IT systems at various stages**

Audit may examine the IT systems at various stages such as feasibility study, system development, implementation and maintenance. This is to ensure that IT assets are safeguarded and that appropriate controls are in place to ensure (a) integrity of the system, (b) reliability, availability and confidentiality of the data and information and (c) compliance of the system with rules and procedures.

161. **Documentation of all the stages of IT system by the auditable entity**

An auditable entity is required to maintain complete documentation related to all the stages of development of an IT system. The documentation shall also include user requirement specifications, system requirement specifications and system design and development details.

162. **Documentation of changes made**

The auditable entity is required to document all changes made in its IT systems.

163. **Requirements of Audit to be incorporated in the IT system**

The auditable entity is required to ensure that all requirements for the purpose of facilitation of audit are incorporated in the IT system.

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164. **Right of access to Audit**

The auditable entity shall ensure that Audit has the right of access to the IT systems, irrespective of the fact whether the systems are owned, maintained and operated by the auditable entity or by any other agency on behalf of the auditable entity.

165. **Information on IT systems**

Audit may, at periodic intervals, call for information from the auditable entity about various IT systems in use or being developed.

166. **Methods and techniques for evidence**

Depending upon the audit task, the audit officer may use IT tools as appropriate for collection and evaluation of evidence.

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CHAPTER 12

Audit Evidence

167. **Meaning of audit evidence and sharing the same with auditable entity**

Audit evidence refers to the data, information and documents relied upon to arrive at the audit findings and conclusions. While reporting the results of audit, the Comptroller and Auditor General may include such audit evidence in support of audit findings and conclusions as considered necessary. However, the audit evidence retained as working papers and not included explicitly in the final report of audit, viz. audit notes, inspection reports, audit reports, etc. may be shared with the auditable entity at various stages of audit.

168. **Evidence to support audit conclusions required to be obtained**

The audit officer shall obtain competent, relevant and reliable evidence to support his conclusions.

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169. **Requirement of and access to data, information and documents**

The form, type and extent of data, information and documents required for audit tests and evidence shall be determined by the audit officer. Audit shall have access to such data, information and documents subject to any law in force at the time. Data, information and documents would also include those obtained by the auditable entity from a third party and relied upon by it in performance of its functions. If such third party evidence as relied upon by auditable entity is found to be insufficient in Audit, additional information may be requisitioned by Audit from the auditable entity with prior approval of the Accountant General (Audit). On receipt of such requisition, the same shall be obtained by the auditable entity from the third party and provided to Audit.

170. **Types of evidence to be used by the audit officer**

The evidence used by the audit officer shall normally and as far as possible be documentary including electronic records, photographs, results of any study or survey, etc. The audit officers may rely upon evidence from internal sources of the auditable entity as well as from external sources.

171. **Attestation of data, information and documents forming evidence**

Where required by the audit officer, the auditable entity shall attest the data, information and documents forming the evidence.

172. **Conduct of physical verification on request of Audit**

Where required by Audit in special circumstances, the auditable entity shall conduct physical verification of stores, stocks, assets, services and deliverables in any form in the presence of the audit officer. Any such request shall be made with the approval of the Accountant General (Audit).

173. **Engagement of external agency or expert**

Where external agency or expert is engaged, the following will apply:

(a) The engagement letter appointing an agency or expert shall clearly specify the terms of reference including the duties, obligations and powers of the agency or expert so associated.

(b) The audit office shall inform the concerned Government department and the auditable entity regarding the association of the external agency or expert as soon as the engagement letter is issued and before the external agency or expert commences work, including the terms of reference containing the duties, obligations and powers of the agency or expert so associated.

(c) The audit office shall be responsible for the opinions formed, or the conclusions reached, or the recommendations made in its report on the basis of the work of the external agency or expert.

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CHAPTER 13

Conduct of Audit

174. **Authority of the C&AG to inspect offices and to conduct audit**

The Comptroller and Auditor General is authorised under the Act to inspect offices and to conduct audit in the offices that attract his audit jurisdiction in connection with the performance of duties under the Act. For this purpose, audit teams shall be deputed to the offices of the auditable entities from time to time. An inspecting officer shall lead each such team. The team can also visit places where relevant records of the auditable entity are kept.

