



**KARNATAKA PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING  
PROJECT  
(IDF grant – Trust Fund no.TF099884)**



**Taluk Panchayat  
Internal Audit Manual  
May 2013**

Jointly Prepared by:



**NCR Consultants Limited**

---

**Registered Office:** II Floor, New No. 4, Old No. 23, Sir C P Ramaswamy Road, Alwarpet,  
Chennai 600018 - INDIA  
Phone:+91 44 2466 0955 Fax: + 91 44 2498 6850  
Mail to: chennai@ncrcl.com

**Bengaluru Office:** No. 107, 1<sup>st</sup> Floor, Railway Parallel Road, Kumarapark West,  
Bengaluru – 560020, INDIA  
Phone/Fax: +91 80 23560265  
Mail to: bangalore@ncrcl.com

**Website:** [www.ncrcl.com](http://www.ncrcl.com)

---



**Karnataka Institute of Public Auditors**

---

**Registered Office:** Office Of The Govt Auditor, Bangalore University Central College  
Campus, Gandhi Nagar, Bangalore - 560009, INDIA.  
Phone: +91 80 22112040  
Mail to: kipa.pres@yahoo.in

---



**KARNATAKA PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING  
PROJECT**

**(IDF grant – Trust Fund no.TF099884)**



**Taluk Panchayat  
Internal Audit Manual**

**May 2013**



## PREFACE

---

The World Bank study on Karnataka Public Financial Management Accountability in 2004, has thrown light on the reform requirements in Karnataka's PRI setup. One of the initiatives to address the reform requirements is the Karnataka Public Financial Management Capacity Building Project taken up under Institutional Development Fund (IDF) grant. An Internal Audit Manual for Taluk Panchayats (TP IAM) was envisaged as part of this project to strengthen and standardise the Internal Audit of TPs as well as facilitate better public accountability. This Manual has been prepared by NCR Consultants Limited (NCRCL) in association with Karnataka Institute of Public Auditors (KIPA).

This Internal Audit Manual has been designed considering the compliance requirements under the Karnataka Panchayat Raj Act, 1993, Karnataka Panchayat Raj Taluk Panchayats (Finance & Accounts) Rules, 2006, and the Taluk Panchayat Accounts Manual (TPAM). This manual takes into account processes and controls envisaged in the Khajane II (Treasury computerization) environment.

The Internal auditors' role is to identify the risk environment within which the entity operates and audit the organization's internal control policies, practices, and procedures to assure that controls are adequate and working to achieve the organization's objectives. This manual intends to provide the basic principles, procedures, guidelines and checklists to its users. This manual is anticipated to be used by persons performing Internal Audit in TPs. Currently, the audit checklists provided pertain to the activities of TPs. In future, this manual maybe suitably amended to include Zila Panchayats (ZPs) within its scope. The TP IAM should be read with the TPAM for correct and full understanding.

This manual will have to undergo a limited revision in the coming years after the implementation of Khajane II and the TPAM.

**Finance Department**  
**Government of Karnataka**  
May 2013



## CONTENTS

---

<b>Preface</b> .....	<b>i</b>
<b>Contents</b> .....	<b>ii</b>
<b>Figures</b> .....	<b>iv</b>
<b>Tables</b> .....	<b>iv</b>
<b>Checklists</b> .....	<b>v</b>
<b>Abbreviations</b> .....	<b>vi</b>
<b>1 About the Manual</b> .....	<b>1</b>
1.1 Background.....	1
1.2 Need & Importance of IAM .....	1
1.3 Objectives.....	2
1.4 Scope .....	2
1.5 Chapterisation .....	2
1.6 Adoption and Amendment .....	3
<b>2 Internal Audit Organisation</b> .....	<b>5</b>
2.1 Proposed Organisation Structure of the IAW .....	5
2.2 Responsibilities of the Officers of the IAW .....	6
2.3 Role of Finance, Audit & Planning Committee.....	8
<b>3 Internal Audit Basics</b> .....	<b>10</b>
3.1 Role of Internal Audit .....	10
3.2 Key Principles of IA.....	11
3.3 Need & Objectives of IA .....	12
3.4 Key Internal Audit Concepts.....	12
3.5 Types of Audit .....	12
3.6 Internal Audit Charter .....	13
3.7 Existing Internal Controls in PRI .....	14
<b>4 TP Internal Audit Planning &amp; Preparation</b> .....	<b>18</b>
4.1 TP Key Indicators review .....	18
4.2 Audit Plan & Programme .....	20
4.3 Audit Calendar.....	21
4.4 Approval of Audit Plan & Programme.....	21
4.5 Audit Preparedness .....	22
4.6 Intimation to TP.....	23
<b>5 TP Internal Audit Guidelines &amp; Checklists</b> .....	<b>25</b>
5.1 Rules and Regulations applicable.....	25



5.2	Budget & Action Plans.....	27
5.3	Receipts.....	29
5.4	Expenditure - General Checks.....	35
5.5	Establishment Expenses.....	36
5.6	Procurement of Works, Goods & Services.....	42
5.7	Capital Expenditure.....	46
5.8	Scheme related Expenditure.....	47
5.9	Contingent Expenditure.....	52
5.10	Expenditure - Line Departments.....	53
5.11	Statutory Deductions and Remittances.....	54
5.12	Earnest Money Deposit.....	55
5.13	Security Deposit.....	56
5.14	Advances.....	57
5.15	Stores.....	59
5.16	Cash & Bank.....	60
5.17	Reconciliations.....	62
5.18	Accounts Compilation.....	64
5.19	IT Related Controls.....	66
<b>6</b>	<b>Reporting.....</b>	<b>71</b>
6.1	Steps in preparing Audit report.....	71
6.2	Preparation of Audit Reports.....	72
6.3	Final Report Submission.....	73
6.4	Formats.....	73
6.5	Consolidated Audit Report.....	73
<b>7</b>	<b>Audit Monitoring System.....</b>	<b>75</b>
7.1	Key Functionality.....	75
	<b>ANNEX 1: KEY INTERNAL AUDIT CONCEPTS.....</b>	<b>77</b>
	<b>ANNEX 2: FORMATS.....</b>	<b>85</b>



## FIGURES

---

Figure 1: Organization structure of IAW .....	5
Figure 2: Salary Bills Quick Check.....	39
Figure 3: Quick check of Access Rights .....	69
Figure 4: Steps in preparing audit report .....	71
Figure 5: Audit Evidence characteristics .....	82

## TABLES

---

Table 1: List of Key Indicators .....	18
Table 2 : Risk/Key Indicators review chart.....	20
Table 3: Audit Plan & Programme preparation timelines .....	22
Table 4: Sample Audit Schedule .....	23
Table 5: Provision of the KPR Act relevant to TP audit.....	25
Table 6: Provisions of the KPRTP (F&A) Rules relevant to TP audit.....	26



## CHECKLISTS

TP IA Checklist 1: Budget & Action Plans .....	27
TP IA Checklist 2: Fund Releases .....	30
TP IA Checklist 3: Grants - Banking Channel .....	31
TP IA Checklist 4: Surcharge on Stamp Duty .....	32
TP IA Checklist 5: Rent Receipts .....	33
TP IA Checklist 6: Other Receipts .....	34
TP IA Checklist 7: Expenditure - General .....	35
TP IA Checklist 8: Establishment Expenses .....	36
TP IA Checklist 9: Employee Service Record Updation .....	38
TP IA Checklist 10: Travel Expenses .....	40
TP IA Checklist 11: Medical Expenses .....	41
TP IA Checklist 12: Procurement of Works/Goods/Services .....	42
TP IA Checklist 13: Capital Expenditure .....	46
TP IA Checklist 14: Scheme related Expenditure .....	47
TP IA Checklist 15: Beneficiary payments .....	49
TP IA Checklist 16: UC Preparation .....	51
TP IA Checklist 17: Contingent Expenditure .....	52
TP IA Checklist 18: Expenditure - Line Departments .....	53
TP IA Checklist 19: Statutory deductions and remittances .....	54
TP IA Checklist 20: Earnest Money Deposits .....	55
TP IA Checklist 21: Security Deposits .....	56
TP IA Checklist 22: Permanent Advances .....	57
TP IA Checklist 23: Employee Advances .....	58
TP IA Checklist 24: Advances to suppliers & contractors .....	59
TP IA Checklist 25: Stores .....	60
TP IA Checklist 26: Cash & Bank .....	61
TP IA Checklist 27: Bank Reconciliation .....	62
TP IA Checklist 28: Treasury Reconciliation .....	62
TP IA Checklist 29: Line Department Expenditure Reconciliation .....	63
TP IA Checklist 30: Accounts Compilation .....	64
TP IA Checklist 31: IT related controls .....	66



## ABBREVIATIONS

Short Form	Expansion
AA	Admin/Accounts Assistant
AAO	Assistant Accounts Officer
AEE	Assistant Executive Engineer
BRS	Bank Reconciliation Statement
CAG	Comptroller and Auditor General of India
CAO	Chief Accounts Officer
CoIA	Chief of Internal Audit
CPS	Central Plan Schemes
CSS	Centrally Sponsored Schemes
DC Bills	Detailed Contingent Bills
DCB	Demand Collection Balance
DD	Demand Draft
DDO	District Drawing Officer
EMD	Earnest Money Deposit
EO	Executive Officer
GO	Government Order
GOK	Government of Karnataka
GP	Grama Panchayat
HRMS	Human Resource Management System
IA	Internal Audit
IAA	Internal Audit Assistants
IAM	Internal Audit Manual
IAO	Internal Audit Officers
IAW	Internal Audit Wing
IDF	Institutional Development Fund
IFA	Internal Financial Advisor
INTOSAI	International Organization of Supreme Audit Institutions
KDP	Karnataka Development Project
KFC	Karnataka Financial Code
KPR	Karnataka Panchayat Raj
KPRTP(F&A) R	Karnataka Panchayat Raj Taluk Panchayat (Finance and Accounts) Rules
KPWD	Karnataka Public Works Department

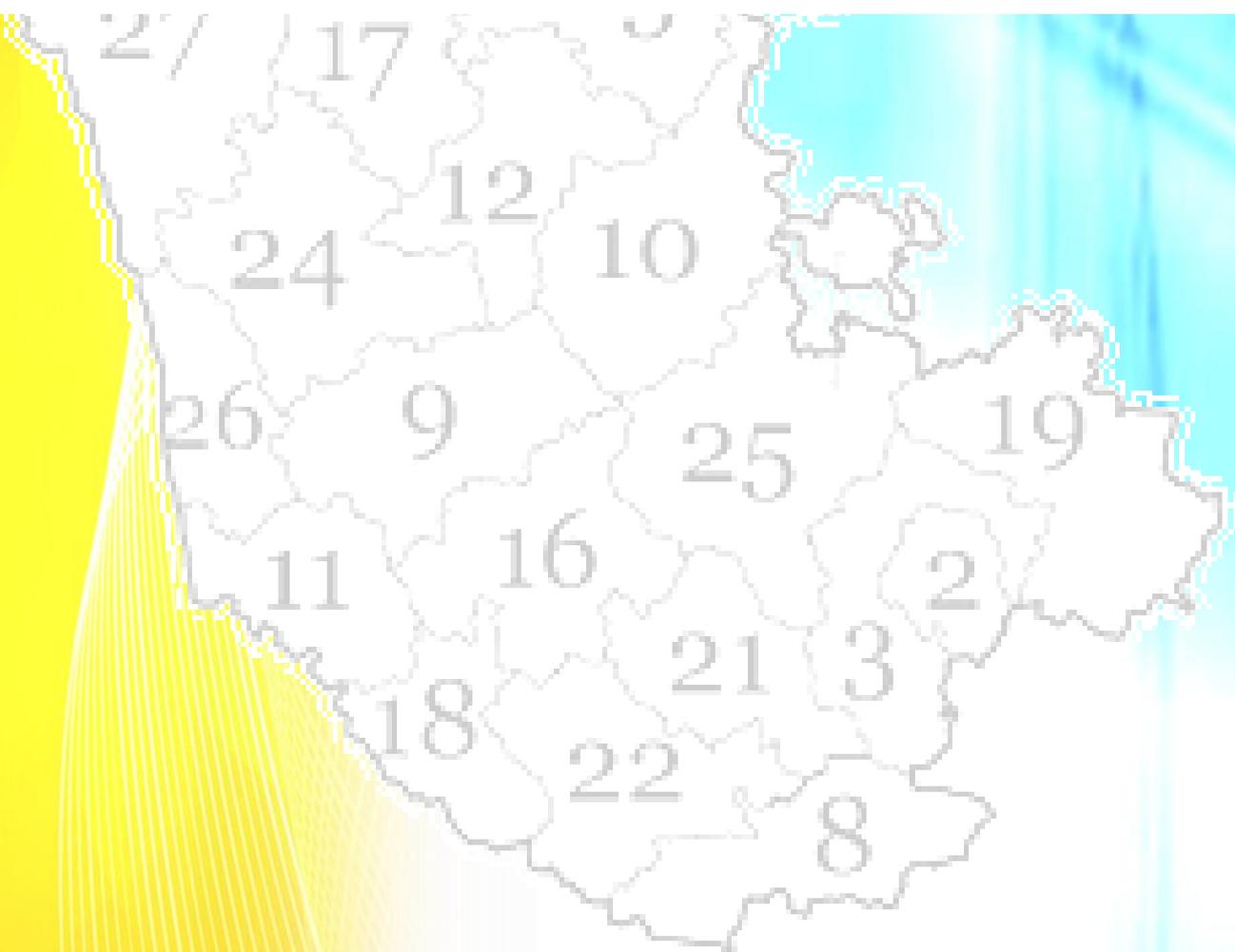


Short Form	Expansion
KSAD	Karnataka State Accounts Department
LPC	Last Pay Certificate
MAS	Model Accounting System
MB	Measurement Book
MCE	Manual of Contingent Expenditure
MPAS	Model Panchayat Accounting System
MPIC	Monthly Program Implementation Calendar
PFMA	Public Financial Management and Accountability
PRED	Panchayat Raj Engineering Department
PRI	Panchayat Raj Institution
RBA	Risk Based Audit
RDPR	Rural Development and Panchayat Raj
RET	Receipts & Expenditure Tracking
RIAO	Regional Internal Audit Officer
TA	Travel Advance
TDS	Tax Deducted at Source
TP	Taluk Panchayat
TPAM	Taluk Panchayats Accounts Manual
TTR	Treasury Transfer Receipts
TTR	Treasury Transfer Register
UC	Utilisation Certificate
VAT	Value Added Tax
ZP	Zilla Panchayat



# CHAPTER 1

## ABOUT THE MANUAL





## 1 ABOUT THE MANUAL

---

### 1.1 BACKGROUND

World Bank commissioned *Karnataka Public Financial Management Accountability Study* in 2004. This study revealed a number of areas of improvement in Public Finance Management. Government of Karnataka (GoK) has made significant progress in implementing the action plan arising out of the study report and one such initiative was to undertake a study and to improve the functioning of the Taluk Panchayats (TP) in Karnataka with the aid of the World Bank (IDF).

The Finance Department has taken various initiatives for the '*Strengthening of Public Financial Management and Accountability of the Taluk Panchayats in Karnataka*'. One of the outputs under this project was to design a *TP Internal Audit Manual* that provided a detailed framework for conducting the Internal Audit of TP transactions.

The TPs form the middle level entities in the 3-tier structure of Panchayat Raj Institutions (PRIs). TPs account for close to 50% of the total fund flow to the PRIs from the State Government. This manual is an outcome of the deliberations on the TP Accounts Manual (TPAM), Business process report, Organization Structure & Staffing Report and other aspects of the TP strengthening project. This manual has been prepared based on the accounting treatment and processes as prescribed in the TP Accounts Manual (TPAM). The processes and registers discussed are in the context of Khajane II environment.

### 1.2 NEED & IMPORTANCE OF IAM

---

IA manual is an important element of strengthening the Public Financial Management of TPs for the following reasons:

#### 1.2.1 Public Accountability

PRIs are entrusted by the public to operate in an efficient and effective manner, properly handle and utilize funds, comply with laws and regulations and achieve results. A good up to date IAM that is properly implemented and followed provides reasonable assurance that risks are properly identified, managed, monitored and reported on through control activities.

#### 1.2.2 Sound Management Practice

Developing and implementing an Internal Audit Manual helps maintain control, comply with regulations, educate employees and prepare for statutory audit.



### 1.2.3 CAG recommendation

Internal audit is a key element of a good Internal Control System. This has been highlighted as an important PRI audit observation by CAG in numerous reports<sup>1</sup>. IAM helps to formalise Internal Audit in an organisation.

## 1.3 OBJECTIVES

---

This Internal Audit Manual is intended to:

- provide members of Internal Audit Wing with practical guidance, tools and information for managing the internal audit activity and for planning, conducting and reporting on TP internal auditing engagements; and
- establish an acceptable level of uniformity and consistency within the Internal Audit Service.

## 1.4 SCOPE

---

This Manual is applicable to internal audit of all the Taluk Panchayats in the State of Karnataka. The scope can be extended in future to cover internal audit of ZPs and GPs also with appropriate modifications. This manual covers both the Treasury and Banking channel transactions of the TP.

## 1.5 CHAPTERISATION

---

This IAM has been divided into seven chapters and two annexes for ease of reading.

- This chapter deals with the Background, Need, Importance, Objectives and Scope of IAM. It also comprises of a section on the adoption of IAM and subsequent amendments.
- The second chapter deals with how the IA team is organised. It has details of IA Organisation, key role and responsibilities, role of standing committee, etc.
- The third chapter is on IA basics. It covers key IA principles, need and objectives of IA, types of Audit, existing control environment in TPs, Internal Audit Charter, etc.
- The fourth chapter deals with key activities before start of audit including key indicators review, audit planning, programme, audit calendar, preparedness and intimation to TPs.
- The fifth chapter contains audit guidelines and checklists for the key areas of TP internal audit. The overall legal framework of TP audit has also been explained here.

---

<sup>1</sup> Research Paper of CAG on "ACCOUNTABILITY OF LOCAL GOVERNMENTS" CAG's Initiatives and the Challenges Ahead - By R N Ghosh



Budget & Action Plans, Fund Releases, Grants through Banking channel, Other Receipts, Establishment Expenses, Procurement, Scheme related expenditure, Capital expenditure, Beneficiary payments, Statutory deductions, EMD, Security Deposit, Cash & Bank, Advances, reconciliations, Audit Compilation and It related controls have been identified as key audit areas.

- The sixth chapter comprises of IA reporting and monitoring. Guidelines on steps in audit report preparation, escalation on key audit issues, consolidation of audit report, presentation by the CoIA to the Secretary RDPR, submission of reports, etc. have been covered in this chapter.
- The seventh and final chapter intends to lay out the basic functionality requirements of an Audit monitoring system.
- Annex 1 in on Key Internal Audit Concepts such as Internal control, risk, risk based audit, sampling techniques, audit working papers, etc.
- Annex 2 includes formats for audit report.

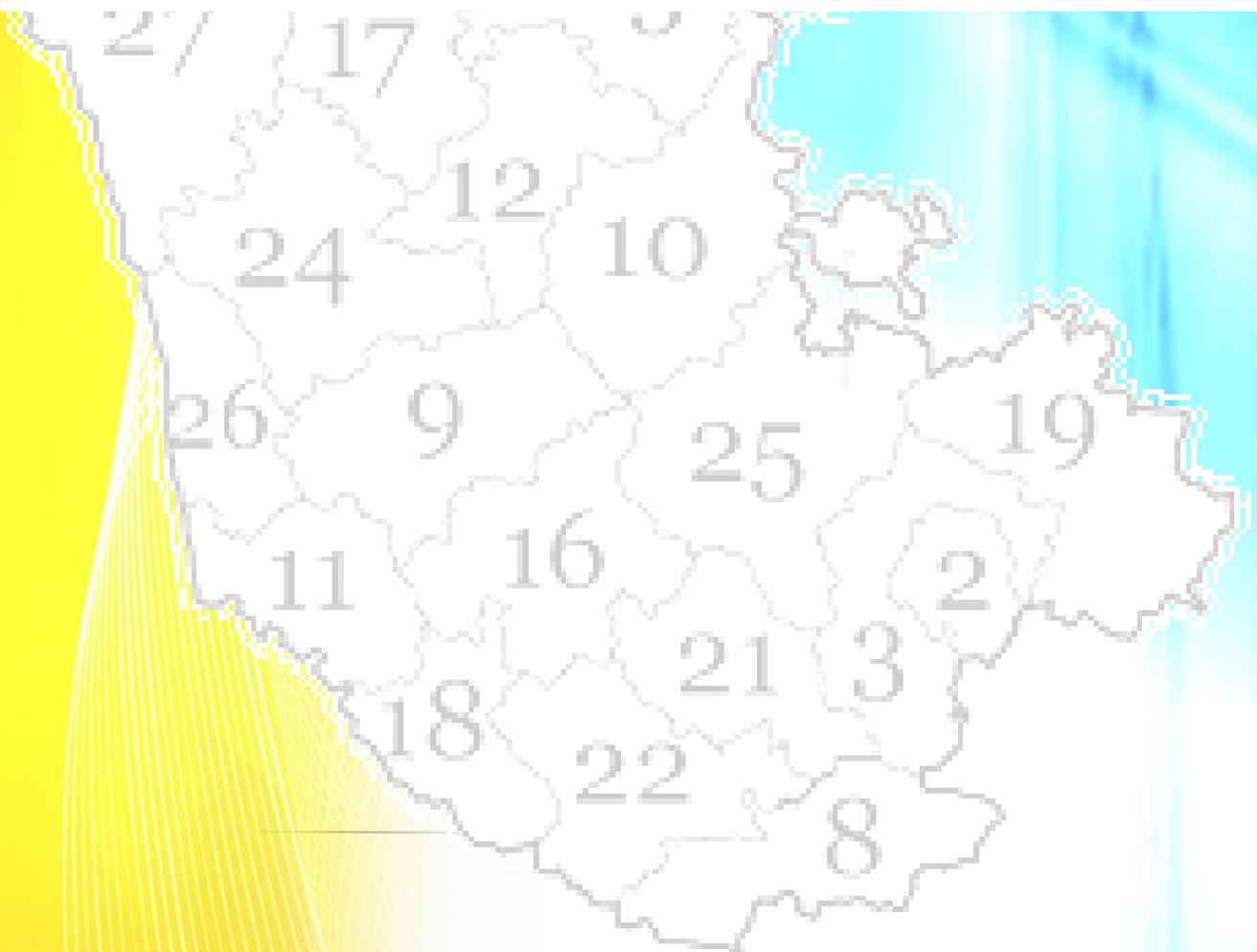
## **1.6 ADOPTION AND AMENDMENT**

This TP Internal Audit Manual will come into force from the date as notified by the RDPR. This manual will be reviewed time to time by the CoIA in consultation with the Internal Financial Advisor (IFA) to RDPR for any changes that may be necessary arising out of revised processes, changes in the accounting setup, computerization and so on. Necessary revisions shall be proposed and the revisions shall come into effect once they are approved by the Secretary, RDPR and duly notified.



## CHAPTER 2

# INTERNAL AUDIT ORGANISATION





## 2 INTERNAL AUDIT ORGANISATION

An independent Internal Audit Wing (IAW)<sup>2</sup> shall be established which will take care of the Internal Audit requirements of ZPs and TPs across the state. At a later date, the monitoring of internal audit of GPs may also be assigned to the IAW.

### 2.1 PROPOSED ORGANISATION STRUCTURE OF THE IAW

Figure 1 gives the overview of the Organization structure of the IAW.

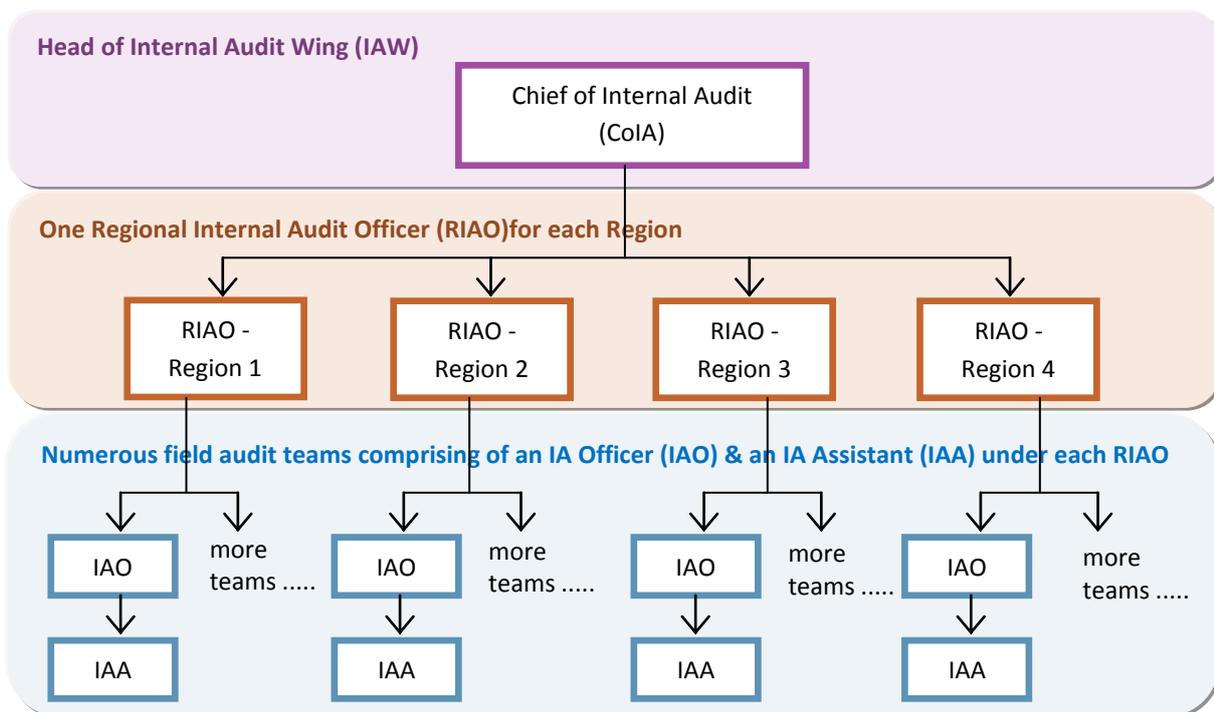


Figure 1: Organization structure of IAW

The IAW will be headed centrally by a Chief of Internal Audit (CoIA). He will be supported by four Regional Internal Audit Officer (RIAO), one for each Region. Each Regional Officer will be supported by numerous field audit teams comprising of an Internal Audit Officer (IAO) and an IA Assistant (IAA). Each field audit team will handle the audit of several TPs assigned to them by the RIAO.

<sup>2</sup> This model has been recommended in the Organization Structure & Staffing Report submitted as part of the assignment. It is pending finalization..



IAW will be responsible to perform both the Central and Local internal audits of the TPs. Central audit comprises of auditing the transactions at the TP office, while Local audit refers to the audit of Line Departmental transactions.<sup>3</sup>

## 2.2 RESPONSIBILITIES OF THE OFFICERS OF THE IAW

---

The responsibilities of personnel of the Internal Audit Wing are given in below:

### 2.2.1 Chief of Internal Audit (CoIA)

---

- ✓ Full responsibility for Internal Audit of ZPs and TPs in the State;
  - ✓ Preparation of annual internal audit programme;
  - ✓ Conduct the TP key indicators review to assess and classify the TPs based on risk;
  - ✓ Ensuring conduct of IA by the RIAOs/IAOs as per the approved annual audit programme;
  - ✓ Obtaining quarterly reports of serious irregularities from the RIAOs and bringing very serious irregularities like, fraud, misappropriations and material improprieties to the notice of the Secretary-RDPR /Controller, KSAD;
  - ✓ Initiating action on audit paras warranting administrative action at the level of Secretariat including those recommended for surcharge by the RIAOs;
  - ✓ Initiating action for constitution of Adhoc committees for settlement of internal audit reports and submission of progress periodically to the Secretary-RDPR or Controller, KSAD;
  - ✓ Monitoring compliance to the Internal Audit reports and settlement of audit observations through Adhoc committees;
  - ✓ Periodic communication of the types of observations made by the Statutory Auditor, likely to be committed /repeated to avoid its recurrence; and
  - ✓ Assisting in furnishing compliance reports to the audit reports of Statutory Auditor, by coordinating with officers concerned.
- 

### 2.2.2 Regional Internal Audit Officer (RIO)

---

- ✓ Assist CoIA to conduct the TP key indicators review;
  - ✓ Assisting the CoIA in the preparation of annual audit programme;
  - ✓ Issue of monthly Internal Audit programme and monitoring its implementation and watching the monthly audit progress;
  - ✓ Furnishing a list of ZPs and TPs coming under his jurisdiction to the CoIA indicating the manpower and man-days required and available during the next year, by the end of February, every year;
- 

<sup>3</sup>Central Audit & Local Audit as given in Rule 54 of the KPRTP (F&A) Rules.



- 
- ✓ Identifying and communicating fit cases for surcharge to the CoIA for examination, Recommending cases that may be initiated for surcharge proceedings in terms of Section 254 in respect of TPs and Section 263 in the case of ZPs;
  - ✓ Submission of monthly internal audit progress report to the Chief of Internal Audit;
  - ✓ Supervision over functioning of the Internal Audit Officers of his region;
  - ✓ Reviewing and communicating acceptance or otherwise of the compliance furnished to the audit observations of the Internal Audit reports, by the institutions concerned;
  - ✓ Communicating progress in settlement of internal audit paras to the CoIA, once in two months;
  - ✓ Scheduling and convening Adhoc Committee meetings to consider un-remedied/disputed audit observations of the Internal Audit reports and circulating the proceedings to concerned, submitting a copy to the CoIA;
  - ✓ Submission of quarterly reports of serious audit findings to the CoIA;
  - ✓ Coordinate the Internal Audit activities with the Internal Audit Officers and the CoIA; and
  - ✓ To attend the Adhoc Committee meetings pertaining to the District under his jurisdiction.
- 

### 2.2.3 Internal Audit Officer (IAO)

---

- ✓ Assist CoIA/RIAO to conduct the TP key indicators review;
  - ✓ Ensuring implementation of the monthly Internal Audit programmes issued by the Regional Internal Audit Officer (RIAO) and intimating deviations if any, to the RIAO with reasons , for necessary modification of the audit programme;
  - ✓ Leader of the Internal Audit team assigned for internal audit;
  - ✓ Conducting original audit of transactions and connected records besides supervision of the work of Internal Audit Assistants (IAA) assigned to him;
  - ✓ Coordination with the officers and staff of ZP/TP and Line Departments in production of accounting records for audit;
  - ✓ Ensuring preparation of draft audit notes/audit reports of the institutions audited in a complete manner;
  - ✓ Reviewing and discussing the draft IA reports submitted by IA staff with the head of the offices concerned and consider the explanations/information furnished by the officer/office during review;
  - ✓ Submitting the prescribed reports to the RIAO and Chief of the Internal Audit; and
  - ✓ Carrying out any other audit assignment assigned to him by the CoIA/RIAO.
-



#### 2.2.4 Internal Audit Assistants (IAA)

---

- ✓ Audit of accounts of ZP & TP as per the audit programme issued by the RIAO;
  - ✓ Conducting Internal Audit of financial transactions of ZP & TP assigned to him by the Internal Audit Officer;
  - ✓ Submission of audit notes/reports immediately after completion of audit or as stipulated by the IAO; and
  - ✓ Verification and confirmation of records pertaining to any aspect of compliance to audit paras of any ZP/TP, ordered by the IAO/RIAO/CoIA.
- 

#### 2.3 ROLE OF FINANCE, AUDIT & PLANNING COMMITTEE

---

Finance, Audit and Planning Committee is one of the standing committees in TPs. This committee performs the functions relating to the finance of the Taluk Panchayat. Adhyaksha of TP is chairperson of this committee<sup>4</sup>. The IAW shall place the internal audit reports of each TP before the respective TP's Finance, Audit and Planning Committee for its perusal. The Committee will direct the TP personnel to initiate appropriate action on the audit paras.

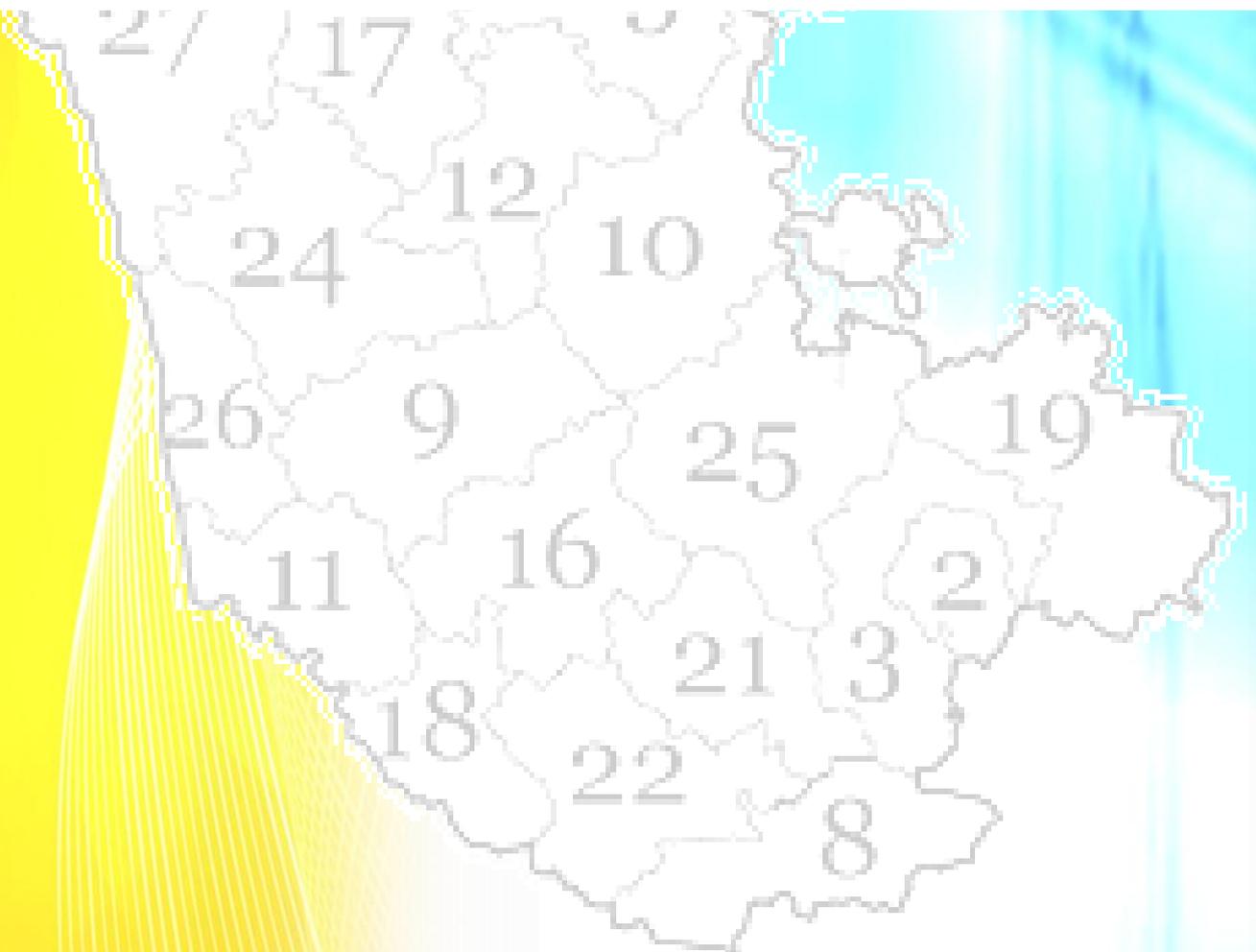
---

<sup>4</sup> as per section 148 of The Karnataka Panchayat Raj Act, 1993



## CHAPTER 3

# INTERNAL AUDIT BASICS





### 3 INTERNAL AUDIT BASICS

---

This chapter deals with role of IA in Government, internal controls existing in TPs and certain basic concepts and principles of IA. IA basics chapter and related Annex are intended to provide the IAW team with fundamental knowledge on key principles of IA, Internal control, risk, risk based audit, working papers, sampling techniques and types of audits. IAW shall apply these concepts appropriately to perform IA objectively and professionally.

The Preface to the Standards on Internal Audit issued by The Institute of Chartered Accountants of India defines Internal Audit as follows:

“Internal audit is an **independent** management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s strategic risk management and internal control system. Internal audit, therefore, **provides assurance that there is transparency in reporting, as a part of good governance.**”

#### 3.1 ROLE OF INTERNAL AUDIT

---

Auditors are a part of a government organization’s internal control framework, but they are not responsible for implementing specific internal control procedures. The auditors’ role is to identify the risk environment within which the entity operates and audit the organization’s internal control policies, practices, and procedures to assure that controls are adequate and working to achieve the organization’s mission.

The CAG Auditing standards<sup>5</sup> state that:

- a. The existence of an adequate system of internal control minimises the risk of errors and irregularities;
- b. It is the responsibility of audited entity to develop adequate internal control systems to protect its resources. It is also its obligation to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with and that probity and propriety are observed in decision making. However, this does not relieve the auditor from submitting proposals and recommendations to the audited entity where controls are found to be inadequate or missing;
- c. Auditors should make use of the INTOSAI guidelines on evaluation of Internal Controls and reporting thereon.

---

<sup>5</sup> CAG Auditing standards 2nd Edition Chapter I - Para 3 Basic Postulates & Para 4.7 on Internal Controls  
[http://saiindia.gov.in/english/home/Our\\_Process/Audit\\_Methology/Audit\\_Standards/AU\\_Standards.html](http://saiindia.gov.in/english/home/Our_Process/Audit_Methology/Audit_Standards/AU_Standards.html)



### 3.2 KEY PRINCIPLES OF IA

---

The Standard on Internal Audit (SIA) 2, issued by the Council of the Institute of Chartered Accountants of India, lays down the Basic Principles Governing Internal Audit. Some of the salient points are as follows:

- i) **Integrity, Objectivity and Independence-** The internal auditor should be straightforward, honest and sincere in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity. The internal auditor should not, to the extent possible, undertake activities, which are or might appear to be incompatible with his independence and objectivity.
- ii) **Confidentiality-** The internal auditor should maintain the confidentiality of the information acquired in the course of his work and should not disclose any such information to a third party, including the employees of the entity, without the specific authority or unless there is a legal or a professional responsibility to do so.
- iii) **Due Professional Care, Skills and Competence-** The internal auditor should either have or obtain such skills and competence, acquired through general education, technical knowledge obtained through study and formal courses, as are necessary for the purpose of discharging his responsibilities.
- iv) **Work Performed by Others-** The internal auditor should carefully direct, supervise and review the work delegated to assistants. The internal auditor is entitled to rely on the work performed by other auditors and experts. But, he should exercise adequate skill and care in ascertaining their competence and skills and also in evaluating, analysing and using the results of the work performed by the experts.
- v) **Planning-** The internal auditor should plan his work to enable him to conduct an effective internal audit in a timely and efficient manner, ensuring that appropriate attention is devoted to significant areas of audit, identification of potential problems and appropriate utilisation of skills and time of the staff.
- vi) **Reporting-** The internal auditor should carefully review and assess the conclusions drawn from the audit evidence obtained, as the basis for his findings contained in his report and suggest remedial action.



### 3.3 NEED & OBJECTIVES OF IA

---

The key need for IA are to suggest improvements to the functioning of the entity and to strengthen the overall governance mechanism of the entity, including its strategic risk management as well as internal control system.

Some of the important objectives of IA are:

- Understanding/assessing the risks and evaluating the adequacies of the prevalent internal controls;
- Identifying areas for systems improvement and strengthening controls;
- Ensuring optimum utilisation of the resources of the entity, for example, human resources, physical resources etc.;
- Ensuring proper and timely identification of liabilities, including contingent liabilities of the entity;
- Ensuring compliance with internal and external guidelines and policies of the entity as well as the applicable statutory and regulatory requirements;
- Safeguarding the assets of the entity;
- Reviewing and ensuring adequacy of information systems security and control; and
- Reviewing and ensuring adequacy, relevance, reliability and timeliness of management information system.

### 3.4 KEY INTERNAL AUDIT CONCEPTS

---

Other key Internal Audit concepts such as Internal Control, Risk, Risk Based Audit, Audit Sampling, Audit Evidence, Vouching and Working papers have been discussed in **Annex 1**.

### 3.5 TYPES OF AUDIT

---

There are two major types of Audit applicable to TPs:

- **External Audit** - A legally required review of the accuracy of an organisation's financial records. The purpose of a statutory audit is to determine whether an organization is providing a fair and accurate representation of its financial position by examining information such as bank balances, bookkeeping records and financial transactions. In TPs, external audit is done by CAG.
- **Internal Audit** - Internal Audit is an independent appraisal function established within an organization to examine and evaluate its internal control system. Its key objective is to promote effective control at reasonable cost. Rule 54 of the KPRTF (F&A) Rules includes internal audit as one of the responsibilities in ZP CAO. In TPs internal audit is undertaken by IAW.



Other types of audit are:

- **Social Audit**

Social Audit is a process in which the details of the resources, financial and non-financial, used by the public agencies for the development initiatives, are shared with the people, often through a public platform. It allows people to enforce transparency and accountability, thereby providing the ultimate users an opportunity to scrutinize the development initiatives.

- **Environmental Audit**

Environmental Audit can be defined as a basic management tool comprising a systematic, documented, periodic and objective evaluation of how well environmental organisations, management systems and equipment are performing. The aim of the audit is to facilitate management control environmental practices and to enable the organisation to assess compliance with its policies including meeting regulatory requirements.

- **Other CAG Audits**

Apart from the above, CAG may from time to time perform certain special audits such as:

- i) Audit against provision of funds,
- ii) Audit against Rules, Regulations and Orders,
- iii) Audit against sanctions,
- iv) Propriety audit,
- v) Performance audit,
- vi) Audit of Classification,
- vii) Systems audit, and
- viii) Computer Aided Audit /Information Technology Audit.

### 3.6 INTERNAL AUDIT CHARTER

The Internal Audit Charter is a formal written document that defines the purpose, authority, and responsibility of the Internal Audit Wing (IAW). The Charter establishes the Internal Audit Wing's position within the organization; authorizes access to records, personnel, and physical properties relevant for the performance of its functions and defines the scope of work.

The Chief of Internal Audit (CoIA) shall follow the guidelines provided herewith and lay out an Internal Audit Charter appropriate for IAW. This Charter has to be approved by the



relevant approving authority. All members of IAW shall be well versed of the Charter. The approved charter shall be displayed in all the offices of IAW.