175. **Provision of facilities for conduct of audit**

It shall be the duty of the head of the office of the auditable entity to provide appropriate and reasonable office accommodation and other office amenities to the audit team for official use and at par with facilities available in the auditable entity.

176. **Supply of list of offices under each head of department to Audit**

Heads of departments shall supply to the audit office a list of the offices under them as at the end of December so as to reach the audit office before the end of January of the following year.

177. **Advance intimation for audit**

The audit office shall as far as possible give advance intimation of a minimum period of three weeks to the officer in charge of the office to be audited. The intimation for audit shall state the likely duration of audit and also provide a list of the basic records that should be kept ready before the arrival of the audit team. In cases where the audit involves an element of surprise check, no advance intimation need be given.

178. **Acknowledgement of intimation by the auditable entity**

The officer in charge of the office shall acknowledge the receipt of such intimation and shall make best efforts to be available in headquarters during the period of audit. The officer in charge shall also ensure that the basic records as stated in the list sent to him by the audit office are kept ready before the arrival of the audit team.

179. **Requisition for data, information and documents**

The requisition for data, information or documents shall be made in writing or during the course of recorded meetings and may be addressed to the persons in charge of various functions in the auditable entity or to the officer in charge of the auditable entity.

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180. **Reasonable time for supply of data, information and documents**

The time within which data, information and documents are to be furnished to Audit will be indicated in the requisition. The time allowed will be determined considering the nature and quantum of the data, information and documents requisitioned and the urgency of the matter.

181. **Mechanism for timely supply of data, information and documents to Audit**

Every department or entity shall establish and implement a mechanism to ensure that data, information and documents that are required by Audit are made available to it in time.

182. **Confidentiality of information acquired during audit**

(1) Information about an auditable entity acquired in the course of the auditor's work shall not be used for purposes outside the scope of audit. However, this does not preclude Audit from reporting offences against the law to appropriate prosecuting authorities wherever necessary.

(2) The documents classified as 'confidential' or 'secret' or 'top secret' made available to Audit shall be dealt with by Audit in accordance with the standing instructions of the Government for handling and custody of such documents.

(3) If certain privileged or confidential information prohibited from general disclosure by law is obtained in course of an audit, the auditor should maintain confidentiality of that information and ensure that the audit notes, the inspection reports or the audit reports do not become a means of compromising such privilege or confidentiality of the information.

183. **Meeting with officer in charge of the auditable entity at the commencement of audit**

The inspecting officer may hold a meeting with the officer in charge as soon as the work of audit commences. In the meeting, the audit objectives and criteria, general state of internal controls and areas of focus, concern or high risk identified by Audit may be discussed.

184. **Nomination of an officer for liaison with Audit**

The officer in charge may nominate a sufficiently senior officer of his office for liaison with Audit. The officer in charge will, however, continue to be responsible for ensuring adherence to these Regulations in so far as they relate to facilitation of audit.

185. **Compliance with requests of Audit for records and information**

The officer in charge shall comply with requests for information and records in as complete a form as possible and within the specified time.

186. **Failure to provide data, information and documents**

Cases of failure to provide data, information and documents shall be reported by the audit office to the controlling officer and, if considered necessary, the concerned Government for appropriate action and these authorities shall inform the audit office about the action taken within three months of such report(s).

187. **Issue of audit memos**

All audit memos, other than those requiring supply of documents and records, shall be issued over the signature of the inspecting officer or carry an indication of his approval. The audit memos shall be serially numbered.

188. **Replies to audit memos**

The officer in charge shall ensure that to-the-point replies are rendered to the audit observations communicated through the audit memos. It will be the duty of the officer in charge to ensure that the particulars given in the replies to the audit memos are correct with reference to the records so that the accuracy of the facts and figures of such cases as are included in the inspection report is not disputed. All such replies shall be signed by the officer in charge or carry an indication of his approval.

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189. **Immediate steps for remedial action on audit observations**

The officer in charge shall take immediate steps for appropriate remedial action, wherever possible, on the observations made by the audit team so that as many audit points as possible are settled during the course of audit.

190. **Preparation of draft inspection report**

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

191. **Meeting with officer in charge of auditable entity at the close of audit**

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

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

192. **Conduct of audit using information available in audit office or accounts office**

The audit may also be conducted with reference to data, information and documents of any auditable entity that are available in an audit office or an accounts office. Results of such audit will be communicated to the auditable entity in the form of audit notes.

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CHAPTER 14

Audit Notes and Inspection Reports

193. **Communication of results of audit**

The audit office shall communicate the results of audit to the auditable entities through audit notes or inspection reports.

194. **Issue of inspection reports and audit notes**

The audit office shall as far as possible issue the inspection report or audit notes within six weeks from the date of completion of audit or such other period as prescribed in this regard.

195. **Maintenance of record of audit observations by auditable entity**

Each auditable entity shall maintain proper record relating to the receipt of audit notes and inspection reports and the progress of their settlement.

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196. **Initiation of action for settlement of audit observations not to wait for receipt of inspection report**

The auditable entity may initiate action for the settlement of audit observations with reference to the audit memos and draft inspection report received during audit without waiting for the formal receipt of the inspection report from the audit office.

197. **Reply to audit observations**

The officer in charge of the auditable entity shall send the reply to an audit note or inspection report within four weeks of its receipt. Even if it is not feasible to furnish the final replies to some of the observations in the audit note or inspection report within the aforesaid time limit, the first reply shall not be delayed on that account and an interim reply may be given indicating the likely date by which the final reply shall be furnished.

198. **Reply to audit observations of PWD to be sent through next higher authority**

In the case of an inspection report that relates to the public works department, the reply shall be sent through the next higher authority along with the observations of that authority.

199. **Important audit observations to be sent to head of department for follow up**

The audit office may send copies of important audit observations included in an audit note or an inspection report to the head of the department. It shall be the duty of the head of the department to follow up all such cases for appropriate remedial and corrective action and report compliance to the audit office.

200. **Intimation of major irregularities to the Government and the head of department and furnishing of reports therefrom**

(1) The Accountant General (Audit) shall intimate every instance of major irregularity detected in Audit through a special management letter to the Secretary to Government of the concerned department with a copy to the Head of the Department within six weeks of the instance coming to notice in audit. The Accountant General (Audit) shall also intimate every such instance to the Comptroller and Auditor General in the manner prescribed.

(2) On intimation of the major irregularity by Accountant General (Audit), the Government shall undertake prima facie verification of facts and send to Accountant General (Audit) a preliminary report confirming or denying the facts within six weeks of receipt of intimation from him.

(3) Where the fact of major irregularity is not denied by the Government in the preliminary report, the Government shall further send a detailed report to the Accountant General (Audit) within three months of preliminary report *inter alia* indicating the remedial action taken to prevent recurrence and action taken against those responsible for the lapse.

(4) While the reporting of major irregularities to Government need not wait for inclusion of the matter in the inspection report or audit note or the audit report of the Comptroller and Auditor General, the same should be done only after due verification with reference to supporting evidence and as far as possible after considering the views of the auditable entity. Care needs to be taken to ensure that only major irregularities are reported in this manner.

201. **Significant audit observations to be communicated to Secretary**

The Accountant General (Audit) may write a management letter to the Secretary to Government of the concerned department by the end of April every year communicating significant observations and conclusions emerging out of audit during the preceding year. The management letter shall *inter alia* mention the systemic and other deficiencies noticed during the period, the extent of control compliance, cases of persistent irregularities and the level of adequacy of response to audit observations, besides the more important individual cases that merit attention and action, with appropriate recommendations where necessary. The Secretary shall inform the Accountant General (Audit) of the action taken within a period of three months.

202. **Establishment of systems and procedures to ensure action on audit observations**

The Government shall establish and implement systems and procedures that ensure adequate, constructive and timely action on observations contained in inspection reports and audit notes.

203. **Establishment of audit committees and their constitution**

(1) Government may establish audit committees for the purpose of monitoring and ensuring compliance and settlement of pending audit observations. Each committee so

established shall comprise of a representative each from the administrative department, Audit and a nominee from the Finance Department besides the head of the department of the auditable entity. Minutes of the meetings of the audit committee shall be recorded.