### 3.6.1 Guidelines for preparing Internal Audit Charter

Internal Audit Charter will comprise the following:

- i) **Mission statement** - define what IAW is, why it exists and its primary purpose. For example, "The mission of IAW is to provide an independent and objective assurance on Karnataka PRIs internal controls and continually add value and improve the PRI's operations".
- ii) **Primary Objectives** - The primary aim and objectives of IAW should be laid out. This should clearly include what the IAW intends to achieve. For example "Identifying areas for systems improvement and strengthening controls; Safeguarding assets; Reviewing and ensuring adequacy, relevance, reliability and timeliness of financial reporting"
- iii) **Scope** - This section will clearly define which entities will be subject to audit. For example "IAW will perform quarterly internal audit of all the Taluk Panchayats in the State of Karnataka."
- iv) **Independence** - The Internal Audit Charter should clearly explain that the IAW is independent from all the entities and departments it audits. It should also state that for this purpose the IAW reports directly to the Secretary RDPR.
- v) **Relationship with statutory audit** - The Charter should clearly define the role of IAW in coordinating with, assessing the scope of and liaising with statutory audit.
- vi) **Authority** - It should clearly authorise the IAW to perform the internal audits and direct the auditees to extend the necessary cooperation. For example "The IAW shall have right of access to information, personnel, locations and systems relevant for the performance of the internal audits. All TP personnel are directed to extend full cooperation for the successful conduct of Internal Audit."
- vii) **IAW Organisation** - Organisation structure, including reporting lines to Secretary, RDPR have to be outlined.
- viii) **Quality and Professionalism** - The charter should emphasize the need for IAW to maintain high standards of quality and professionalism. For example "The IAW shall strive to continually improve its quality of service and professionalism"

### 3.7 EXISTING INTERNAL CONTROLS IN PRI

In Karnataka ZPs and TPs function as extended arms of the RDPR in so far as the financial transactions are concerned. Therefore all the internal controls as prescribed under various financial rules for Government Department are also applicable to TPs.



### 3.7.1 Internal Controls prescribed by the statutes:

The specific statutes which govern the internal control environment under which the TPs operate are:

1. Karnataka Panchayat Raj Act, 1993
2. Karnataka Panchayat Raj Taluk Panchayat (Finance & Accounts) Rules, 1993
3. Karnataka Finance Code
4. Karnataka Treasury Code
5. Manual of Contingent Expenditure
6. KPWD Accounts Code
7. Karnataka State cadre and Recruitment Rules

The Internal Control system is also influenced by the various GOs, circulars and other directions of the RDPR and the Finance Department issued from time to time. These statutes and directives cover specific internal control aspects with regard to:

- a. Legislative sanction for all allocations;
- b. Control over budgetary releases at different levels;
- c. Budgetary control at bill passing level at the treasury with regard to claims presented;
- d. Responsibilities of the Drawing Officers in incurring expenditure; and
- e. Responsibilities of the Counter signing Officers.

Financial transactions of the ZPs and TPs are conducted through Treasuries except in case of central schemes where funds are operated through bank accounts. In so far as Treasury transactions are concerned TPs are subject to controls exercised by the Treasury.

### 3.7.2 System based control in Khajane I/II:

Khajane I ensures budgetary control as well as funds control. It also contains mapping of roles to various users thereby ensuring compliance to all requirements before the claims are presented for payments. It also ensures completeness and accuracy of the accounting. It avoids entries in multiple registers at the transaction level. It contains a detailed audit trail of all transactions.

Khajane II is a further improvement over the existing system (Khajane I). Khajane II enhances the control framework by containing features such as system based generation of TP Link document, automated release order generation, online preparation and submission of bills, online countersignature, built in checklists for various stages in preparation and payment of bills, generation of books of accounts and monthly accounts and so on.

Further, Khajane II is expected to cover even transactions through banking channel. This will ensure that all system based controls would apply to banking channel transactions also. This



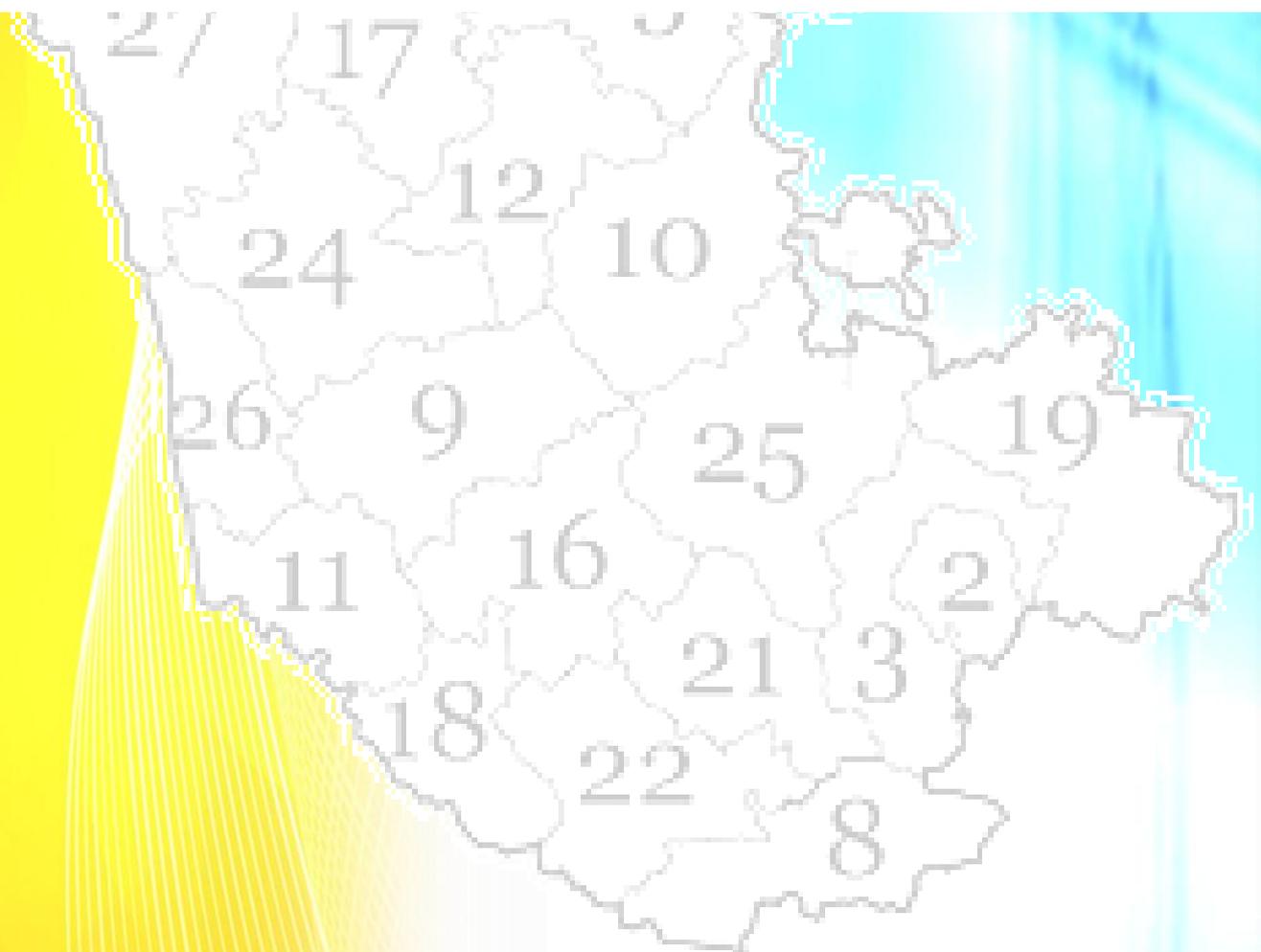
will broaden the coverage of the internal control system to include non treasury transactions also which is not the case in the current setup.

In Karnataka, a centralised Human Resource Management System (HRMS) has been implemented for salary processing in many Government Departments including the RDPR. Many of the internal controls which were manually exercised during salary processing cycle have now been migrated to system based controls under HRMS. This has reduced errors of omission and commission in payroll processing to a large extent.



## CHAPTER 4

# TP IA PLANNING & PREPARATION





## 4 TP INTERNAL AUDIT PLANNING & PREPARATION

Planning is the first and perhaps most important step in conducting a successful internal audit. Without adequate planning, the likelihood of missing relevant control weaknesses or encountering audit-related problems increases considerably. Moreover, improper planning can lead to changes in scope or objectives after much of the audit work has already been completed.

This chapter deals with TP Key Indicators review, audit planning, programme, audit calendar, preparedness and audit intimation to TPs.

### 4.1 TP KEY INDICATORS REVIEW

This is a process that precedes annual audit planning. The intention of this exercise is to classify the TPs as per the associated risks and accordingly plan the audits. The primary objectives of such risk assessment at planning stage are:

- to target high impact TPs,
- to allocate scarce resources efficiently and effectively,
- to frame audit objectives with more accuracy, and
- to establish scope and use sampling appropriately and sufficiently.

The CoIA shall be primarily responsible to perform the Key Indicators Review prior to audit planning each year. The RIAOs/IAOs shall provide all necessary inputs and support to CoIA for this exercise. The key indicators to be reviewed in respect of each TP are given in **Table 1** below:

**Table 1: List of Key Indicators**

Key Indicators for Audit Planning	Used to assess/compare		Remarks
	Resp TP's performance	With other TPs	
<b>1) Project management related</b>			
i) Action plan execution status	☑	☑	Undue delays in execution indicate the TP needs more attention. Also comparing the status across TPs will indicate the relative performance levels.
ii) Action plan amendments	☑	☑	Frequent action plan amendments is not a healthy pattern. Comparison of amendment rates across TPs will help identify which TPs are better at planning realistically.
<b>2) Grants related</b>			
iii) Grants draw down timing	☑		Ideally grant draw down should be prompt. Any delays require scrutiny.
iv) UC submission timing	☑		UC submission should be prompt. Any delays require scrutiny.
v) Idle funds in Bank account	☑		Instances of funds lying idle in banks should be minimal. Under utilisation needs close attention.



Key Indicators for Audit Planning	Used to assess/compare		Remarks
	Resp TP's performance	With other TPs	
<b>3) Expenditure related</b>			
vi) Expenditure trend	<input checked="" type="checkbox"/>		Eccentricities in spending patterns have to be inspected.
vii) Budget Variance Report	<input checked="" type="checkbox"/>		Abnormal variances have to be investigated.
viii) Expenditure per capita		<input checked="" type="checkbox"/>	This may be calculated as Total TP spending ÷ Population in the Taluk. Higher Expenditure per capita indicates a more active TP.
ix) Number of transactions		<input checked="" type="checkbox"/>	This is a good indicator of the volume of transactions in the TP. More resources are necessary to audit TPs with higher transaction volumes.
<b>4) Compliance related</b>			
x) Accounts filing timing	<input checked="" type="checkbox"/>		Ideally accounts should be filed promptly. Any delays require scrutiny.
xi) Statutory compliance issues	<input checked="" type="checkbox"/>		TPs which have statutory compliance related issues need more attention.
<b>5) HR related</b>			
xii) Vacancy position		<input checked="" type="checkbox"/>	TPs that are under resourced may require closer examination during audit.
xiii) Employee Turnover		<input checked="" type="checkbox"/>	TPs with higher employee turnover have to be audited closely.
<b>6) Previous Audit Report related</b>			
xiv) Audit observations in PY	<input checked="" type="checkbox"/>		Previous audit report is a good pointer of the primary problem areas in the TP.
xv) Audit report compliance status	<input checked="" type="checkbox"/>		Status of action taken in respect of audit paras is an indicator of TP's keenness to set right its control issues.

**Note:** The 15 indicators provided above are suggestive. The CoIA may add, remove or modify this list during assessment. However caution has to be exercised to ensure that all the TPs are assessed based on the **same set of indicators**.

Based on inference from key indicators, the CoIA shall classify TPs based on a common rating model. The rating model may be qualitative (Such as Very Low, Low, Medium, High & Very High) or point based (Such as from 1 to 5 with 1 being Very Low risk and 5 being Very High). An overall Risk/Key indicator review chart shall be prepared and circulated to the RIAOs and IAOs. A sample Risk/Key indicator review chart has been given in **Table 2**. Audit plan/programme shall be prepared based on the risk classification, especially in respect of the following aspects:

- the extent of sampling,
- time and resource allocation, and
- any other special audit procedures.



For example, after the risk assessment CoIA may recommend that:

- the sample size in respect of Scheme expenditure of TPs falling under 'Very High' risk category should be 75% of total Scheme Expenditure. (or)
- the field audit team should spend 18 days in TPs falling under 'Very High' or 'High' risk category.

**Table 2 : Risk/Key Indicators review chart**

Key Indicators related to	TP 1	TP 2	TP 3	TP 4	TP 5	.....etc.
Project management	5	3	4	5	3	
Grants	3	3	3	5	3	
Expenditure	3	5	3	4	3	
Compliance	4	3	2	4	3	
HR	2	4	1	5	5	
Previous Audit Report	3	4	3	4	3	
<b>Average rating</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>3</b>	<b>.....etc.</b>

<b>Key:</b>	5 - Very High	4 - High	3 - Medium	2 - Low	1 - Very Low
-------------	---------------	----------	------------	---------	--------------

## 4.2 AUDIT PLAN & PROGRAMME

Planning involves developing an overall plan for the expected scope and conduct of audit and developing an audit programme showing the nature, timing and extent of audit procedures. Planning is a continuous exercise. A plan once prepared should be continuously reviewed by the internal auditor to identify any modifications required to bring the same in line with the changes, if any, in the audit environment. Further, the internal auditor should also document the changes to the internal audit plan.

The essentials of an annual audit plan are:

- Audit Scope & Methodology
- Audit Objectives
- Risk assessment - Findings from the TP key indicators review should be discussed in this section. The auditor should provide an assessment of how the identified risks will be scrutinized for the achievement of the audit objectives for the various risk classifications.
- Timing and resources - Estimates of the audit team's time requirements and target dates for the completion of the planning exercise, fieldwork & reporting and audit closure. The phases of the audit should be included in the plan. TP IA Plan should ensure sufficient coverage of all the TPs based on risks assessed in the TP key indicators review.

The internal auditor should also prepare a formal internal audit programme listing the procedures essential for meeting the objective of the internal audit plan in terms of scope,



objectives, time and resources. Though the form and content of the audit programme and the extent of its details would vary with the circumstances of each case, the internal audit programme should be so designed as to achieve the IA objectives.

Audit Programme should specifically cover the tests to be performed. The procedures have to be designed to test controls and determine if controls are:

- adequate/well designed and
- operating as intended.

It has to state clearly what the test procedures intend to achieve. Doing so would also provide the criteria on what constitutes an error/exception. Test procedures and scope will vary depending on the transaction profile and the significance of risks identified in the TP key indicators review.

### 4.3 AUDIT CALENDAR

---

The audit calendar is an audit work plan for the quarter that lists the audits scheduled, tentative start and completion dates, and estimated budget hours for each audit. Audit calendar is part of the Audit plan. The respective RIAOs will draft the quarterly Audit calendar for the ZPs & TPs under their region in consultation with the IAOs. The Regional Audit Calendars will be presented by the RIAOs before the CoIA for approval. Any changes to the audit calendar are made as necessary by the respective IAO with the approval of RIAO.

Rotation of audit personnel is a good practice and control to ensure audit objectivity. While resourcing the audits, care should be taken to ensure that personnel are regularly rotated between TPs within a region as well as the different tiers of PRIs.

A format for the Audit Calendar has been given in **Form IAM 1**. Also the Region-wise Quarterly audit time table shall be prepared in **Form IAM 2** and displayed in the respective RIAO offices. This time table must include details of which IAO/IAA are handling the audits.

### 4.4 APPROVAL OF AUDIT PLAN & PROGRAMME

---

Audit plan and programme at the TP level are prepared by the IAOs. These are reviewed and consolidated by the respective RIAOs at regional level. The Annual Audit Plan & Programme shall be submitted to the CoIA for approval, prior to the commencement of the audit fieldwork. The CoIA approves the Audit plan and programme of all regions after review and discussions with the respective RIAOs.

After the documents have been approved, CoIA should share the audit plan with the RIAOs. The RIAOs should advise the IAOs/IAAs that the audit plan has been approved so that the



milestone dates and staffing resources can be determined. The IAOs in turn appraise the respective TPs of the tentative Audit Plan. A copy of the approved Annual Audit Plan & Programme shall be sent to the Secretary RDPR and IFA by the CoIA.

As the audit progresses, there may be a need to revise the audit programme to incorporate additional procedures that were not foreseen during the planning stage. If the revision has a significant implication on timelines/resources, the IAO will make such revisions to the audit calendar after taking approval from the respective RIAO. The revised plan and programme shall be communicated down the IAW to ensure adherence.

The timelines for preparing the Audit Plan & Programme has been given in **Table 3**.

**Table 3: Audit Plan & Programme preparation timelines**

Activity	Timeline	Responsibility
1. TP key indicators review	15th December	CoIA
2. Preparation of TP level audit plans & programmes	15th January	IAO
3. Review and consultation	Beginning of February	RIAO & IAO
4. Finalization of the Regional Audit plan & programme	End of February	RIAO
5. Review and approval of Audit plan & programme of all regions	Beginning of March	CoIA
6. Communication of the approved Audit plan & programme within IAW & to respective TPs	15th March	CoIA

A template for the Audit Plan & Programme has been given in **Form IAM 3** in **Annex 2**.

#### 4.5 AUDIT PREPAREDNESS

The respective TP IA team leads shall ensure that auditors are:

- Conversant with the Internal Audit Charter, provisions of Karnataka Panchayat Raj Act, Karnataka Panchayat Raj Taluk Panchayat (Finance & Accounts) Rules and other Act/Rules/orders applicable to TPs,
- Familiar with the system of accounting followed by the TPs,
- Aware of the powers and duties of the auditors ,
- Updated with latest GOs, Circulars issued from time to time by Government,
- Realize the importance of issue of audit enquiries and obtaining replies from the TPs during audit and also discussing the important audit observations made in the draft report with the respective TP head,
- Punctual in commencement of audit on the specified date and complete audit within the man-days allowed, and



- Motivated to peruse previous audit reports and understand the state of maintenance of accounts and nature of irregularities pointed out, before taking up audit.

A typical schedule for TP audit has been given in the **Table 4**. IAO shall plan and prepare a similar audit schedule to ensure systematic audit within targeted timelines.

**Table 4: Sample Audit Schedule**

Day	Activity	Responsibility
1-2	Initial meetings with client, Plan Audit, Schedule visits for Local audits if any and Request list of documents/registers from auditee.	IAO/IAA
3-4	Central audit - Select samples, Conduct tests, analyse documents, obtain clarifications, etc.	IAO/IAA
5-6	Conduct of local audit visits to line departments	IAO/IAA
7-8	Summarise audit findings and discuss with Auditee, Obtain clarifications and Perform any additional checks.	IAO
9-10	Prepare audit report, discuss and finalise audit findings and recommendations.	IAO

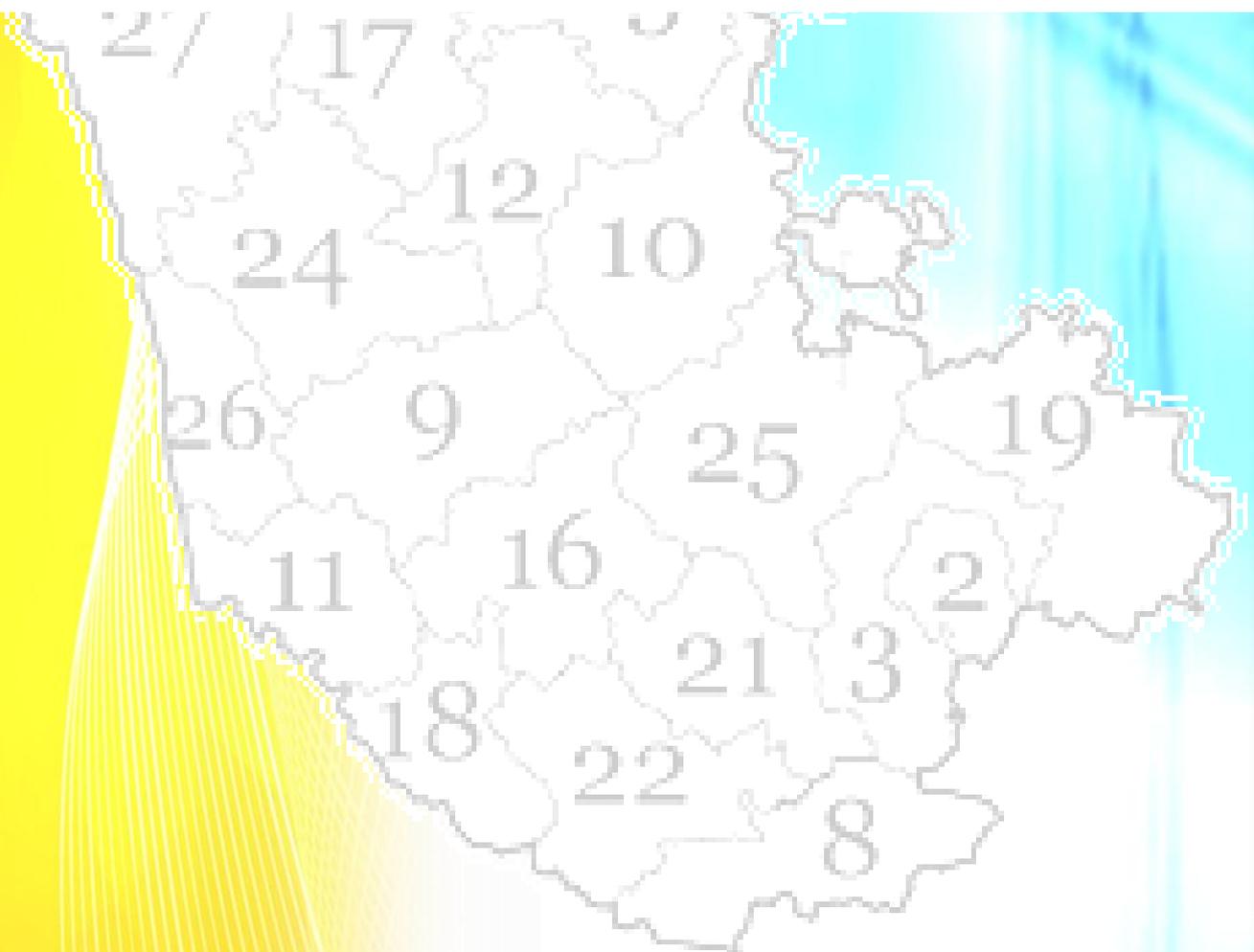
#### 4.6 INTIMATION TO TP

The respective audit team leader shall issue an intimation letter to the TP at least 15 days in advance giving full details of when the audit will commence, expected duration of audit, audit personnel involved, etc.