(2) In the case of Central Government establishments located in the States, the Ministry may nominate a State level audit committee in consultation with Accountant General (Audit) for settlement of audit observations.

204. **Annual public statement regarding pending audit observations**

Each Head of Department shall in the first quarter of each year make an annual public statement regarding pending audit observations relating to his department. Such statement shall *inter alia* include the following:

(a) Number and gist of audit paras included in the Audit Report(s) of the Comptroller and Auditor General for the previous year;

(b) Number and gist of major irregularities intimated by Accountant General (Audit) during the previous year;

(c) Action taken by the Department on (a) and (b) above; and

(d) Number of audit paras included in the inspection reports issued during the previous year and gist of paras with substantial money value;

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CHAPTER 15

Audit Reports

205. **Form, content and time of submission of audit reports to be decided by the C&AG**

The form, content and time of submission of audit reports shall be decided by the Comptroller and Auditor General.

206. **Opportunity to be provided to Government before including any matter in an audit report**

Adequate opportunity shall be provided to Government to offer its comments, observations and explanation before including any matter in an audit report.

207. **Communication of draft paragraph to Government and discussion thereon**

(1) The Accountant General (Audit) shall send a copy of the proposed audit observations in the form of a draft paragraph to the concerned Secretary to Government by name for communicating the comments, observations and explanation of the Government within a period of six weeks from the date of the letter or within such other period of time as may be specified. The Accountant General (Audit) shall also offer to discuss the draft paragraph with the Secretary at mutual convenience within the aforesaid period. A discussion may not be necessary in the case of a draft performance audit report that has been separately discussed with the Secretary at an exit conference in terms of these Regulations.

(2) The Accountant General (Audit) shall simultaneously send one copy of the draft paragraph to the Secretary to the Government, Ministry of Finance or Finance Department, by name.

(3) The draft paragraph shall be annotated with reference to the supporting audit evidence. The Accountant General (Audit) shall provide copies of any relevant documents and evidence in his possession that may be required by the Government department.

208. **Reply to draft paragraph by Government**

(1) The Secretary to Government of the concerned department shall (a) confirm or cause to be confirmed, the receipt of the draft paragraph to the Accountant General (Audit) as soon as it is received, and (b) communicate the comments, observations and explanation of the Government on the draft paragraph in writing to the Accountant General (Audit) by name within the specified period. The reply shall be signed by the Secretary or carry an indication of approval by the Secretary.

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(2) The reply of the Secretary to Government shall state:

(a) whether the department accepts the facts and figures mentioned in the draft paragraph; if not, the reasons supported by the relevant documents and evidence duly authenticated;

(b) comments, observations and explanation of the Government on matters included in the draft paragraph;

(c) Government's response to suggestions and recommendations made in the draft paragraph;

(d) remedial action taken or proposed to be taken; and

(e) any other observations or remarks of the department.

(3) Consistent with the schedule of preparation, finalisation and presentation of the audit report in the legislature, the Accountant General (Audit) may consider a request made by the concerned Secretary to Government for extension of time for sending the reply to the draft paragraph. Every such request shall (i) specify the reasons for seeking extension beyond the time stipulated, and (ii) state the date by which the final reply to the draft paragraph shall be sent to the Accountant General (Audit).

(4) The Accountant General (Audit) will proceed on the assumption that the Government has no comments, observation and explanation in the matter in case a final reply is not received within the specified period or the extended period agreed to. The Government shall bear responsibility for the accuracy of the facts, figures and the related audit evidence mentioned in the draft paragraph in such cases.

(5) The Accountant General (Audit) shall give full consideration to the reply of the Government. The draft paragraph may be modified or settled or may not be included in the audit report in the light of the reply.

209. **Communication of finalised paragraphs for inclusion in audit report**

In case of a State Government or a Union Territory Government, after the draft paragraph has been finalised for inclusion in the audit report, the Accountant General (Audit) shall send copies of the finalised paragraph by name to the Secretary to Government of the concerned department and the Secretary, Finance Department. In case of the Union Government, a copy of the finalised paragraph will be sent to the Secretary to the Ministry concerned.