## CHAPTER 5

# TP IA GUIDELINES & CHECKLISTS





## 5 TP INTERNAL AUDIT GUIDELINES & CHECKLISTS

This chapter contains audit guidelines and checklists for the key areas of TP internal audit. The overall legal framework of TP audit has also been explained here. The activities of TPs have been broadly classified as audit areas such as Budget & Action Plans, Fund Releases, Grants through Banking channel, Other Receipts, Establishment Expenses, Procurement, Scheme related expenditure, Capital expenditure, Beneficiary payments, Statutory deductions, EMD, Security Deposit, Cash & Bank, Advances, reconciliations, Audit Compilation and IT related. Each audit area been discussed in detail with the following:

- A brief note on process involved and background,
- Key risks pertaining to the audit area,
- Audit Checklist,
- Relevant reference to TPAM, if applicable and
- Any quick check procedure, if applicable.

### 5.1 RULES AND REGULATIONS APPLICABLE

The functioning of a TP is governed by various statutes and rules. The statutes that govern the TPs in the areas of finance, accounts and audit are given below:

1. Karnataka Panchayat Raj Act, 1993;
2. Karnataka Panchayat Raj Taluk Panchayat (Finance & Accounts) Rules, 2006;
3. Karnataka Finance Code, 1958;
4. Karnataka Treasury Code, 1963;
5. Manual of Contingent Expenditure, 1958;
6. KPWD Accounts Code & Departmental Code;
7. Karnataka State cadre and Recruitment Rules;
8. Relevant Government Orders of RDPR and Finance Department.

The specific sections relevant to accounting function have been detailed in the **Annex Chapter 3** of the TP Accounts Manual. Important provisions of the KPR Act and the KPRTP(F&A) Rules relevant to audit of the TP and the forms prescribed for TP under the Act are given in the **Table 5 & 6** below:

**Table 5: Provision of the KPR Act relevant to TP audit**

Sec #	Provisions under the KPR Act
<b>246(7)</b>	Powers of EO of TP with regard to the compliance to the audit report on GPs, decision on compliance in consultation with the auditor and power to surcharge on the persons responsible for illegal expenditure
<b>247,248,249</b>	Presentation of accounts and budget of TPs, Revised Budget and Supplemental budget
<b>250,251 and KPRTP</b>	Maintenance of accounts of income and expenditure of the TPs as per the



Sec #	Provisions under the KPR Act
(F&A) Rules 1996	rules framed
253,254,255	Audit of accounts of TPs, action on the audit report, surcharge of illegal expenditure and losses, etc
300	Annual Administration Report- After April, GPs and TPs to submit the report after its approval by the respective panchayat to ZP and ZP to Government

**Table 6: Provisions of the KPRTP (F&A) Rules relevant to TP audit**

Rule #	Provision under the Rules
Chapter XV - Internal and Statutory Audit	
54	<p>The responsibilities of the CAO of the ZP during the audit of TP is given below:</p> <ul style="list-style-type: none"><li>• Audit of certain documents in the central office (TP) and initial accounts maintained by the implementing officers of line departments in TP.</li><li>• Aspects to be seen in the central audit of expenditure.</li><li>• Duties of the internal auditors</li><li>• Communication of result of audit to head of offices of line departments and follow-up action on compliance reports received.</li><li>• Responsibility of CAO of ZP in planning of audit programme of TPs and line departments, review of audit reports before issue and placing of the issues noticed in audit warranting decision of the TP should be routed through the standing committee finance, audit and planning, by the EO and the decision of the TP shall be final in all such cases.</li></ul>
55	It deals with the statutory audit conducted by the Accountant General of Karnataka in terms of Section 253 of the KRP Act and his duties and powers. Responsibilities of the EO and other officers of the TP in furnishing compliance to audit reports.

**Note:** Depending on decision taken with respect to the organization of the IAW, the provisions of the KPR Act and KPRTP (F&A) Rules might have to be suitably amended.



## 5.2 BUDGET & ACTION PLANS

Budget estimates are prepared at the TP level and consolidated upwards. The TP budget exercise covers not only the TP but also the line departments at the Taluk level. The TP budget ultimately merges into the State Budget. The budget preparation process has been detailed in **TPAM Process TP-01**. Preparation of TP Link Document has been detailed in **TPAM Process TP-02**.

The TP prepares action plans for expenditure under untied grants, grants under central schemes, surcharge on stamp duty receipts and own sources receipts. For untied grants, the action plan is prepared on receipt of the TP Link Document. For Central Schemes and receipts of Surcharge on Stamp Duty, the action plan is prepared for each release. Action plans are approved by the TP Finance, Accounts and Audit Committee and finally by the TP General Body. This process and related timelines has been detailed in **TPAM Process TP-04**.

The various aspects to be checked by IA have been given in **TP IA Checklist 1**. The samples to be checked, extent of audit, etc. have to be determined based on assessment of risk and materiality.

The **key risks** associated with Budget & Action Plans are:

- i) Budget not being prepared based on realistic assumptions;
- ii) Over-budgeted or under-budgeted;
- iii) Action Plan prepared in excess of available budget;
- iv) Action Plan not fully executed; and
- v) Time delays in Budgeting/Action Plan preparation.

### TP IA Checklist 1: Budget & Action Plans

Audit Checks	Sample checked	Remarks
<b>1. Preparation of Budget &amp; Action Plans:</b>		
1.1. Adherence to the Process and Budget Calendar prescribed by TPAM		
1.2. Annual Shelf of projects is approved by TP General Body		
1.3. The approved Shelf of Projects takes into account spillover works of earlier years		
1.4. Budget estimates are based on the approved Shelf of Projects		
1.5. The budget estimates include estimates for all line department offices in the Taluk		
1.6. The budget is prepared with due diligence and care		
1.7. Timely budget is developed with the appropriate level of detail		
1.8. Process is in place to review the assumptions within the budgets to ensure they are realistic		
1.9. The budget has been duly approved by the TP General Body		



Audit Checks	Sample checked	Remarks
<p>before submission to the ZP</p> <p><b>TP Link Document checks:</b></p> <p>1.10. Proper registers and documents are maintained to record the details of appropriation/allotment</p> <p>1.11. TP wise fund allocations made in the TP link document are for projects selected from the approved shelf of projects</p> <p>1.12. Adherence to the process and timelines for preparation of TP Link Document as prescribed in TPAM</p> <p><b>Action Plans related checks:</b></p> <p>1.13. Adherence to the process as prescribed in TPAM</p> <p>1.14. Action Plan is based on the Shelf of Projects approved by TP General Body</p> <p>1.15. Action Plans prepared are in accordance with the scheme guidelines</p> <p>1.16. Review and amendment of Action plans are duly approved with appropriate reasoning</p> <p>1.17. Process for review of actual performance against action plans is in place</p> <p><b>Budget Monitoring:</b></p> <p>1.18. Actual results are compared to budgeted amounts on a periodic basis</p> <p>1.19. Significant variances from the budget are identified and explained</p>		
<p><b>Relevant references in TP Accounts Manual</b></p> <ul style="list-style-type: none"><li>• Budget preparation process</li><li>• Budget preparation related timelines</li><li>• Preparation of TP Link Documents process</li><li>• Action Plan Preparation and Approval process</li><li>• Action plan related timelines</li></ul>	<p><b>Chapter Ref</b></p> <p>5.2.1</p> <p>5.2.1</p> <p>-</p> <p>5.2.4</p> <p>5.2.4</p>	<p><b>Process No</b></p> <p>TP-01</p> <p>-</p> <p>TP-02</p> <p>TP-04</p> <p>-</p>



## 5.3 RECEIPTS

### 5.3.1 Fund Releases

Majority of the fund inflows to the TP are through Grant releases through the Treasury. The releases are made quarterly and they are intimated to the TPs by way of a release order from the Finance Department of the State. The grants to the Taluk Panchayat released through the Treasury are classified as Fund I, Fund II and Fund III<sup>6</sup>.

- **TP Fund I** - This includes all receipts and expenditure of Central Plan and Centrally Sponsored Schemes including the State Share, non-plan Central Grants and grants under Finance Commission's recommendations.
- **TP Fund II** - All receipts and expenditure in respect of all state plan schemes and all non-plan assistance received from State Government fall in this classification.
- **TP Fund III** - All receipts and expenditure in respect of own funds of Taluk Panchayats under Tax/Non tax revenue, Earnest Money Deposits, Security deposits, Additional Stamp duty and exclusively State sector Schemes implemented by Taluk Panchayats fall under Fund III.

The releases of funds from the State Government to the TP are based on the TP Link Document. This process has been detailed in **TPAM Process TP-03**. The various aspects to be checked by IA has been given in **TP IA Checklist 2**. The sample to be checked, extent of audit, etc. have to be determined based on assessment of risk and materiality.

The **key risks** associated with Fund Releases are:

- i) Time delays in Challan/Receipt preparation;
- ii) Discrepancies in updation of registers;
- iii) Errors in release allocation. Mismatch with release order;
- iv) Errors in accounting receipt with the break down to various heads of account;
- v) Errors in accounting release the break down to various expenditure heads of account Pertaining to line departments;
- vi) Releases remaining unutilized.

---

<sup>6</sup> As per GO No. FD 07 ZPA 2003 dated 8<sup>th</sup> September 2004



## TP IA Checklist 2: Fund Releases

Audit Checks	Sample checked	Remarks
<b>2. Fund Releases</b> 2.1. Funds of scheme are not diverted to other schemes/other purposes 2.2. Copy of the scheme guidelines are available for all active schemes 2.3. Timely preparation of Payee's receipt (CTS-8) and Remittance Challan on receipt of Release Order 2.4. Generation of CTS 8 & Remittance Challan is based on the Release Order received by the TP 2.5. Transfer Receipt (TTR) Register and Receipts & Expenditure Tracking (RET) Register is updated promptly 2.6. Treasury has endorsed the entries in the TTR Register and any discrepancies are brought to the notice of the concerned authority 2.7. Release Order for onward releases to Line Departments are authorised by EO 2.8. Timely issue of onward Release Order to Line Departments 2.9. Fresh releases are made after verifying utilization of the previous release 2.10. The release allocation to Heads of Accounts as per Payee's receipt (CTS-8) and Remittance Challan matches with the actual release order 2.11. While accounting the receipt of releases, the receipts are recorded under the correct Receipt Heads of Account 2.12. While accounting the releases, the breakdown of the Expenditure Heads of Accounts against which the releases shall be utilised has been mentioned correctly 2.13. Where the grants require the completion of external audits, such audits have been completed in time		
<b>Relevant references in TP Accounts Manual</b> <ul style="list-style-type: none"><li>Fund Releases by State to TP process</li></ul>	<b>Chapter Ref</b> 5.2.3	<b>Process No</b> TP-03



### 5.3.2 Grants - Banking Channel

The Central Scheme grants are transferred to the TPs through the concerned ZP. Though the allocations under central plan schemes and centrally sponsored schemes are indicated in the Link Document, the funds flow to the TP through the banking channel. This process has been detailed in **TPAM Process TP-05**.

Audit should ensure that the TP have the controls as given in **TP IA Checklist 3**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with receiving Grants through the Banking channel are:

- i) Grants not accounted in time;
- ii) Non utilisation of releases affecting future releases;
- iii) Non updation of Registers/books of account; and
- iv) Non adherence to Scheme guidelines.

#### TP IA Checklist 3: Grants - Banking Channel

Audit Checks	Sample checked	Remarks
<b>3. Grants - Banking Channel</b>		
3.1. Separate accounts including separate cash book, separate bank account and other subsidiary records are maintained and updated for each scheme as per the Scheme guidelines		
3.2. Grants sanctioned are received in full from state/central Governments/ other institutions		
3.3. Grants are received in time as per guidelines		
3.4. Bank accounts opened are all savings bank account (S.B a/c) and not current account		
3.5. Interest on schemes' funds kept in S.B a/c of the bank is credited to the concerned S.B account periodically by the bank		
3.6. Funds of scheme are not diverted to other schemes/other purposes		
3.7. Any cut in release of grants from central/state governments for having not fulfilled the conditions laid down in the guidelines of the schemes. for example: i) for not spending prescribed proportion of the grants within the stipulated time ii) for delay in sending U.Cs to state/central governments, is pointed out in the UC/Audit Certificate		
3.8. On closure of the scheme balance, amounts available under the scheme are returned to the concerned authority or utilized in accordance with scheme guidelines		
3.9. All credits in the scheme bank account are accounted in the TP books in a timely manner		
3.10. Copy of the scheme guidelines are available for all active schemes		
3.11. Where the grants require the completion of external audits, such audits have been completed in time		



Audit Checks	Sample checked	Remarks
3.12. Scheme bank accounts are opened and maintained as per scheme guidelines		
<b>Relevant references in TP Accounts Manual</b>	<b>Chapter Ref</b>	<b>Process No</b>
<ul style="list-style-type: none"><li>Receipts and Expenditure of Central Scheme Grants (Banking Channel)</li></ul>	5.2.5	TP-05

### 5.3.3 Surcharge on Stamp Duty

Surcharge on Stamp duty is treated similar to TP's own source income and is a major source of Fund III receipts for the TP. Utilization is made against approved action plan through the Treasury channel. This process has been detailed in **TPAM Process TP-06**.

The audit checks for receipt of Surcharge on Stamp Duty are similar to that of Fund releases. These are given in **TP IA Checklist 4**. The checks to be exercised for expenditure of such releases are covered in **TP IA Checklist 2**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Surcharge on Stamp Duty are:

- Time delays in Challan/Receipt preparation;
- Discrepancies in updation of registers;
- Challan/Receipt does not match with release order; and
- Errors in accounting receipt under the correct fund and receipt head of account.

#### TP IA Checklist 4: Surcharge on Stamp Duty

Audit Checks	Sample checked	Remarks
<b>4. Surcharge on Stamp Duty:</b>		
4.1. Timely preparation of Payee's receipt (CTS-8) and Remittance Challan on receipt of Release Order		
4.2. Conformity of Release Order and the CTS – 8 challan		
4.3. Payee's receipt (CTS-8) and Remittance Challan approved by appropriate authority before submission		
4.4. Transfer Receipt (TTR) Register and Receipts & Expenditure Tracking (RET) Register is updated promptly		
4.5. Treasury has endorsed the entries in the TTR Register and any discrepancies acted upon		
4.6. Allocation under each Head of Account in the current release has been entered on the 'Receipts' side in the correct folio		
4.7. Release has been credited to TP Fund III		
<b>Relevant references in TP Accounts Manual</b>	<b>Chapter Ref</b>	<b>Process No</b>
<ul style="list-style-type: none"><li>Receipts and Expenditure of Surcharge on Stamp Duty</li></ul>	5.2.6	TP-06



### 5.3.4 Rent Receipts

Rent receipts to the TP are by way of letting out properties owned by the TP. Properties owned by the TP are Staff quarters and commercial establishments like shops. The staff quarters are let out to Government employees and rents receivable are deducted from their salaries. The commercial establishments are let out to outsiders and the rent receipts are received through cash/cheques. This process has been detailed in **TPAM Process TP-07**. The audit checks to be undertaken in respect of the rental income from these properties are given in **TP IA Checklist 5**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Rent Receipts are:

- i) Rent collection delays and defaults;
- ii) Invalid/time barred Rent agreements;
- iii) Non recovery of penalty from tenant for damages;
- iv) Discrepancies in allotment/letting out of vacant properties;
- v) Delays in letting out vacant properties;
- vi) Discrepancies in updation of registers; and
- vii) Errors in accounting receipt under the correct fund.

#### TP IA Checklist 5: Rent Receipts

Audit Checks	Sample checked	Remarks
<b>5. Rent Receipts</b>		
5.1. Proper procedures have been followed for letting out of properties		
5.2. The property has been leased under appropriate authority		
5.3. Rent receipts are supported by valid and current rent agreements		
5.4. The DCB is updated and maintained properly in respect of Rent		
5.5. Rent is collected promptly as agreed in the rental agreement		
5.6. Acknowledgements have been issued for all rent receipts		
5.7. Collections are promptly deposited to Treasury Bank account		
5.8. With regard to staff quarters, the monthly rent amount is deducted from the salaries of employees during the monthly salary processing cycle in HRMS		
5.9. The amount deducted has been adjusted against the TP rental receipts by the Treasury at the time of disbursement of salary		
5.10. Rent receipts are accounted in the Collection & Remittance Register and in the RET Register		
5.11. Rented premises are inspected (by the TP staff) periodically to ensure the property is not misused or damaged		
5.12. Any delays or default by the Occupants are tracked and appropriate action taken		
5.13. Vacancy of rentable properties, if any are adequately monitored and acted upon		



Audit Checks	Sample checked	Remarks
5.14. Penalties and damages are recovered as per the terms of the rent agreement 5.15. Receipt has been credited to TP Fund III		
<b>Relevant references in TP Accounts Manual</b> <ul style="list-style-type: none"><li>Rent receipts Process</li></ul>	<b>Chapter Ref</b> 5.2.7	<b>Process No</b> TP-07

### 5.3.5 Other Receipts

Other receipts of the TP are receipts from sale of scrap, sale of timber, receipt of interest from savings bank account, disposal of asset, etc. This process has been detailed in **TPAM Process TP-08**.

List of aspects to be checked during IA are given in **TP IA Checklist 6**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Other Receipts are:

- Misappropriation of Cash;
- Delays in remittance;
- Wrong accounting; and
- Appropriate procedures for disposal of stores/assets not followed.

#### TP IA Checklist 6: Other Receipts

Audit Checks	Sample checked	Remarks
<b>6. Other Receipts</b> 6.1. Acknowledgements are issued for all receipts 6.2. Acknowledgements are serially numbered 6.3. Missing/cancelled acknowledgements have been explained 6.4. Daily cash collections tally with total of acknowledgements 6.5. The monies collected (either in cash, cheque or DD) are deposited in the Bank Account of the Treasury (Fund III) promptly 6.6. Collection & remittance register/Receipts & Expenditure Tracking register is promptly updated		
<b>Disposal of Assets</b> 6.7. Assets have been properly listed before sale/disposal 6.8. Approval has been taken to dispose all the assets so listed 6.9. Asset register suitably updated to reflect disposal 6.10. Necessary procedures for disposal of asset are followed 6.11. Assets have been disposed for a competitive price		



Audit Checks	Sample checked	Remarks
<b>Disposal of Stores</b> 6.12.Stored items have been properly listed before sale/disposal 6.13.Approval has been taken to dispose all the items so listed 6.14.Stores register suitably updated to reflect disposal 6.15.Necessary procedures for disposal of stores are followed 6.16.Store items have been disposed for a competitive price		
<b>Relevant references in TP Accounts Manual</b> <ul style="list-style-type: none"><li>Other receipts Process</li></ul>	<b>Chapter Ref</b> 5.2.8	<b>Process No</b> TP-08

#### 5.4 EXPENDITURE - GENERAL CHECKS

Rule 54 of KPRTP (F&A) Rules lays down certain general checks essential in respect of expenditure in TP office. IA shall perform these general checks on all expenditure accounted by TPs. The general checks in respect of audit of expenditure have been given in **TP IA Checklist 7**. Expense specific checks are given under **Sections 5.5 to 5.10** of this manual. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Expenditure in general are:

- Expenses incurred without proper sanction;
- Expenses incurred in violation of act, rules and regulations as applicable to TPs;
- Multiple claims honored in respect of same bill; and
- Errors in accounting under correct Head of Account.

#### TP IA Checklist 7: Expenditure - General

Audit Checks	Sample checked	Remarks
<b>7. Expenditure - general</b> 7.1. All expenses are covered by a sanction 7.2. Expenses incurred conform to the provisions of the act, rules and regulations as applicable to TPs 7.3. Expenses are covered by provision of funds and incurred for the purpose intended by the respective Grant, 7.4. All expenses are supported by a proper voucher duly acknowledged by Payee 7.5. Vouchers and bills are recorded such that making a second claim is impossible 7.6. Expenses are classified on the voucher correctly		



## 5.5 ESTABLISHMENT EXPENSES

Salary is one of the major expenditures incurred by the TPs as well as the line departments. The TP EO is the Drawing and Disbursing Officer for salaries of TP personnel. Salaries of line department staff are processed by the respective line departments. Line Departments shall be responsible to ensure that required budget allocation is available for payment of salaries. Monthly payroll cycle is computerised by means of HRMS software implemented at the State level.

The **key risks** associated with Establishment Expenses are:

- i) Errors in Payroll processing resulting in overpayment or underpayment;
- ii) Fictitious salary payments;
- iii) Errors/omissions in respect of Statutory deductions;
- iv) Unauthorised changes to employee records;
- v) Delayed salary payments;
- vi) Travel/Medical claims admitted without proper approval/supporting.

### 5.5.1 Salary

In respect of employee salary related claims, audit shall verify and ensure that the checks given in **TP IA Checklist 8** are undertaken. In addition, the general checks in respect of all expenditure given in **TP IA Checklist 7** shall also be verified. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

#### TP IA Checklist 8: Establishment Expenses

Audit Checks	Sample checked	Remarks
<b>8. Establishment Expenses</b>		
8.1. Scale Register is maintained in the prescribed Form and duly classified according to the functional heads in the budget estimates.		
8.2. The sanctioned scale for different establishments has been recorded in the scale register. This is in agreement with the sanctioned scale of the previous year. Any subsequent alterations have been sanctioned during the year.		
8.3. Monthly Pay Bills are prepared correctly indicating the salary expenditure Head of Account-wise.		
8.4. Separate pay bills are prepared for Permanent and Temporary establishments		
8.5. Pay and allowances of the incumbents shown against sanctioned posts in the pay bill agree with the details of the posts shown in the scale register		
8.6. With regard to newly deputed employees to the TP, the pay bill and the scale register are in accordance with the Last Pay		



Audit Checks	Sample checked	Remarks
Certificate (LPC)		
8.7. With regard to employees sent on deputation, the LPC has been prepared and issued properly and in time		
8.8. Salaries are not withheld for want of grants		
8.9. Claims i.e. gross amount, deductions and net amounts shown in the bills are arithmetically correct		
8.10. Where salaries of the employees are directly credited to their bank accounts, statement showing the names of the employees, their bank account details and net amounts adjustable to the bank accounts have been correctly prepared and no extra entries appear in the statement		
8.11. Pay and charge allowance are separately shown and the names of all persons on leave, suspension or deputation as well as those holding officiating or in-charge appointments are entered in the bills		
8.12. In respect of officials for whom Conveyance Allowance /Fixed Travelling Allowances is drawn, required certificates are furnished by the Drawing Officer in the bills		
8.13. Salary of employees are paid to the individual bank accounts of the employees		
8.14. Salary is not paid for period of absence unless regularized by sanction of leave for the period of absence		
8.15. When salary of an employee is drawn for the first time, the appointment is made by the competent authority		
8.16. With respect to pay bills in which annual increments of employees are claimed, an Increment Certificate is attached to such bills		
8.17. Salary deductions towards various recoveries are watched through Recoveries Register and recovery schedules prepared for each type of recovery effected		
8.18. Statutory deductions are made in respect of employees liable to pay it, based on their income		
8.19. Claims of deceased employees are paid after duly ensuring bonafide and right of the claimant to receive it, following the prescribed procedure laid down in KFC		
8.20. With respect to claims relating to pension and leave salary contributions of deputed staff are preferred for remittance to Government head of account/concerned Departments, such claims relate to the actual period of tenure of the official concerned, with reference to relevant records		
8.21. All claims relating to terminal benefits of the employees if any, drawn are supported by sanction orders / authorization of the competent authority and its computation is correct		
<b>Relevant references in TP Accounts Manual</b> <ul style="list-style-type: none"><li>• Expenditure on Salaries</li></ul>	<b>Chapter Ref</b> 5.2.9	<b>Process No</b> TP-09



### 5.5.2 Employee Service Record Updation

Auditor shall also verify if the aspects listed in **TP IA Checklist 9** noted in the monthly Pay Bills have been updated in the Service Books of the concerned employees.

#### TP IA Checklist 9: Employee Service Record Updation

Audit Checks	Sample checked	Remarks
<b>9. Employee Service Record Updation</b>		
9.1.		Leave account is promptly updated with the particulars of the leave that have been sanctioned to the employees in the pay bills and the balance of leave shown therein correctly.
9.2.		Changes in pay due to drawal of increments or revision of pay have been correctly updated.
9.3.		In the case of officials newly appointed, Service Books have been opened and all details required in Part I are recorded and attested.
9.4.		In case of officials on suspension, details of date of suspension and the Subsistence Allowance granted, where subsistence allowance is drawn have been recorded

### 5.5.3 Quick check of regular salary bills

This procedure can minimize the time required for audit of salary claims. This is a quick month on month reconciliation of Salary Bills. **Figure 2** provides a diagrammatic representation of the steps involved.

- **Step 1:** Ensure that the number of posts for which salary claims are preferred in the pay bill for the month for the establishments under each function tally with the details as per the Scale Register
- **Step 2:** Compare the gross salary claims prepared function-wise for each establishment for the month (eg: April) w. r. t. gross claims of previous month (eg: March)
- **Step 3:** Work out the amount of net difference in the gross amounts between the two months. Identify the names of the employees in whose cases changes in the gross claims are noticed.
- **Step 4:** Verify the reasons for the changes in gross salary for the persons identified in Step 3. Some common causes for difference could be:
  - amount claimed less due to non-drawal /part drawal of salary for the period of absence yet to be regularized as leave, or non / part drawal of salary of an employee shown as transferred out
  - salary amount drawn is more due to grant of annual increment or revision of pay or drawal of full or part of the salary in respect of an employee shown as transferred in and counted against a vacant post or against the employee shown as transferred out



- **Step 5:** Sum total of all differences identified in Step 4 should match with net difference identified in Step 3.
- The same procedure may be followed to compare claims of subsequent months to check the salary expenses of the months where discrepancies are noticed in Step 3 mentioned above, for the bills of the financial year under audit.
- The salary bills of any month where no differences are noticed at Step 3, the claims need not be verified further.

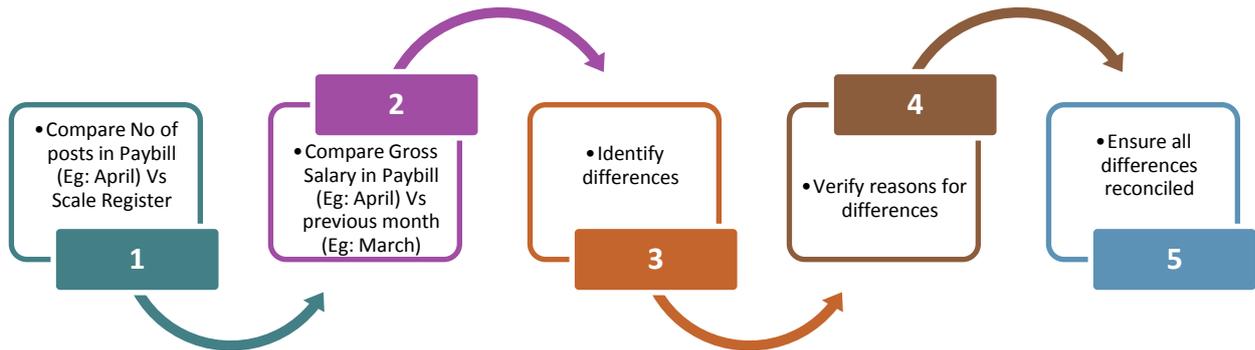


Figure 2: Salary Bills Quick Check

If all differences are supported with valid explanations and documentation, then the salary claims of the month have been correctly claimed. If differences are unexplained, auditor has to investigate further till the exact cause for difference is identified.



#### 5.5.4 Travel expenses of employees

The checks to be undertaken in respect of travel expenses of employees is in given in **TP IA Checklist 10**. In addition, the general checks in respect of all expenditure given in **TP IA Checklist 7** shall also be verified. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

#### TP IA Checklist 10: Travel Expenses

Audit Checks	Sample checked	Remarks
<b>10. Travel Expenses</b>		
10.1. Tour proposal of the employee is approved by competent authority		
10.2. TA bills are prepared in the prescribed form and supported with original bills where necessary		
10.3. The claims paid are in accordance with the rates prescribed in TA Rules		
10.4. The mode of journey, distance and the fare claimed are in accordance with rules		
10.5. TA bills of the EO are countersigned by CAO ZP		
10.6. TA bills are drawn from the same head of account from which salary is drawn		
10.7. The necessity and frequency of the travel are justified as seen from the purpose of the tour.		



### 5.5.5 Medical expenses

Employees are entitled for reimbursement of medical expenses as prescribed. Certain employees are entitled for monthly medical allowance in lieu of re-imburement of medical expenses, as per orders of Government. In such cases, same would have been drawn along with their monthly salary. This should be checked while auditing the salary bills of the employees.

Audit checks in respect of Medical Expense reimbursement is given in **TP IA Checklist 11**. In addition, the general checks in respect of all expenditure given in **TP IA Checklist 7** shall also be verified. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

#### TP IA Checklist 11: Medical Expenses

Audit Checks	Sample checked	Remarks
<b>11. Medical Expenses</b>		
When any bills towards medical expenses of an employee for continuous and prolonged treatment or specified surgery and treatment from a hospital/nursing home are paid, audit should verify and ensure that:-		
11.1. Employee has produced necessary prescription, certificate of non-availability of the prescribed medicines in stock in the hospital/nursing home		
11.2. Ward charges, if any claimed is as per treatment taken in an authorized hospital/nursing home approved by Government for taking treatment by Government employees		
11.3. If treatment involves only purchase of medicines either during stay as in-patient or out-patient, the category and rate of eligibility of the employee and the cost of medicines do not include any tonics/medicines meant for recoupment of health and the bills are signed by the authorized Medical Attendant and countersigned by the Head of the Institution		
11.4. Proper prescription, certificates, receipts and vouchers are enclosed to the bill		
11.5. Special sanction has been obtained if claims are preferred after three months of claims becoming due		
11.6. Condonation of delay has been obtained if claims preferred after one year		



## 5.6 PROCUREMENT OF WORKS, GOODS & SERVICES

The expenditure on works/goods/services is incurred at the TP as well as line departments. Such expenditure are out of untied grants, Central Scheme grants through the banking channel and the TP's own source revenue. The expenditure incurred is governed by the relevant statutes, orders, circulars and scheme guidelines. This process is detailed in the **TPAM Process Code TP-10**.

The aspects given in **TP IA Checklist 12** have to be scrutinised during IA. . In addition, the general checks in respect of all expenditure given in **TP IA Checklist 7** shall also be verified. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Procurement expenses are:

- i) Procurement procedures not followed as laid down by applicable statutes;
- ii) Procurement process is not objective and unbiased;
- iii) Contracts entered into are not at competitive and reasonable price, terms/conditions, etc.;
- iv) Excess payments to contractors;
- v) Payments made without sufficient checks and authorisations;
- vi) Delays in various stages of procurement; and
- vii) Errors/omissions in making Statutory deductions.

### TP IA Checklist 12: Procurement of Works/Goods/Services

Audit Checks	Sample checked	Remarks
<b>12. Procurement of Works, Goods &amp; Services</b>		
<b>General guidelines</b>		
12.1. The procurement of goods/services have been done in accordance with the KTPP Act and Rules there under or under the existing guidelines wherever procurement do not come under the purview of KTPP Act		
12.2. A 'Notice' inviting tender is prepared specifying name and address of the Tender Inviting Authority, name of the scheme/project/programme under which procurement is proposed, date from which and up to what date, time and place the tender document can be obtained, amount of EMD payable, last date of receipt of tender and time & place of opening tender etc.,		
12.3. Minimum time for submission of tender is allowed by the TP, as indicated in rule 17 of the KTPP		
12.4. Tenders received are opened on the date and time specified in the tender notice in the presence of the tenderers and procedure laid		



Audit Checks	Sample checked	Remarks
down in Rule 19 of KTPP followed 12.5. Work covered is included in the approved Action Plan 12.6. Budget provision is made under relevant fund and budget head of account to meet the work expenditure 12.7. Purchases should not be split up to avoid the necessity of obtaining sanction of higher authority 12.8. Availment of competitive rates is evident from the comparative statements and the supporting documents received 12.9. The rates paid should correspond to the lowest rates agreed to, in the relevant contracts or agreement		
<b>Procurement of Stores</b>		
12.10. Purchases should be covered by proper sanction and made in the most economical manner in accordance with the rules, regulation and orders issued by the Government 12.11. The goods received by the Stores are in good condition 12.12. Stores receipt has been taken into the Stores ledger 12.13. The stores receipt has been taken to TP Accounts under the correct head of accounts 12.14. The bill for supply of stores is accompanied by the Stock certificate issued by the Stores 12.15. Periodic verification of physical stock is done by the EO 12.16. Physical verification report is prepared by the EO and sent to ZP 12.17. In case of discrepancy between the stores ledger and physical verification action taken by the competent authority		
<b>Procurement of Works</b>		
12.18. Each work is accompanied by an estimate. Estimates prepared are based on the Schedule of Rate of PWD in force. Estimate is technically sanctioned and administration approval obtained. 12.19. Procurement procedure is followed strictly in accordance with KTPP Rules/relevant Government Orders 12.20. Mode of getting the work executed is decided by the competent authority 12.21. Work order stipulates the commencement date and expected date of completion 12.22. Work is executed as per timelines stipulated 12.23. Works executed are duly measured and recorded in the MBs by the authorized person, check measured by AEE and higher authorities wherever required 12.24. Signature of the contractor is obtained in MB 12.25. Work bills are prepared in the prescribed form based on the detailed measurements recorded in MB 12.26. Computation of the claims in the bill is correct and all deductions to be effected from the bill towards statutory deductions, security deposit, advance recoverable and other recoveries payable to other agencies/accounts, have been proposed for recovery and adjustment in the bill		



Audit Checks	Sample checked	Remarks
12.27. Arithmetical accuracy of claims with regard to quantity, rate and amount claimed is checked		
12.28. In case of running bills security deposits are deducted from the bills and deposited correctly to the Treasury/bank account		
12.29. Statutory deductions like Income Tax, VAT, royalty etc. are correctly computed and recovered by the PRED		
12.30. Bills are sent to the EO by the PRED for arranging payment		
12.31. EO has prepared a DC bill enclosing the work bills to the treasury for payment		
12.32. The EO has issued cheque of the concerned bank account for payment made through banking channels		
12.33. All works undertaken by the TP are entered in the Register of Works		
12.34. The final bill of the work is supported by the completion report		
12.35. Appropriate sanction is obtained from the competent authority for revised/modified estimates		
<b>Procurement of Services</b>		
12.36. The selection method adopted is either:		
<ul style="list-style-type: none"><li>• Quality and Cost Based Selection (QCBS)</li><li>• Least Cost Selection (LCS)</li><li>• Single Source Selection (SSS)</li></ul>		
12.37. Deviations in selection method are properly explained and authorised		
12.38. Weightage to both technical and financial aspects are given as necessary		
12.39. Officials working in the Government or its undertakings are not hired		
12.40. Proper TOR and RFP have been prepared and evaluated		
<b>Bill Processing &amp; Payment</b>		
12.41. All supporting documents such as approved Action Plan, Sanction Order, Measurement book etc. are available for every payment,		
12.42. Sufficient audit evidence is available to confirm the goods and services have actually been received/works been completed,		
12.43. The original bills for any articles purchased by the contractor are submitted by Vendor/Contractor adhering to the agreed terms and conditions,		
12.44. Bills have been verified and approved by competent authorities before passing for payment,		
12.45. Bill Register has been updated correctly,		
12.46. Sufficient controls are in place to identify duplicate bill submissions and prevent double payments,		
12.47. Claims in work bills are in agreement with details of measurements recorded in the MB and claimed at the agreed rate.		
12.48. In the instance of discrepancy in description, price, etc. between agreed, billed and actual goods/services/work; it has been		



Audit Checks	Sample checked	Remarks
<p>promptly identified and necessary action taken,</p> <p>12.49. Acknowledgements have to be taken for all cheque payments from Vendors/Contractors,</p> <p>12.50. Instances of missing acknowledgements have to be checked specifically and explanations obtained,</p> <p>12.51. Cheque Movement/Outward Register is updated with Cheque details,</p> <p>12.52. For all payments the following has to be checked:</p> <ul style="list-style-type: none"><li>a. Relevant statutory deductions for TDS, VAT, etc. are made,</li><li>b. Other deductions for security deposit, advance recoverable and other recoveries payable to other agencies/accounts, have been proposed for recovery and adjustment in the bill,</li><li>c. Penalties and damages for delayed/unsatisfactory performance have been levied as per contract terms;</li><li>d. all deductions have been adjusted to the respective heads of account in the books of the TP itself,</li><li>e. DC Bill/Bank Payment Vouchers have been prepared correctly and serially numbered</li><li>f. In case of Banking channel payment, an officer other than the cheque signing authority verifies the voucher before issue of cheque to Vendor.</li></ul>		
<b>Relevant references in TP Accounts Manual</b> <ul style="list-style-type: none"><li>• Expenditure on Works/Goods /Services</li></ul>	<b>Chapter Ref</b> 5.2.10	<b>Process No</b> TP-10



## 5.7 CAPITAL EXPENDITURE

The TP accounting policy on Capital Expenditure is that, expenditure on goods, works and services of a capital nature is charged to the respective capital expenditure head as and when paid. For goods procured of a capital nature, an entry is made in the fixed asset register on receipt of the goods. Expenditure on works of a capital nature is recognized as a fixed asset on completion of the work as duly certified. An entry is made in the fixed asset register for the total amount spent on that asset.

Therefore, all audit checks discussed in **TP IA Checklist 12** on Procurement are relevant for Capital Expenditure also. Certain additional checks are given in **TP IA Checklist 13**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Capital Expenditure are:

- i) Errors/omission in updation of Fixed Assets Register; and
- ii) Theft/loss/deterioration/misuse of TP Fixed Assets.

### TP IA Checklist 13: Capital Expenditure

Audit Checks	Sample checked	Remarks
<b>13. Capital expenditure</b>		
13.1. Expenditure accounted under the appropriate Capital Expenditure head of account		
13.2. In case of construction of Fixed Assets - on completion of a work, a completion certificate is prepared by the Engineering Department and the fact of completion of work noted in the Fixed Asset Register against the land on which building / structure constructed		
13.3. In case of purchase of Fixed Assets – Entries are made in Asset Register based on the certification of receipt of goods in good condition and according to specifications by the Officer concerned. Updation of the same in the concerned Stock Ledger is recorded on the relevant bills/invoices.		
13.4. The TP has carried out an Annual physical verification of fixed assets in a proper manner, and whether discrepancies, if any are properly dealt with		
13.5. Statutory deductions, as applicable, have been deducted from the bill amount and have been deposited to the concerned authority without delay.		



## 5.8 SCHEME RELATED EXPENDITURE

During IA it will be necessary to pay special attention to transactions relating to schemes implemented by the TP as well as the line departments.

The important points to be seen during audit of schemes are given in **TP IA Checklist 14** . In addition, the general checks in respect of all expenditure given in **TP IA Checklist 7** shall also be verified. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with scheme related expenditure are:

- i) Funds not expended as per scheme guidelines;
- ii) Scheme Grants not utilised within time;
- iii) Discrepancies in opening, maintaining and closing Scheme Bank Accounts;
- iv) Idle funds or wasteful expenditure; and
- v) Non-achievement of Scheme objectives.

### TP IA Checklist 14: Scheme related Expenditure

Audit Checks	Sample checked	Remarks
<b>14. Scheme related expenditure</b>		
14.1. Action plan is approved and estimates got sanctioned before execution of any work.		
14.2. Demand for subsequent instalments of scheme grants are raised regularly in accordance with scheme guidelines		
14.3. Expenditure has been incurred strictly in accordance with the guidelines / instructions issued in respect of the scheme and to serve solely the purpose for which the scheme has been sanctioned		
14.4. Cash accounts, Stores and Stock accounts, vouchers and requisite documents / records / registers are properly prepared and separately maintained, if so prescribed		
14.5. When moneys relating to a scheme are kept in a Bank, whether the opening of the Bank account and its continuance are duly authorised and whether remittances into and drawals from the Bank account are in order		
14.6. The physical and financial achievements with reference to prescribed targets are closely monitored by the TP EO by way of MPIC and KDP meetings and remedial steps are promptly taken in case shortfalls, lapses or defects come to notice		
14.7. Where funds are provided by the RDPR for construction of departmental buildings and staff quarters etc., entrusted to PRI Engineering Department's Division/Sub-division, the progress of works is properly monitored and suitable action is taken to get them completed on time is taken		
14.8. In respect of incomplete works, reasons for non-completion are		



Audit Checks	Sample checked	Remarks
ascertained, analysed and commented		
14.9. There are no instances of blocking of funds, wasteful or unfruitful expenditure (if no, give instances)		
14.10. Advances given if any, are recorded in the Advances Register and regularly monitored		
14.11. Unutilised amounts at the end of the year/scheme are refunded if so prescribed by the scheme/sanctioning authority		
14.12. Social and environmental audits where required by scheme guidelines are conducted regularly and the audit findings are acted upon		
14.13. Funds utilized have actually reached the genuine beneficiaries and best possible results are achieved		
14.14. Assets created out of grants are recorded separately in the register of fixed assets		
<b>Grants-in-aid</b>		
14.15. UCs have been obtained from all entities to which grants-in-aid have been given such as Societies and other implementation agencies		



### 5.8.1 Beneficiary Payments

Beneficiary payments could be in the form of SC/ST Scholarships, Hostel Fee payment for students, etc. All beneficiary payments are made against approved beneficiary lists under the scheme. The TPs reach out to the beneficiaries directly or indirectly by routing the beneficiary payments through GPs. The process for direct Beneficiary Payments is detailed in the **TPAM Process Code TP-12**.