210. **Forwarding copies of audit report for laying before legislature**

(1) An officer authorised by the Comptroller and Auditor General shall send copies of the audit report duly signed by the Comptroller and Auditor General to the Secretary to the Government, Ministry of Finance or Finance Department as the case may be, who shall take prompt action for the submission of the audit report to the President or the Governor or the Administrator for further action and for the

presentation of the report in Parliament or the State or Union Territory legislature. Copies of the audit reports under Section 19A of the Act shall be sent to the Secretary of the Ministry or department concerned or the Administrator of a Union Territory having legislative assembly, who shall take prompt action for laying the same in the Parliament or the legislature of the State or Union Territory.

(2) An unsigned copy of the audit report shall simultaneously be sent to the Secretary to the President or the Governor or the Administrator.

211. **Forwarding copies of audit report to Secretary to Government after presentation**

The Accountant General (Audit) shall send copies of the audit report to the Secretary to Government of concerned department after the presentation of the report in Parliament or the legislature, as the case may be.

212. **Preparation of action taken note for submission to PAC or COPU**

The Secretary to Government of the concerned department shall cause preparation of self-explanatory action taken note(s) on the audit paragraph(s) relating to his department, that are included in the audit report, for submission to the Public Accounts Committee/Committee on Public Undertakings. In each case, the self-explanatory action taken note shall carry the approval of the Secretary and state:

(1) whether a written reply on the draft audit paragraph was sent to the Accountant General (Audit) and if not, the reasons for not doing so;

(2) whether the facts and figures stated in the audit paragraph are acceptable and if not, the reasons for not pointing this out when the draft paragraph was received by the Secretary;

(3) the circumstances in which the loss, failure, infructuous expenditure, etc. as pointed out in the audit paragraph occurred; whether due to (a) deficiency in the existing system including the system of internal control, (b) failure to follow the systems and procedures, or (c) failure of individuals including individuals at supervisory levels;

(4) the action taken to fix responsibility on the individual(s) responsible for the loss, failure, infructuous expenditure, etc; and the likely time frame within which such action is expected to be completed;

(5) the current status of recovery of any amount due to Government as pointed out in the audit paragraph;

(6) the action taken or proposed to be taken on the suggestions and recommendations made in the audit paragraph;

(7) the result of review of similar other cases, and the action taken;

(8) the remedial action taken or proposed to be taken to avoid occurrence of similar cases in future, to streamline the systems and to remove system deficiencies, if any; and

(9) such other information as may have been prescribed by the Public Accounts Committee/Committee on Public Undertakings.

213. **Vetting of action taken notes and responses on the recommendations of PAC/COPU by Accountant General (Audit)**

In the Union, the States and the Union Territories having legislative assembly where legislative committees or the Government desire the Comptroller and Auditor General to vet the action taken notes and the responses of the Government on the recommendations of the Public Accounts Committee/Committee on Public Undertakings, the following procedure will apply:

(1) The Secretary to Government of the concerned department shall send two copies of the draft self-explanatory action taken note to the Accountant General (Audit) for vetting along with the relevant files and documents on which the explanatory note has been formulated, properly referenced and linked. This shall be done within such period of time as may be decided consistent with the requirements of the time-schedule for the submission of the self-explanatory action taken notes prescribed by the Public Accounts Committee/Committee on Public Undertakings.

(2) The Accountant General (Audit) shall return the self-explanatory action taken note to the Secretary duly vetted as soon as possible but not later than one month. Subject to any requirements that may have been prescribed by the Public Accounts Committee/Committee on Public Undertakings, the vetting comments of the Accountant General (Audit) may include suggestions for further course of action.

(3) The Secretary shall send the requisite number of copies of the vetted note, as prescribed by the Public Accounts Committee/Committee on Public Undertakings, to the secretariat of the Public Accounts Committee/Committee on Public Undertakings in accordance with the time schedule prescribed by the latter and also forward a copy each to Ministry of Finance or Finance Department as the case may be, and the Accountant General (Audit).