Audit checklist related to Beneficiary payments is given in **TP IA Checklist 15**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Beneficiary Payments are:

- i) Non Adherence to respective Scheme guidelines;
- ii) Payments made to unauthorised persons;
- iii) Errors/omission in payment to approved Beneficiary;
- iv) Errors in accounting payments under correct Scheme Head of Account; and
- v) Social Audit observations and recommendations overlooked.

#### TP IA Checklist 15: Beneficiary payments

Audit Checks	Sample checked	Remarks
<b>15. Beneficiary Payments</b>		
<b>Direct payment made by the TP</b>		
15.1. Proper documents are maintained to prove that the beneficiaries under each scheme are properly selected by following the procedure laid down in the guidelines of the scheme		
15.2. Expenditure statements, certificates, statements, etc. and progress reports are regularly submitted to the Controlling Officer and the other authorities by the due dates as prescribed. Such statements or accounts are correct and complete in all respects and their genuineness is verifiable from the original initial records maintained in the office.		
15.3. Every payment is supported by an approved beneficiary list and an approved Action Plan		
15.4. Due checks have been exercised to establish the identity and entitlement of the beneficiary		
15.5. Cheques paid to beneficiaries as shown in the TP records are actually shown as such in the bank statement/Treasury schedule		
15.6. All beneficiary payments are duly acknowledged		
15.7. Any delays in deposit of cheques by the beneficiaries are followed up and necessary action taken		
15.8. Where cheques have been reissued/revalidated, necessary entries are made in the books of account		
15.9. Where money has been routed through banks/intermediaries, such payments have actually reached the beneficiary		



Audit Checks	Sample checked	Remarks
15.10. Correct accounting entry in the relevant scheme and head of account has been passed		
15.11. In case of payment through Banking Channel, an officer other than the cheque signing authority i.e., AAO/AA has verified the voucher before issue of cheque to beneficiary. Entry updated correctly in the appropriate Scheme Cash Book, Scheme Expenditure Ledger and Cheque Outward Register		
15.12. In case of payment through Treasury Channel - Entry updated in the RET Register and Cheque Movement Register		
15.13. The intended benefits of the scheme have actually accrued to the beneficiaries		
15.14. Social audits where required by scheme guidelines are conducted regularly and the audit findings are acted upon		
15.15. In the case of schemes undertaken for the benefit of S.C. / S.T., Women and Children / Backward Classes, etc., coming under the purview of the Social Welfare Department, etc., the necessary certificates such as Caste certificate, income certificate, age certificate, etc., as prescribed are obtained from the authority competent to give such a certificate, before a person is identified as a beneficiary under the scheme.		
15.16. Contributions from beneficiaries, if prescribed, have been recovered and properly accounted for		
<b>Beneficiary payments made through other implementation agencies</b>		
15.17. Implementation agency has submitted an approved list of Beneficiaries for each scheme		
15.18. In case of beneficiary payments through GPs or line departments, follow up action is taken to ascertain that benefits have actually reached the beneficiaries		
<b>Relevant references in TP Accounts Manual</b> <ul style="list-style-type: none"><li>Beneficiary Payments</li></ul>	<b>Chapter Ref</b> 5.2.12	<b>Process No</b> TP-12



### 5.8.2 Utilisation Certificate Preparation

TPs prepare and submit Utilization Certificates for all Central Schemes as required by the scheme guidelines during monthly/annual accounts compilation. The period of coverage of the Utilisation Certificate is determined by the Scheme Guidelines. The Utilisation Certificate prepared is sent to the ZP CAO within the time prescribed in the scheme guidelines.

Specific checks in respect of UC preparation are given in **TP IA Checklist 16**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with UC preparation are:

- i) Errors/omissions in preparing UCs; and
- ii) Delays in UC submission.

#### TP IA Checklist 16: UC Preparation

Audit Checks	Sample checked	Remarks
<b>16. UC Preparation</b> 16.1. Where necessary, UCs for schemes are sent for each year separately in time in the prescribed format 16.2. All amounts received are accounted for in respective UC 16.3. Interest, other amounts received and opening & closing balances relating to scheme are also indicated in UCs 16.4. Expenditure shown in UCs tally with the expenditure as per relevant ledger account, Receipts and Payments. 16.5. Previous years' Closing Balance is correctly brought forward as Opening Balance for the current year in UC		
<b>Relevant references in TP Accounts Manual</b> • UC Preparation	<b>Chapter Ref</b> 5.2.13	<b>Process No</b> TP-13



## 5.9 CONTINGENT EXPENDITURE

The term “Contingent Charges” or “Contingencies” means and includes all incidental and other expenses which are incurred for the management of an office as an office or for the technical working of a department other than those which under prescribed rules of classification of Expenditure fall under some other head of expenditure<sup>7</sup>. The main items that are common to most offices are expenditure on furniture, books and periodicals, service postage and telegrams, bicycles, electric charges, cleaning charges, customs duty on imported stores, freight charges. Apart from the general checks mentioned in **TP IA Checklist 7** of this manual, certain additional checks are given in **TP IA Checklist 17**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Contingent Expenditure are:

- i) Expenses incurred without proper sanction;
- ii) Multiple claims honored in respect of same bill; and
- iii) Errors/omissions in making statutory deductions.

### TP IA Checklist 17: Contingent Expenditure

Audit Checks	Sample checked	Remarks
<b>17. Contingent Expenditure</b> 17.1. Each voucher bears a pay order signed by the competent authority specifying the amount both in words and figures. 17.2. All the paid vouchers have been stamped “paid and cancelled” by the paying authority so that these may not be misused. 17.3. Sanction to the expenditure has been attached with the original bill. 17.4. Progressive totals of expenditure under various sub-heads are being checked from time to time so that expenditure does not exceed the budgetary allotment. 17.5. Statutory deductions, as applicable, have been deducted from the bill amount and have been deposited to the concerned authority without delay.		

<sup>7</sup> Rule 2(a) of Manual of Contingent Expenditure, 1958



## 5.10 EXPENDITURE - LINE DEPARTMENTS

The expenditure made by Line Departments is out of budgetary releases received from the TP. The Line Department expenditure includes both plan and non-plan expenditure. The expenditure incurred by the line departments on taluk level schemes is recorded in the TP books and the corresponding vouchers are also maintained in the TP. The TP EO is the countersigning authority for all line department expenditure apart from salaries. This process has been detailed in **TPAM Process TP-11**. Line Department related expenditure is audited during the Local Audit. Necessity of Line department visit and extent of check is determined by the IAO during each audit.

The list of checks in respect of expenditure audit of Line Departments in addition to the general checks given in **TP IA Checklist 7** and specific checks in **Section 5.5 to 5.9** are given in **TP IA Checklist 18**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Expenditure of Line Departments are:

- i) Excessive/wrong payments in respect of Line Department expenditure;
- ii) Line Department expenditure bills not sufficiently scrutinized by TP EO;
- iii) Excessive time delays in passing bills; and
- iv) Errors/omissions in accounting Line Department expenditure.

### TP IA Checklist 18: Expenditure - Line Departments

Audit Checks	Sample checked	Remarks
<b>18. Expenditure - Line Departments</b> 18.1.All Non Salary Treasury bills have been countersigned by TP EO 18.2.Bills are passed within reasonable time (if not, provide instances of delay) 18.3.Bills received by counter signature are processed within time by the EO 18.4.The TP EO has actually exercised the checks before countersigning the bills 18.5.Regular updation of Counter Signature Register 18.6.On receipt of the monthly Treasury Schedules, payments side of the RET Register is updated with the details of Line Department expenditure. This is recorded correctly under the appropriate Heads of account (till the object code level) 18.7.Statutory deductions, as applicable, have been deducted from the bill amount and have been deposited to the concerned authority without delay.		
<b>Relevant references in TP Accounts Manual</b>	<b>Chapter Ref</b>	<b>Process No</b>
<ul style="list-style-type: none"><li>• Expenditure by Line Departments</li><li>• Counter Signature of Bills</li></ul>	5.2.11 5.3	TP-11 -



## 5.11 STATUTORY DEDUCTIONS AND REMITTANCES

TP is responsible for effecting all applicable statutory deductions such as Income Tax, VAT, Service Tax, Royalty, Cesses etc. out of expenditure bills. Remittance of deductions made through the Treasury channel is paid centrally by the State Government. The TP EO is responsible for remitting all statutory deductions made through the banking channel. In both the cases, the actual filing of required returns is the responsibility of the TP EO. The audit for remittances and deductions shall include the aspects given in **TP IA Checklist 19**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with statutory deductions and remittances are:

- i) Errors/omission in statutory deductions and its remittance;
- ii) Accounting entry errors; and
- iii) Penalties due to statutory non-compliance.

### TP IA Checklist 19: Statutory deductions and remittances

Audit Checks	Sample checked	Remarks
<b>19. Statutory deductions and remittances</b>		
19.1. Recoveries are made in accordance with the applicable laws		
19.2. There are no non-recovery/short recovery of statutory deductions		
19.3. Recoveries are promptly remitted to the respective authority/department		
19.4. There are no instances of penalty due to delay/deviation		
19.5. All documents related to deductions and remittances are maintained properly by the TP		
19.6. Periodic returns are filed within due dates to respective authorities		
19.7. The deductions through the Treasury channel are remitted by the Treasury in time and proof of such remittance is provided to the TP		
19.8. Deduction statements provided by Treasury are reconciled with TP books		
<b>Relevant references in TP Accounts Manual</b>	<b>Chapter Ref</b>	<b>Process No</b>
• Other transactions of TP	5.2.13	-



## 5.12 EARNEST MONEY DEPOSIT

EMD is collected from prospective contractors/supplier of goods/works/services. The EMD is in the form of Account Payee DD or bank guarantee as prescribed. The EMD of unsuccessful bidders is either returned without depositing the DD into the Treasury/Bank account or refunded where it was deposited in the first instance. The EMD of the successful bidder shall be deposited into the Treasury/appropriate Scheme Bank account and refunded in accordance with the conditions of the contract.

Audit checks necessary in case of EMD has been given in **TP IA Checklist 20**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Earnest Money Deposits are:

- i) Errors/Omissions in updating registers; and
- ii) Errors/Delays in refunding EMD.

### TP IA Checklist 20: Earnest Money Deposits

Audit Checks	Sample checked	Remarks
<b>20. Earnest Money Deposits</b>		
20.1. Receipts have been issued acknowledging EMD received		
20.2. Receipts are serially numbered. Missing/cancelled Receipts have to be checked specifically and explanations obtained		
20.3. Collection & Remittance register has to be updated correctly with the Deposit details		
20.4. EMD taken from unsuccessful bidders are returned back to the respective bidders in time and updated in the Deposit Register		
20.5. EMD of the successful bidder is deposited to the Treasury/Bank in a timely manner		
20.6. Entry in the correct head of account has been made for the EMD remittance		
20.7. Deposit Register is updated correctly with EMD details		
20.8. Refund of EMD is made after proper approval and supporting completion certificate		
20.9. Refund entry against the correct head of account has been made		
20.10. Refund details updated in the Deposit Register		
20.11. EMD where forfeited is supported by necessary approvals		
20.12. Balances of EMD outstanding shown in the monthly/annual accounts conforms to the Deposit Register		
<b>Relevant references in TP Accounts Manual</b>	<b>Chapter Ref</b>	<b>Process No</b>
• Expenditure on Works/Goods /Services	5.2.10	TP-10



### 5.13 SECURITY DEPOSIT

Security deposits are mainly collected from contractors to ensure proper performance. A percentage of running works bills is retained as security deposit by the TPs. This is refunded to the Contractor after proper completion of contract. Security deposits are also collected from officials handling cash and stores in certain cases.

Aspects to be checked in respect of Security Deposits are given in **TP IA Checklist 21**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Security Deposits are:

- i) Errors/omissions in updating deposit/refund/forfeiture in Deposit Register; and
- ii) Deposit refunded to contractor before satisfactory performance.

#### TP IA Checklist 21: Security Deposits

Audit Checks	Sample checked	Remarks
<b>21. Security Deposits</b>		
<b>General</b>		
21.1. Balances of Security Deposit outstanding shown in the monthly/annual accounts conforms to the Deposit Register		
21.2. Security Deposits deducted from the Contractors/taken from employees are updated in the Deposits Register		
21.3. Forfeiture of Security Deposits is made under proper authorization		
<b>From Contractors</b>		
21.4. The security deposit is recovered correctly out of payments made to the contractor as per the terms of the contract.		
21.5. The Security deposit of the contractor is refunded after the performance terms stipulated in the contract have been satisfactorily complied.		
21.6. Refund has been made against duly authorized Deposit Refund/Adjustment Advice and the noting made in the Deposit Register for refund of deposit.		
21.7. Entry for refund of deposit has been made against the original entry in the Deposit Register		
<b>From Employees</b>		
21.8. Security Deposits from employees are received in accordance with applicable rules under proper authority		
21.9. Refund of security deposits from employees is made on satisfaction of the applicable conditions		
<b>Relevant references in TP Accounts Manual</b>	<b>Chapter Ref</b>	<b>Process No</b>
• Other transactions of TP	5.2.13	-



## 5.14 ADVANCES

### 5.14.1 Permanent advances

In case of Permanent Advances that have been sanctioned to officers of TP, Audit has to check the controls given in **TP IA Checklist 22**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Permanent Advances are:

- i) Advances not settled in time with appropriate supporting bills and vouchers; and
- ii) Advances not tracked properly and recouped.

#### TP IA Checklist 22: Permanent Advances

Audit Checks	Sample checked	Remarks
<b>22. Permanent Advances</b>		
22.1. The procedure of sanction and revision of Permanent advance as prescribed in the Manual of Contingent Expenditure are adhered to.		
22.2. Permanent Advance is sanctioned by the appropriate authority.		
22.3. Permanent Advances sanctioned are recorded in a 'Register of Advances' by the Accounts Department		
22.4. All payments made out of PA are accounted chronologically on the dates of payment in the 'Register of Contingent Expenditure' in MCE Form 1		
22.5. Permanent Advance is recouped once in a month or earlier on submission of supporting documents		
22.6. If the advance is spent, the amount is recouped by preferring a DC bill. DC bill is submitted with all the supporting vouchers and the expenditure is charged to the relevant head of account.		
22.7. At the end of each year, a certificate of permanent advance held by the officers to whom it is sanctioned is obtained and reconciled with the balances appearing in the accounts		
22.8. Balances of Permanent Advance outstanding shown in the monthly/annual accounts conforms to the Advances Register		
<b>Relevant references in TP Accounts Manual</b>	<b>Chapter Ref</b>	<b>Process No</b>
<ul style="list-style-type: none"><li>• Other transactions of TP</li></ul>	5.2.13	-



### 5.14.2 Advances to employees

Audit has to check the controls given in **TP IA Checklist 23** in respect of employee advances. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Employee Advances are:

- i) Advances not settled in time with appropriate supporting bills and vouchers;
- ii) Advances not tracked properly and recouped; and
- iii) Interest/penalty not levied properly.

#### TP IA Checklist 23: Employee Advances

Audit Checks	Sample checked	Remarks
<b>23. Employee Advances</b>		
<b>General</b>		
23.1. Registers of House building/Motor Cycle advance and other advances are being maintained in the prescribed formats		
23.2. Interest calculation and fixation of installment and the amount adjustable from Salary are regulated as prescribed in the relevant rules.		
23.3. Outstanding advances to be recovered are noted in the relevant recovery register as per the Last Pay Certificate (LPC) in respect of deputed officials during the Audit period, and recoveries effected promptly		
23.4. In respect of officials transferred out of TP during the audit period, the copy of the LPC maintained in the LPC book of TP indicates the details of outstanding advances as on the date of release of the official		
23.5. The requisite procedure relating to execution of agreements, mortgaging/deposit of title deeds or hypothecation of vehicle to Govt., etc are complied with in respect of advances sanctioned to TP employees other than deputed officials and the documents are obtained and kept in safe custody in the Finance Section of the TP and entered in the Register of valuable documents, in respect of advances sanctioned by TP and in other cases in the offices of the sanctioning authority		
23.6. Penal rate of interest at the prescribed rates is charged in case of defaulters		
<b>Travel/LTC Advances</b>		
23.7. There are no long outstanding advances (outstanding for more than 3 months) made to employees		
23.8. Advances outstanding for more than a year are treated as relinquished and recovered fully from the employee		
23.9. Any travel advance paid to employees is adjusted against claims before making final payment.		
23.10. Balances of Employee Advance outstanding shown in the		



Audit Checks	Sample checked	Remarks
monthly/annual accounts conforms to the respective Advance Registers		

### 5.14.3 Advances to suppliers and contractors

Advances may be paid to suppliers & contractors and adjusted against receipt of materials or recovered from running work bills. No advances to suppliers and contractors should be made unless payment of such advances has been permitted under the terms of contract or it has been authorized under the trade practice in vogue for the supply or the contract conceived payment of advances. In all such cases, it has to be seen in audit whether controls given in **TP IA Checklist 24** exist, sufficient and functioning. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Advances to suppliers & contractors are:

- i) Advances not adjusted properly in bills; and
- ii) Advance payment not in line with contract terms.

#### TP IA Checklist 24: Advances to suppliers & contractors

Audit Checks	Sample checked	Remarks
<b>24. Advances to suppliers &amp; contractors</b>		
24.1. The terms of contract provide for payment of the advance		
24.2. The terms of contract provide for adequate protection to the TP for claiming the advances back with penalties in the event of breach of contract		
24.3. The advance is limited to the minimum admissible and is not paid far ahead of the prescribed time		
24.4. A proper record of such advances is kept and recovery/adjustment is watched throughout		
24.5. All advances and their recoveries are properly recorded in the Advances Register		
24.6. Adequate provision exists for inspection of material/work for which advance is paid and it is scrupulously observed;		
24.7. Before final payment to Suppliers/Contractors to whom advances have been made, it is ensured that adjustments are made correctly before issuing cheque		
24.8. In case of non-adjustment of advances within the prescribed time, action in accordance with the terms of contract is initiated		
24.9. In respect of running contracts for works/supply and payment of advances a periodical account settlement takes place and balances stand duly accepted by either parties		
24.10. Balances of Advance outstanding shown in the monthly/annual accounts conforms to the respective Advance Registers		

### 5.15 STORES



The accounting policy is to account stock purchased as expenditure in TP books under the relevant heads of account. Currently TPs do not maintain any significant levels of stores. The checks provided in **TP IA Checklist 25** have to be conducted with respect to stores maintained by the TP.

The **key risks** associated with Stores are:

- i) Errors/omission in updation of Stores Register; and
- ii) Theft/loss/deterioration/misuse of Stores items.

#### TP IA Checklist 25: Stores

Audit Checks	Sample checked	Remarks
<b>25. Stores</b>		
25.1. A Stores Register has been maintained to record quantitative details of items purchased and utilized.		
25.2. Periodic physical verification is undertaken to ensure the physical stock matches with the Stock Register balance.		
25.3. Discrepancies are identified and appropriate action initiated		
25.4. Sufficient controls exist to maintain the safety and condition of items held in stock		
25.5. Disposal of stores is under proper authorization and by following prescribed procedures		

#### 5.16 CASH & BANK

Cash transactions are minimal in a TP. However, the internal control on cash must be thorough as cash is the most liquid of all assets. It will be the primary function of internal audit to trace cash transactions to their source and to see that adequate arrangements exist for recording such transaction and for protecting cash against fraud and misappropriation. Money lying in the bank account of the EO should be utilized for the purposes for which it is meant at the earliest possible. IA personnel shall perform surprise cash verifications to validate the internal controls on cash. Internal Audit will ensure the existence of internal control by verifying the aspects given in **TP IA Checklist 26**.

The **key risks** associated with Cash & Bank are:

- i) Cash/Bank book not promptly updated; and
- ii) Cash or cheques being mishandled, stolen, misappropriated, lost, etc.



## TP IA Checklist 26: Cash &amp; Bank

Audit Checks	Sample checked	Remarks
<b>26. Cash &amp; Bank</b>		
26.1. The Cash Book is promptly posted, kept up-to-date and supporting documents are checked daily by the Accounts personnel.		
26.2. There are no unauthorised corrections in the cash book and the entries have been attested wherever required		
26.3. Cash in hand is not excessive having regard to daily cash requirements of the TP Office/Line Departments		
26.4. Strict control is exercised over the custody of unused receipt forms/cheque books and issue of receipt forms/ cheque books		
26.5. Physical counting of cash at the end of each day and its reconciliation with the book balance is done on daily basis by the AAO		
26.6. There are no cases of holding cash significantly in excess of requirements.		
26.7. There is no unreasonable delay in depositing receipts with the Bank.		
26.8. Cheques are signed only by the TP EO		
26.9. Bank transfers and requisitions for issue of demand drafts are signed by the TP EO		
26.10. Vouchers are suitably numbered defaced to prevent the same being used again		
26.11. Payment entries in the cash book conform to the entries in the Cheque Movement Register		
26.12. There is adequate control over custody and usage of blank cheques		
26.13. Cancelled cheques are marked properly to avoid reuse		
26.14. Rules regarding the safe custody of cash, cash chest are followed (Rules 327 to 352 under Chapter 20 of KFC), policies for insurance of cash in transit and cash in chest are kept current and the employees handling the cash have furnished the required security and the fidelity bonds are kept current		
26.15. Adherence to Rules in respect of cheques as given in clauses 66 to 78 under Chapter IV in KFC		
26.16. Details of action taken in respect of any cases of theft/loss/defalcation, if any that has been located/detected during the audit period are available		
26.17. The balances as shown by the Cash books conform to the monthly/annual accounts		



## 5.17 RECONCILIATIONS

### 5.17.1 Bank Reconciliation

Checks to be exercised are given in **TP IA Checklist 27**.

#### TP IA Checklist 27: Bank Reconciliation

Audit Checks	Sample checked	Remarks
<b>27. Bank Reconciliation</b>		
27.1. Ensure that all the Bank Accounts are reconciled every month both at the TP Office & Line Departments		
27.2. Any discrepancies ought to be checked and suitable action taken to rectify them. For Example, trace the cheques issued but not cleared to bank statement of the successive period; Follow-up cheques deposited in Bank but not credited by the bank, etc.		
27.3. Obtain periodically a certificate from the banks confirming the balance with the bank and tally the same in the Bank Statement		
27.4. Test check computation of interest, commission and other charges debited by bank to ensure its correctness.		
27.5. Whether the monthly/annual accounts contain reconciliation statements for all bank accounts of the TP		
27.6. Stale/bounced cheques are identified regularly and necessary entries for reversal are passed in the books of account		

### 5.17.2 Treasury Reconciliation

Treasury officer forwards every month Treasury Schedules to the TP, showing the Opening Balance, Receipts, Total Payments and Closing Balance under various funds concerned with the TP. The Treasury Schedules consist of a Plus and Minus Memorandum, Receipts Schedule, Payments Schedule and supporting challans and vouchers. The Treasury Schedules are records with the registers maintained by the TP before accounts compilation. Checks to be exercised with respect to reconciliation of Treasury Schedules are given in **TP IA Checklist 28**.

#### TP IA Checklist 28: Treasury Reconciliation

Audit Checks	Sample checked	Remarks
<b>28. Treasury Reconciliation</b>		
28.1. There are no misclassification of Heads of Account between the monthly/annual accounts and the Treasury Schedules;		
28.2. The balances in the TP registers conform to the Treasury Schedules and a reconciliation statement is available for any differences		
28.3. The reconciliation statement is duly authorized and forms part of the monthly/annual accounts		
28.4. The figures in the Plus and Minus Memorandum and TP records should be checked by the TP Accounts department and differences		



Audit Checks	Sample checked	Remarks
between the two reconciled promptly every month. 28.5. Any errors noticed in the accounts rendered by the treasuries are noticed by the TP at the time of compilation, the same are brought to the notice of treasury for remedying the errors, by the TP, promptly.		
<b><u>Reversal of lapsed funds</u></b>		
28.6. The EO has certified the reconciled all the fund balances of the TP with the Treasury at the end of the year before reversal of Fund II balance by the Treasury		
28.7. Entries for funds lapsed and written back by the Treasury, communicated to TP are appropriately noted in the TP books		

### 5.17.3 Line Department expenditure Reconciliation

On a monthly basis, the accounts staff of the line departments have to reconcile their records with the expenditure figures recorded by the TP (based on the Treasury Schedules received). Checks to be exercised with regard to line department expenditure reconciliation are given in **TP IA Checklist 29**.

#### TP IA Checklist 29: Line Department Expenditure Reconciliation

Audit Checks	Sample checked	Remarks
<b>29. Line Department Expenditure Reconciliation</b>		
29.1. The monthly Statement of Expenditure covers all payments made during the month.		
29.2. The monthly Statement of Expenditure is prepared after reconciliation of the line department records with the figures recorded in the TP books		
29.3. There are no instances of delays/non submittal of the Statement of Expenditure to the TP EO (if no, give details).		
29.4. Discrepancies identified have been rectified and necessary action initiated.		
29.5. The expenditure incurred correlates to the releases made by the TP to the line department		
29.6. Instances of under/over drawals for expenditure are identified and suitable action taken		



## 5.18 ACCOUNTS COMPILATION

Accounts compilation covers all the activities related to accounts and financial transactions of the TP. EO is responsible for accounts of the TP and he shall be assisted by AAO of the TP and other Accounts staff. Accounts are compiled at the TP on a monthly and annual basis, based on the treasury schedules received from the treasury and detailed accounts received from the implementing officers of central plan schemes operated through bank accounts. The Monthly/Annual accounts of the TP have to be prepared as per the MPAS formats issued by the Comptroller and Auditor General of India since 2008.

Accounts compilation and period end procedures have been detailed in **Chapter 6 of TPAM**. The key checks in this respect have been given in **TP IA Checklist 30**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with Accounts compilation are:

- i) Significant errors/omission in Annual/monthly accounts prepared;
- ii) Delays in preparation and submission of monthly/annual accounts; and
- iii) Loss of credibility of the TP resulting from non-reliable reports.

### TP IA Checklist 30: Accounts Compilation

Audit Checks	Sample checked	Remarks
<b>30. Accounts Compilation</b>		
30.1. Key registers listed in TPAM has been maintained for accounts compilation		
30.2. Accounts are prepared and compiled as per the formats given in TPAM		
30.3. Monthly/Annual Accounts are prepared and submitted on time adhering to the timelines prescribed in TPAM		
30.4. Certified Statements of Expenditure is obtained from all line departments		
30.5. Figures in monthly/annual accounts with respect to line departments tally with the certified Statements of Expenditure		
30.6. All entries are completed before TP Trial Balance is generated		
30.7. All reconciliations are completed before TP Trial Balance is generated		
30.8. The figures in the accounts compiled match the figures in the Consolidated Abstract of Receipts & Payments and the TP Trial Balance		
30.9. All Fund/Bank balances are tallied/reconciled with the corresponding Treasury/Bank statements		
30.10. No entries/corrections are made after the period end cut-off date		
30.11. The approved figures in the annual accounts are tallied/reconciled with the consolidated Treasury Schedules		



Audit Checks	Sample checked	Remarks
30.12. UCs are generated for all active schemes with correct opening balance, receipts, utilisations and closing balance. This closing balance has been reconciled with the respective bank statement. 30.13. Monthly/Annual accounts are duly approved by the TP Body 30.14. Approved TP accounts and UCs are submitted in time to respective ZP		
<b>Relevant references in TP Accounts Manual</b> <ul style="list-style-type: none"><li>• Accounts Compilation</li></ul>	<b>Chapter Ref</b> 6	<b>Process No</b> -



## 5.19 IT RELATED CONTROLS

With the implementation of Khajane II, PRIs will function under fully automated environment. Most of the workflows will also be computerized. Hence it is essential to audit the controls related to this IT environment. These may be broadly classified as physical controls and access controls. Physical controls include measures to secure the IT assets physically such as entry restrictions, power back-ups, etc. Access controls include measures to ensure information within the IT system is accessed only by authorised personnel; such as password controls, proper procedures for User ID issue, etc.

The foremost check is to ensure that the importance of Information confidentiality and security has been communicated throughout the organisation. Information security is the responsibility of every employee.

Essential checks to ensure that IT controls have not been compromised have been given in **TP IA Checklist 31**. The sample to be checked, extent of audit, etc. has to be determined based on assessment of risk and materiality.

The **key risks** associated with IT control failure are:

- i) Sensitive/confidential information accessed by unauthorised persons;
- ii) Serious system failures/breakdowns;
- iii) Unauthorised tampering of IT software/hardware; and
- iv) Errors in reports generated by IT system.

### TP IA Checklist 31: IT related controls

Audit Checks	Sample checked	Remarks
<b>31. IT related controls</b>		
<b>General Checks</b>		
31.1. Employees are asked to sign confidentiality or non-disclosure agreement as a part of their initial terms and conditions of the employment		
31.2. There is a formal disciplinary process in place for employees who have violated organisational security policies and procedures. Such a process acts as a deterrent to employees who might otherwise disregard security procedures.		
31.3. The duties and areas of responsibility are separated reducing opportunities for unauthorised modification or misuse of information or services.		
<b>Physical Controls</b>		
31.4. There is a policy of identifying resources and media based on their level of sensitivity		
31.5. The disposal process for IT hardware is commensurate with each		



Audit Checks	Sample checked	Remarks
<p>level of sensitivity</p> <p>31.6. There are adequate physical border security facilities implemented to protect the Information processing area. Some examples of such security facility are card control for entry gate, walls, manned reception etc.</p> <p>31.7. Visitors are required to record their entry inside the premises in a separate register</p> <p>31.8. Sufficient entry controls are in place to allow only authorised personnel into various areas within organisation. Outside staff/visitors are supervised or escorted</p> <p>31.9. Measure to minimise risk from potential threats such as theft, fire, explosives, smoke, water, dust, vibration, chemical effects, electrical supply interfaces, electromagnetic radiation, flood, etc. have been taken</p> <p>31.10. Equipments are protected from power failures by multiple feeds, through uninterruptible power supply (UPS), backup generator etc.</p> <p>31.11. UPS/generators are maintained regularly</p> <p>31.12. Equipment/Storage device containing sensitive information is physically destroyed or securely over-written</p> <p>31.13. Equipment, information or software cannot be taken off-site without appropriate authorization</p>		
<p><b>User ID Controls</b></p>		
<p>31.14. There is an Access Control Policy that lays out the rules and rights for each user or a group of users</p> <p>31.15. A formal process exists for user registration, deregistration, granting access to multi-user information systems and services.</p> <p>31.16. All user account creations are approved by appropriate authority</p> <p>31.17. There are standard rights profiles for different functions or tasks</p> <p>31.18. There is a well defined process for revoking user rights on termination of employment</p> <p>31.19. IT department is promptly informed of every employee termination</p> <p>31.20. There are NO instances where former employees hold previously issued passes or user ID</p> <p>31.21. Sufficient controls are in place to ensure that all entry and access rights of transferred/retired/ resigned employees employee are revoked and deleted immediately on termination</p> <p>31.22. In case contractual relationship with outside staff is terminated, are all access authorisations revoked or deleted promptly</p> <p>31.23. There is a process to review user access rights at regular intervals</p> <p>31.24. All user accounts are identifiable to a user and generic user-ids, which cannot be attributed to any individual, are not allowed</p> <p>31.25. More than one user id has not been given to any user</p> <p>31.26. All default vendor admin/user accounts in the application have been disabled</p> <p>31.27. Auditors are provided with read only access</p>		



Audit Checks	Sample checked	Remarks
<b>Password Controls</b>		
31.28. The allocation and reallocation of passwords is controlled through a formal management process		
31.29. Users are asked to sign a statement to keep the password confidential		
31.30. Users are informed properly on how to handle passwords correctly		
31.31. Password quality is controlled. Such as alphanumeric, min length of eight characters, etc.		
31.32. Password changes are mandatory		
31.33. Password entry is disabled after three unsuccessful log-on attempts		
31.34. There are guidelines in place to guide users in selecting and maintaining secure passwords		
<b>Other Access Controls</b>		
31.35. Access-granting is logged and such logs are analysed		
31.36. Control exist against malicious software usage		
31.37. Usage of unauthorised software is strictly prohibited		
31.38. Antivirus software is installed on the computers to check and isolate or remove any viruses from computer and media.		
31.39. Antivirus software is updated on a regular basis to check any latest viruses		
31.40. All the traffic originating from un-trusted network into the organisation is checked for viruses. Example: Checking for viruses on email, email attachments and on the web, FTP traffic.		
31.41. Periodic runs of a virus detection program have been automated		
31.42. All received files and data media are checked for virus infection before being imported		
31.43. Audit logs are maintained for any change made to the programs. and these are periodically analysed		

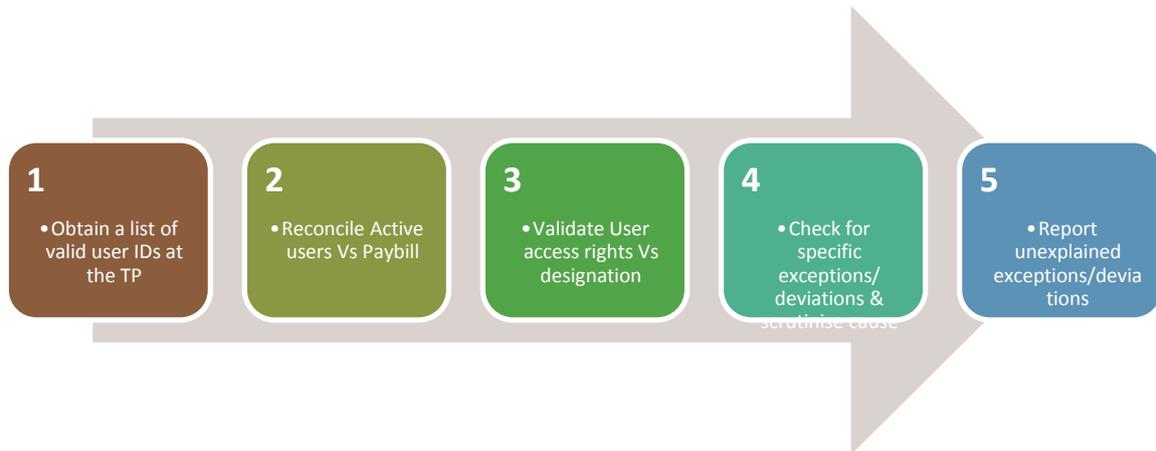
### 5.19.1 Quick check on access rights

The following procedure enables auditor to make a quick check on the access rights assignment controls in the TP. **Figure 3** provides a diagrammatic representation of the steps involved.

- **Step 1:** Obtain a list of valid user IDs at the TP.
- **Step 2:** Reconcile Active users to those present in the location as per Pay Bill.
- **Step 3:** Validate User access rights with the designation of the users.
- **Step 4:** Check for the following instances-
  - Users with long durations of inactive status and verify reasons
  - Users with transaction deletion authority and ensure all such users have authority to delete



- User IDs that are used on days the User was on leave
- Disabled User IDs - check whether these have been done immediately after their names have been removed from the attendance register.
- **Step 5:** Report all unexplained exceptions and deviations observed in Step 3 & 4.

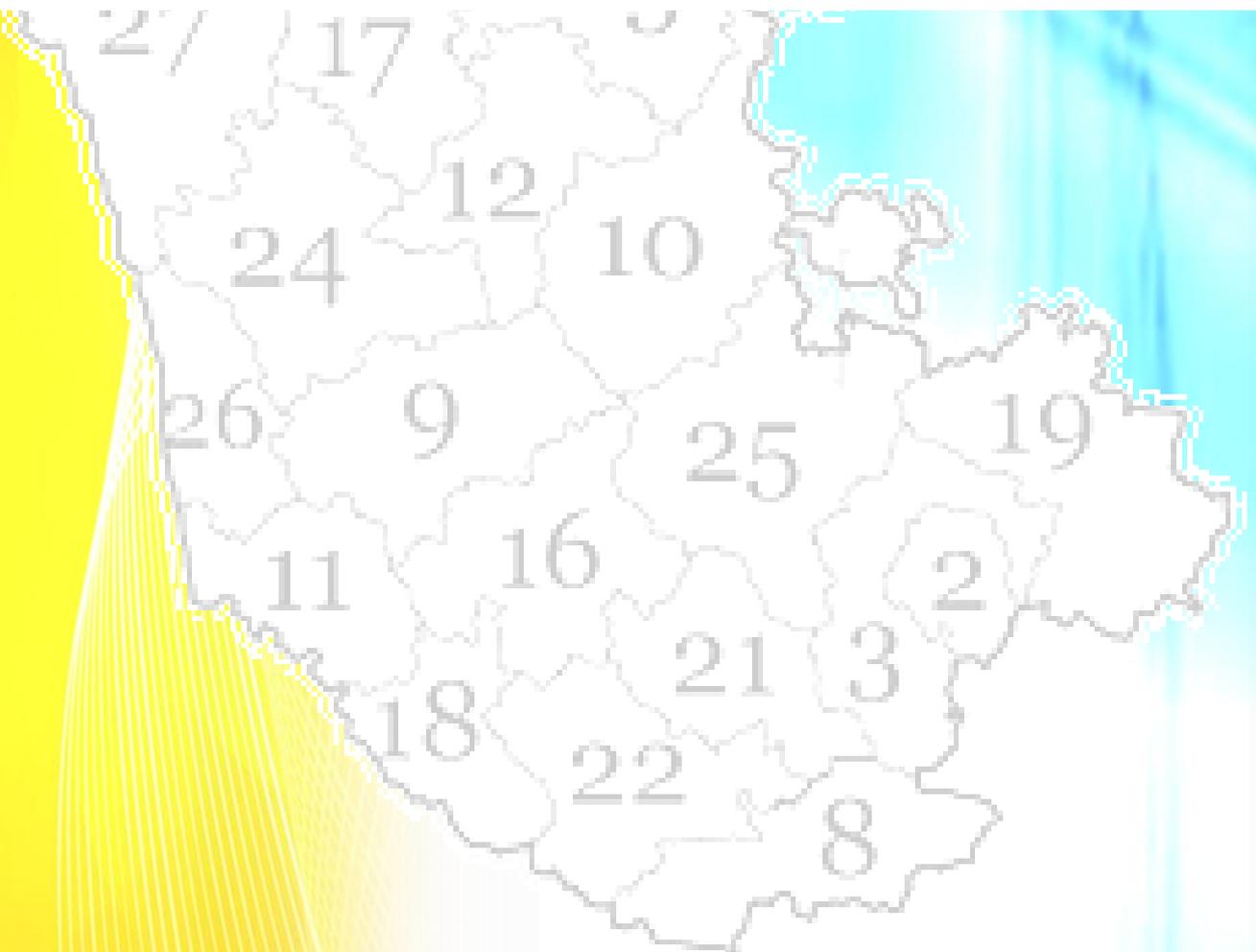


**Figure 3: Quick check of Access Rights**



## CHAPTER 6

## REPORTING





## 6 REPORTING

### 6.1 STEPS IN PREPARING AUDIT REPORT

After conducting the audit by completing all the checklists and adhering to the audit plan and programme, the following are the steps involved in preparation of the audit report:

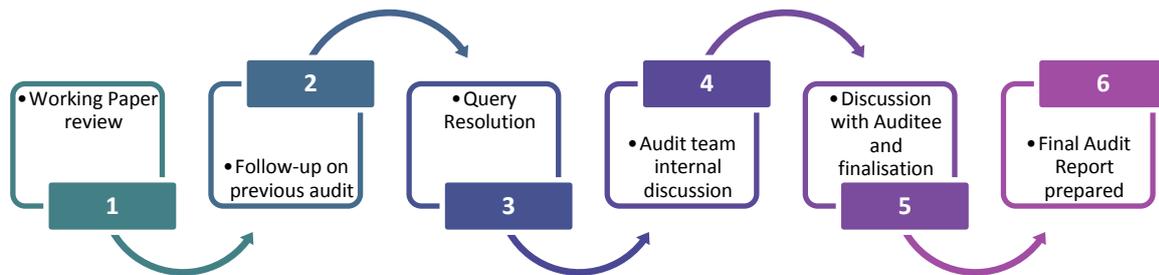


Figure 4: Steps in preparing audit report

**Step 1: Working Papers review** - The IAO has to review all the working papers (including those of IAAs) to ensure that-

- a. the quality of working paper preparation and maintenance is appropriate,
- b. all areas of audit have been completed as planned,
- c. collection of audit evidence is proper, and
- d. all queries raised have been resolved or marked to be included in Audit Report.

**Step 2: Follow-up on previous reports** - An update on the status of implementation/Action taken in respect of audit observations made in the previous Audit Reports has to be taken.

**Step 3: Query resolution** - Any pending queries have to be resolved with the auditee. All additional clarifications and documents reviewed have to be recorded in the working paper.

**Step 4: Audit team Internal Discussion** - All audit observations noted shall be consolidated and discussed internally by the audit team. At the end of the discussion, all the observations that are intended to be included in the draft report shall be listed.

**Step 5: Discussion with auditee and Finalisation** - The IAO leading the respective Audit team shall compile all the audit observations, prepare a draft report and discuss them with the respective TP EO/ line departmental officer. Detailed minutes of such discussions have to be maintained including the explanations given by Auditee, any additional information



collected, any documents inspected, etc. Discussions with auditee may result in any of the following outcomes:

- Observation is accepted by auditee and a suitable corrective action is agreed on - In this case the observation is reported with auditee comments and agreed action.
- Observation is not accepted and auditee provides further evidence to convince the auditor to drop the item from the report/modify it - In this case the auditor inspects further documents to confirm that the observation is not reportable or a modification is necessary and prepares necessary working papers to support the decision. The observation is dropped from/modified in the final report.

Any serious observation such as Fraud has to be brought to the immediate attention of the respective RIAO.