(4) On receipt of the recommendations of the Public Accounts Committee/Committee on Public Undertakings, the Secretary shall initiate action to prepare the Government's response by way of action taken note for submission to the respective Committee within such period and in such form as the Public Accounts Committee/Committee on Public Undertakings may prescribe.

(5) The Government's response on the recommendations of the Public Accounts Committee/Committee on Public Undertakings shall be sent to the Accountant General (Audit) for vetting before its submission to the respective Committee with the relevant files and documents properly referenced and linked. The

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vetting comments of the Accountant General (Audit) shall be duly reflected in the response that may be sent to the Public Accounts Committee/Committee on Public Undertakings.

214. **Duty of Government for systems and procedures to ensure timely response**

It shall be the duty of the Government to establish and enforce adequate and reliable systems and procedures, clearly defining *inter alia* the roles and responsibilities at all levels that ensure that (i) the replies to the draft paragraphs, (ii) the self-explanatory action taken notes on matters included in the audit reports and (iii) the action taken notes on the recommendations of the Public Accounts Committee/Committee on Public Undertakings are sent to the appropriate authorities within the time limit prescribed in each case.

215. **Reporting of cases of delay to Government**

The Accountant General (Audit) will report cases of delay to Secretary (Expenditure), Ministry of Finance in the case of the Union Government and to the Chief Secretary in the case of a State Government and to the Administrator in case of a Union Territory having a legislative assembly. Cases of delay may also be appropriately commented in the audit report.

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CHAPTER 16

General Principles of Government Accounting

216. **Duties and powers of the C&AG in regard to accounts**

The duties and powers of the Comptroller and Auditor General in regard to the accounts of the Union and State Governments are laid down under Articles 149 and 150 of the Constitution of India and Sections 10 to 12 and 23 of the Act.

217. **Provisions of the Constitution regarding accounts**

(1) Under Article 149 of the Constitution, the Comptroller and Auditor General shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament.

(2) By virtue of the provisions of Article 150 of the Constitution, the accounts of the Union and the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor General, prescribe. The word "form" used in Article 150 has a comprehensive meaning so as to include the prescription not merely of the broad form in which the accounts are to be kept, but also the basis for selecting the appropriate heads under which the transactions are to be classified.

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218. **Provisions of the Act regarding accounts**

(1) Under Section 10 read with Section 2(e) of the Act, the Comptroller and Auditor General shall be responsible for compiling the accounts and for keeping related accounts of the Union and of each State and Union Territory having a legislative assembly from the initial and subsidiary accounts rendered to offices under his control by treasuries, offices or departments responsible for keeping of such accounts. The President in the case of the Union including Union Territories and the Governor with the previous approval of the President in the case of a State, may after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility of compiling or keeping the accounts of the Union including Union Territory or of the State or of any particular services or departments of the Union including Union Territory or the State.

(2) Under Section 11 of the Act, the Comptroller and Auditor General shall submit these accounts, wherever these responsibilities continue with him, to the President or the Governor of a State or Administrator of the Union Territory having a legislative assembly, as the case may be.

(3) Under Section 12 of the Act, the Comptroller and Auditor General shall in so far as the accounts, for the compilation or keeping of which he is responsible, enable him so to do, give information and render assistance to the Union Government or the State Government or the Government of Union Territory having a legislative assembly, as they may from time to time require.

(4) Section 23 of the Act authorises the Comptroller and Auditor General to lay down general principles of Government accounting.

219. **General principles of Government accounting**

(1) For the purpose of Section 23 of the Act, the Government Accounting Rules, 1990 shall be deemed to be the general principles of Government accounting.

(2) All Government departments are required to comply with the general principles of Government accounting. It is the duty of auditors to examine during audit whether these principles are being complied with by all Government departments.

220. **Form of accounts**

(1) Detailed rules relating to maintenance and rendition of accounts by treasuries and public works divisions are contained in Accounting Rules for Treasuries and the Account Code, Volume III issued by or with the approval of the Comptroller and Auditor General. Detailed rules and instructions relating to the forms in which the initial and subsidiary accounts shall be kept and rendered by the Department of Posts and other technical departments are laid down in the respective accounts manuals or departmental regulations relating to the department concerned.

(2) The format of accounts in respect of autonomous bodies and authorities other than Government establishments and companies is prescribed by the concerned Government in consultation with the Comptroller and Auditor General. In case of autonomous bodies and authorities of Union Government, a common format has been prescribed by the Government with the concurrence of the Comptroller and Auditor General. This common format is applicable to all autonomous bodies and authorities except a few such as Port Trusts for which separate formats are applicable. The State Governments may also adopt the common format applicable to the autonomous bodies of the Union Government, for the autonomous bodies of the States.

(3) The format of accounts of panchayati raj institutions and urban local bodies recommended by the Comptroller and Auditor General has been accepted by the Union Government and has been adopted by many State Governments.

221. **Role of the C&AG in accounting standards for Government**

(1) Government Accounting Standards Advisory Board set up in the office of the Comptroller and Auditor General with the support of the Government of India is responsible for making recommendations regarding accounting standards to be observed in Government departments and organisations. The Board is chaired by the Deputy Comptroller and Auditor General and has various stakeholders including the Controller General of Accounts, the Controller General of Defence Accounts, the Financial Commissioner (Railways) as members.

(2) The Government Accounting Standards Advisory Board is entrusted with the responsibility of formulating and proposing standards with a view to improve the

usefulness of the financial reports based on the needs of the users of these reports. The Board also seeks to keep the standards current and provide guidance on implementation of the same.

(3) The Government Accounting Standards Advisory Board is entrusted with the responsibility of preparing a framework and a roadmap for shift to accrual accounting.

222. **Timeliness, correctness and completeness of accounting information to be ensured**

In order to enable the Comptroller and Auditor General to discharge accounting functions effectively, the Government needs to establish and enforce systems including internal controls to ensure that all primary accounting units render necessary information in the time schedule prescribed by the accounts office and that the information rendered is correct and complete.

223. **Timeliness, correctness and completeness of information for entitlement functions to be ensured**

To enable the Comptroller and Auditor General to discharge entitlement functions effectively, the Government needs to establish and enforce systems including internal controls to ensure that the departments of the State Government provide the required information within the time schedule prescribed by the accounts office and that the information rendered is correct and complete.

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CHAPTER 17

Special Provisions

224. **Exercise of authority of Accountant General (Audit) or Accountant General (Accounts and Entitlement) by other officers**

Any authority exercised by the Accountant General (Audit) or Accountant General (Accounts and Entitlement) under these Regulations shall be exercisable by any of his superior officers or any other officer so authorised by the Comptroller and Auditor General.

225. **Regulations not to apply to international assignments**

These Regulations shall not apply to any international assignment relating to audit or accounts taken up or being taken up by the Comptroller and Auditor General.

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226. **Powers to issue general or special orders and guidelines**

The Comptroller and Auditor General may issue any general or special orders and guidelines to carry into effect the provisions of these Regulations.

227. **Inter-relationship of various orders**

In fulfillment of the mandate, the Comptroller and Auditor General issues various types of orders and guidelines. These are classified as standing orders, guidelines and practice notes as defined in Regulation 2. The hierarchy of instructions of the Comptroller and Auditor General shall be Regulations, standing orders/guidelines and practice notes in this order. Standing orders, guidelines and practice notes need to be consistent with these Regulations.

228. **Removal of doubt**

Where a doubt arises as to the interpretation of any of these Regulations, the decision of the Comptroller and Auditor General shall be final.

229. **Powers to modify or relax**

The whole or part of these Regulations may be modified under the orders of the Comptroller and Auditor General. Any provisions of these Regulations may also be relaxed by a general or special order of the Comptroller and Auditor General.

230. **Continuance of existing orders**

The standing orders, guidelines and practice notes shall in future be issued under these Regulations and be consistent with these Regulations. However, the standing orders, the guidelines and the practice notes already issued by the Comptroller and Auditor General or on his behalf shall continue to apply as immediately before the date of issue of these Regulations till the same are revised, revoked or modified.

(Ajanta Dayalan)
Director General (Audit)

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