### **Step 6: Preparation of Final audit report**

#### **6.2 PREPARATION OF AUDIT REPORTS**

The Internal Audit Report is the end product of every Audit. It is through this media the auditor expresses his observations on the test of financial transactions with regard to regularity and propriety as well as on the Financial Statements and other data under audit. The report must contain all pertinent information to satisfy audit objectives and should be complete with appropriate background information and audit conclusions. Report should be correct, objective, convincing, concise and clear. The audit report must in particular cover the following aspects:

- Audit report has to be drafted after taking the auditee responses into consideration.
- Audit Report should include a section on the status of implementation/Action taken in respect of Audit observations made in the previous Audit Report.
- The final audit report shall include the following:
  - a) Report Number& Date,
  - b) Areas Covered,
  - c) Period Covered,
  - d) Critical Financial Statistics & Performance Indicators
  - e) Audit Observations
    - Observations of previous reports outstanding compliance
    - Observation of current audit,
  - f) Follow Up Action – Responsibility, Deadline, Remarks.

The final report shall be signed by the IAO & respective EO.



### 6.3 FINAL REPORT SUBMISSION

---

The final Internal Audit report of each TP shall be prepared in four copies as follows:

- i) One copy to be placed before the Finance, Audit and Planning Committee of the respective TP;
- ii) One copy to be submitted to the respective EO;
- iii) One copy to be submitted to the respective RIAO; and
- iv) One copy to be filed in the respective TP audit file.

### 6.4 FORMATS

---

Format for audit report to TPs has been provided in **Form IAM 4** in **Annex 2**. This is an indicative format, it may be customized to suit specific requirements of the IA. IA of TPs is conducted on samples and not 100% of transactions, hence the details of sampling methodology adopted, samples checked, materiality, etc. have to be provided where appropriate. This is key to user's understanding of the internal audit report.

### 6.5 CONSOLIDATED AUDIT REPORT

---

After completion of the quarterly audit cycle, the IAOs shall present the Consolidated TP Internal Audit Report for all Taluks under their supervision to the respective RIAOs. The RIAOs shall prepare and submit the Regional TP Internal Audit Reports to the CoIA.

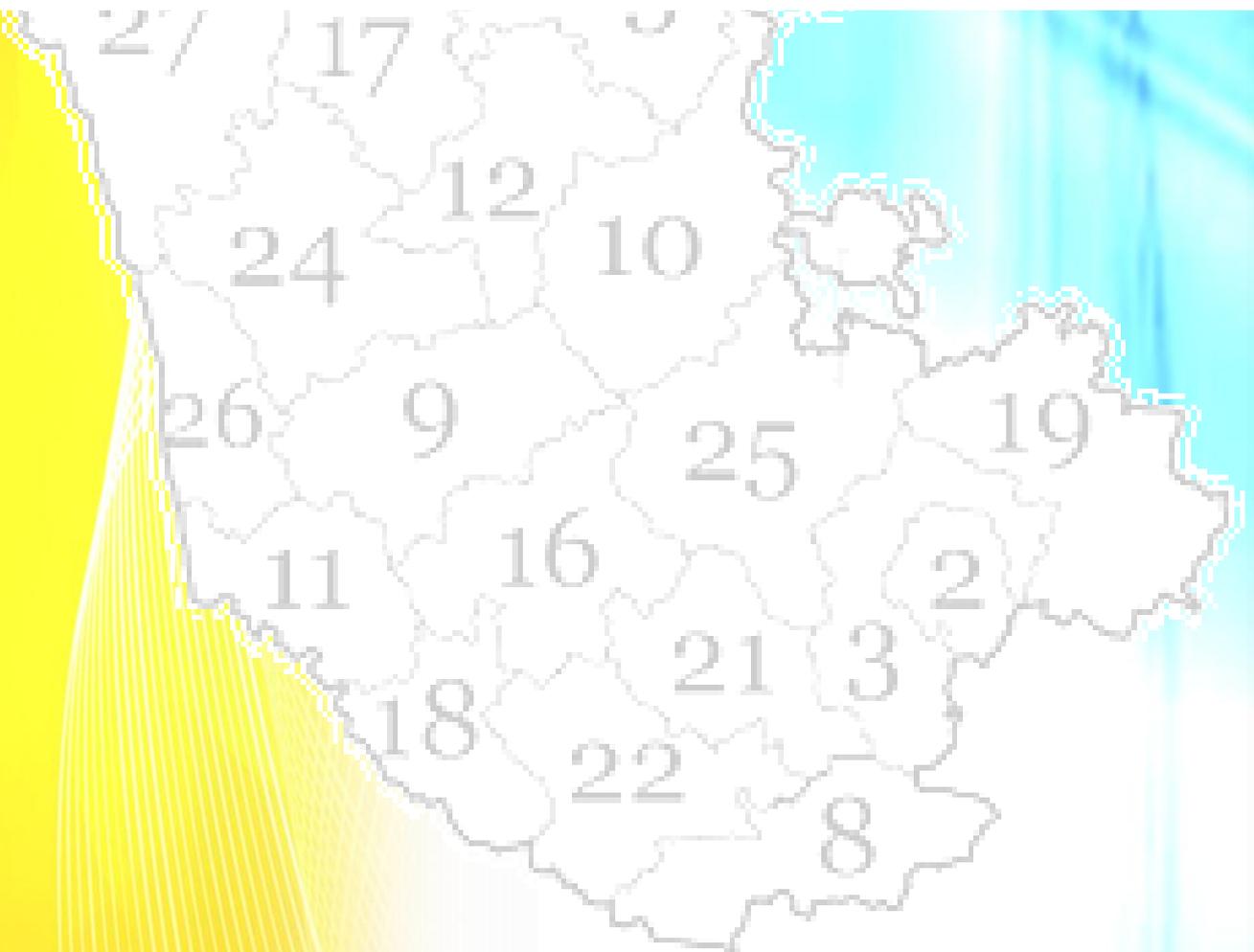
The CoIA shall in turn inspect the Region Level reports, ask for further clarifications/explanations if necessary and prepare the Consolidated PRI Audit Report. The Consolidated PRI Audit Report shall cover internal audit of ZPs and GPs apart from TPs. This report will also include the CoIA's suggested remedial actions to overcome the Internal Control defects reported.

The CoIA shall discuss the Consolidated PRI Audit Report with the IFA. After consultation, the report shall be submitted to the Secretary RDPR. The recommendations in the Report will suggest various actions to be initiated to improve the Internal Control system of PRIs and plug the gaps reported by IAW.



## CHAPTER 7

# AUDIT MONITORING SYSTEM





## 7 AUDIT MONITORING SYSTEM

---

The IAW is expected to handle the audit of all the PRIs in Karnataka. This implies that in a year the IAW will be handling the internal audits of 176 TPs. Further, the scope of IAW may be extended to cover the ZPs and GPs in the state as well. Also each entity is expected to be audited on a quarterly basis. Considering the task at hand, IAW will require a computerized environment to manage the audits. This can be achieved by implementing a Central Audit Monitoring System.

This chapter intends to lay out the basic functionality requirements of an Audit Monitoring System.

Audit monitoring system may be loosely defined as a system that provides end-to-end computerised functionalities for managing the complete audit lifecycle. This includes audit planning and scheduling, development of standard audit plans, development of audit reports, recommendations, review of audit recommendations by auditees and implementation of audit recommendations.

### 7.1 KEY FUNCTIONALITY

---

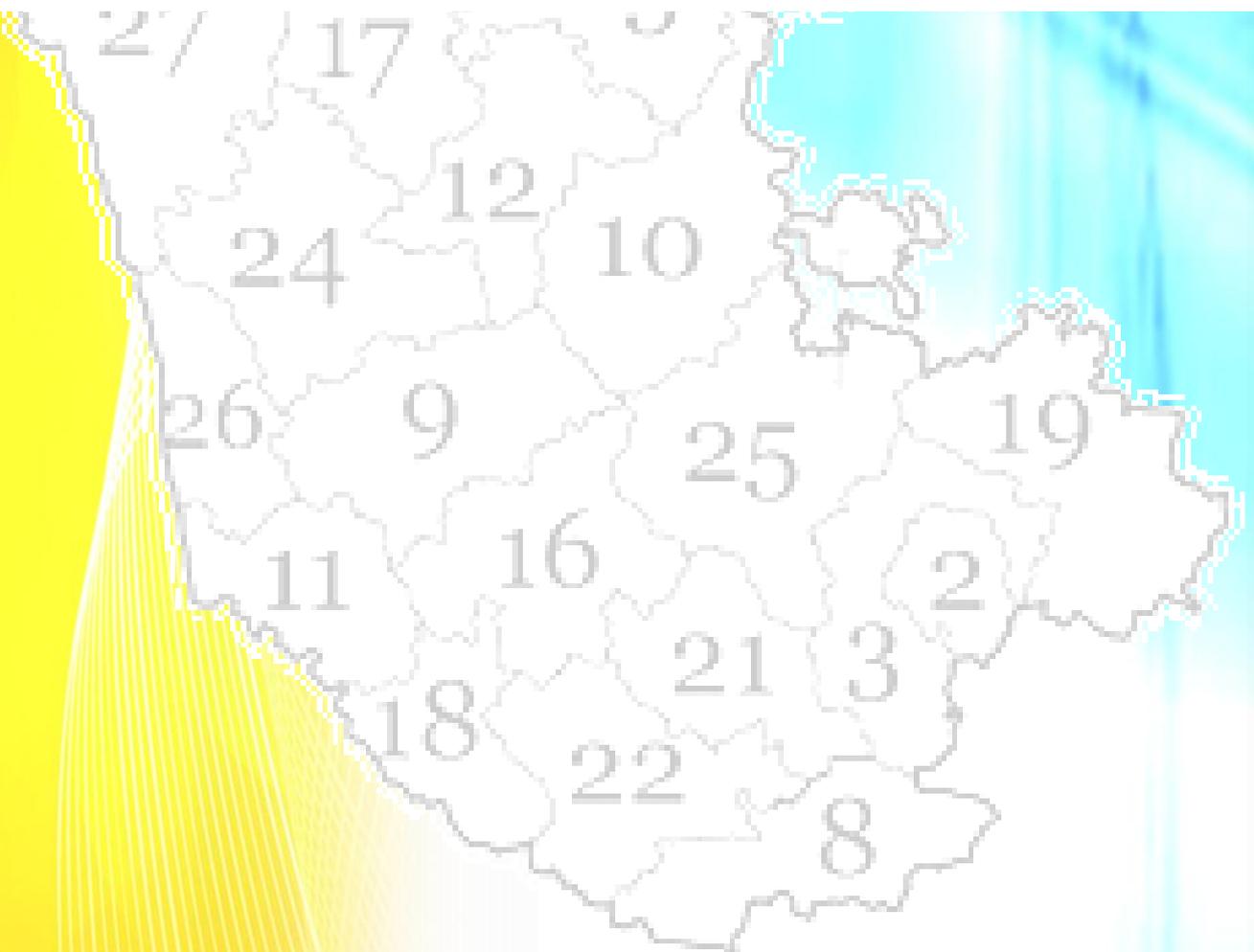
The following are the key functionalities required in an Audit Monitoring System:

- i) Key indicators review
- ii) Audit Planning
- iii) Audit Programmes
- iv) Audit Calendar
- v) Resource allocation to audits
- vi) Tracking audit commencement, progress and closure
- vii) Logging in audit reports - drafts and final reports
- viii) Including recommendations, internal reviews/comments, etc.
- ix) Numbering/coding and archiving audit reports, audit paras, working papers, information collected, etc.
- x) Para-wise audit exception/issue tracking
- xi) Para-wise auditee action follow- up
- xii) MIS on IA function
  - a. Status of audits
  - b. Report on status of action taken on audit recommendations
  - c. Audit plan adherence report
  - d. Resource Idle time tracking

**Note:** This is an indicative list, IAW requirements study is necessary to make a list that is more exhaustive.



## ANNEXES





## ANNEX 1: KEY INTERNAL AUDIT CONCEPTS

---

### INTERNAL CONTROL & RISK

---

#### Internal Control

Internal control<sup>8</sup>, or management control, helps to provide reasonable assurance that the organization

- adheres to laws, regulations, and management directives;
- promotes orderly, economical, efficient, and effective operations and achieves planned outcomes;
- safeguards resources against fraud, waste, abuse, and mismanagement; and
- develops and maintains reliable financial and management information and fairly discloses that data through timely reporting.

#### Common Internal Control Practices

- Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.
- Internal control practices are often designed to comply with internal control standards developed and promulgated by a central authority, usually designated by a legislative body.
- An organization's workforce is effectively trained and managed so as to achieve results.
- Performance indicators are developed and monitored.
- Key duties and responsibilities are divided among people to reduce the risk of error or fraud. That is, duties are segregated.
- Managers compare actual performance to planned or expected results and analyze differences.
- Information processing is controlled, such as through edit checks of data entered.
- Physical control is established to secure and safeguard all vulnerable assets.
- Access to resources and records is limited to authorized individuals. Accountability for their custody and use is assigned and maintained.
- Transactions and other significant events are authorized and executed only by persons acting within the scope of their authority.
- Internal control and all transactions and other significant events are clearly documented and the documentation is readily available for examination.

---

<sup>8</sup>Source: INTOSAI GOV 9120 (Internal Control: Providing a Foundation for Accountability in Government) published by - The International Standards of Supreme Audit Institutions, ISSAI, are issued by the International Organization of Supreme Audit Institutions, INTOSAI.



Auditors are a part of a governmental organization's internal control framework, but they are not responsible for implementing specific internal control procedures in an audited organization. That is properly management's job.

The auditors' role is to audit an organization's internal control policies, practices, and procedures to assure that controls are adequate to achieve the organization's mission.

Although auditors may be part of the organization they audit, it is important and necessary that the auditors' independence be maintained. For its part, management can demonstrate its support by emphasizing the value of independent and objective auditing. Management should also identify areas for improving performance quality and respond to information developed through audits.

### **Risks**

Some of the different types of risks (arising due to internal and external factors) which Government faces today and which emphasize the need for an internal control system in Government are as follows<sup>9</sup>:

- Project/Scheme related risks such as :
  - Project delays, cost overruns, and inadequate quality standards;
  - Inconsistent scheme objectives resulting in unwanted outcomes;
  - Failure to evaluate pilot projects properly before a new service is introduced and that may result in problems when the service becomes fully operational;
- Third Party related risks such as :
  - Failure of contractors, partners or other Government agencies to provide services as required;
  - Continuing debate and growing experience over transfer of risk (in capital projects and service delivery) to the private sector;
- Risk of Loss or misappropriation of funds through fraud or impropriety;
- Economic risks – such as low economic growth, reduced tax revenue and opportunities to provide wide range of services or limit the availability or quality of existing services;
- Technical risk to keep pace with technical developments, or investment in inappropriate or mismatched technology;
- Other risks such as threats from adverse events such as natural disasters, terrorist attacks, threat of chemical and biological attack, or catastrophe.

---

<sup>9</sup>Source: Volume I published by Internal Control and Risk Management Framework Project of Department of Administrative Reforms and Public Grievances (DARPG)



## RISK BASED AUDIT

---

Traditional audits focus primarily on compliance with rules and procedures, and their recommendations may not give management enough information about the achievement of organizational goals. RBA involves high-level risk profiling of the audit portfolio over time; thus it facilitates strategic use of scarce audit resources, aligns audit efforts with management objectives, facilitates institutional development, and reduces risk exposure by focusing attention on areas of weakness. In RBA, risk is measured by assessing the ethical climate, competence of personnel, size of assets and of operations, materiality, and results of previous audits. Direct probability estimates, normative tables, and comparative risk ranking are typically used to identify risk. Risk factors are then converted from conceptual and subjective (qualitative) data into quantitative data. An overall risk score is derived by scoring and weighing the risk factors. The result is a risk-based engagement plan that guides the deployment of audit resources to high-risk areas.

## AUDIT SAMPLING

---

Population is the entire collection of data from which conclusions are expected to be drawn. A sample is a group of items selected from the population. A sample is generally selected for audit because the population is too large to study in its entirety. For example, during audit of scheme expenditure, the complete set of transactions pertaining to scheme expenditure in the audited period will be the population. Top 25% of the transactions by value may be the audit sample.

"Audit sampling" means the application of audit procedures to less than 100% of the items within an account balance or class of transactions to enable the internal auditor to obtain and evaluate audit evidence about some characteristics of the items selected in order to form a conclusion concerning the population. When designing an audit sample, auditors should consider the following factors:

- **Audit Objectives:** Auditors should first consider the specific audit objectives to be achieved and the audit procedures which are likely to best achieve those objectives. For example, when performing tests over the auditee's procurement procedures, auditors are concerned with matters such as whether the bill was clerically checked and properly approved.
- **Population:** The Auditors should determine that the population from which the sample is drawn is appropriate for the specific audit objective and complete.
- **Factors affecting Sample Size:** These have been tabulated below:



Factors affecting Sample Size	Conditions leading to	
	Smaller Sample Size	Larger Sample Size
1. Assessment of risk of control inadequacy/failure	Higher assessment of control risk	Lower assessment of control risk
2. Expected error	Smaller expected errors, individually or in aggregate	Larger expected errors, individually or in aggregate
3. Population value	Smaller monetary significance to the financial statements	Larger monetary significance to the financial statements
4. Number of items in population	Virtually no effect on sample size unless population is small	

The basis of Sampling may be broadly classified as statistical and non-statistical sampling.

### Statistical sampling

Any approach to sampling that uses random sample selection **and** probability theory to:

- evaluate sample results (quantitatively); **and**
- measure sampling risk.

The two main types of statistical sampling are

- Attribute sampling and
- Variables sampling.

**Attribute sampling** is concerned with testing items which can have only two possible values (e.g., 0 or 1) or attributes (e.g., correct or incorrect). It is used to provide information about rates of occurrence of events or characteristics. It is most widely used in tests of control (to determine rates of non-compliance within control procedures) and Monetary Unit Sampling.

**Variables sampling** is concerned with testing items which can take any value within a continuous range and is therefore used in substantive tests of details.

### Non-statistical sampling

Any approach to sampling which does not fulfil **all** the characteristics set out above for statistical sampling. Such approaches are often referred to as judgement sampling. However, as statistical sampling also requires judgment, the term non-statistical is preferred.

## METHODS OF SAMPLE SELECTION

### 1) Random number selection

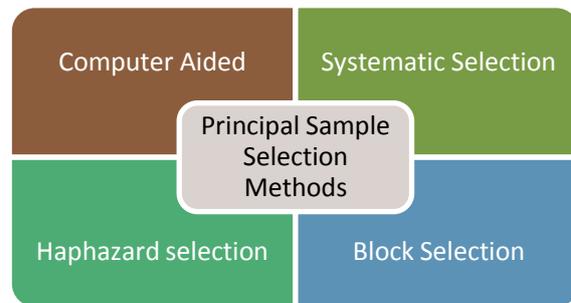
In this method, every item in a population has the same statistical probability of being selected as every other item. Random numbers are selected using a computer program or random number tables. For example if a sample has to be selected from 350 people using random table, use numbers from the table/generated by system whose last 3 digits are



between 0 and 350. If the random number is 23957, no item is selected because the last 3 digits (957) is greater than 350. This number is skipped and moved on to the next one. If the number is 84301, the person in the population who is assigned the number 301 is selected. This is continued until the entire sample is selected.

## 2) Systematic selection

This method requires the calculation of a uniform sampling interval which is obtained by dividing the population by the sample size. For example, suppose a sample of 8 houses has to be taken from a street of 120 houses.  $120/8=15$ , so every 15th house is chosen after a random starting point between 1 and 15. If the random starting point is 11, then the houses selected are 11, 26, 41, 56, 71, 86, 101, and 116.



Care must be taken to ensure that the population is not structured in such a way that the sampling interval corresponds to a pattern in the population. For example, if cash book payments are written up by cheques in date order with all the bank statement entries (direct debits, bank charges, etc.) being recorded at each month end, a sample could be biased towards a particular transaction type.

## 3) Haphazard selection

This method attempts to give all items in a population a chance of selection by choosing items haphazardly. To avoid conscious bias it is necessary to avoid favouring middle items, ignoring first and last items, selection of unusual items, etc. Sometimes it is the only practical method (in terms of time and cost) of selecting a sample from a population which cannot be accessed using a numerical sequence. Though sometimes used for non-statistical sampling it is not sufficiently rigorous for statistical sampling. An example of Haphazard Sampling would be standing on a busy corner during rush hour and interviewing people who pass by.

## 4) Block Selection

This method consists of the selection 'en bloc' of adjacent transactions or items.

There are two major drawbacks:

- a block selected may not be typical of the characteristics in the population as a whole; and
- relatively few blocks may be selected. It is, therefore, unlikely that a reasonable conclusion can be drawn.



Nevertheless significant cost savings in audit time can result and practical considerations may dictate its use. An example of block selection is where the auditor may examine all the payments to vendors in the month of January. Similarly, the auditor may only examine payment vouchers that are numbered 300 to 340.

## AUDIT EVIDENCE

Audit evidence may be defined as the information used by the auditor in arriving at the audit report. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information collected by auditor during the course of audit. The auditor has to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining **sufficient and appropriate audit evidence**. Appropriateness includes relevance and reliability of audit evidence.

**Sufficiency and Appropriateness** of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. For example, a single instance of non-updation of the Cheque Movement Register is NOT sufficient to include the observation in the audit report. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.

**Relevance** refers to the logical connection of evidence with the purpose of the audit procedure or the assertion under consideration. **Reliability** of information to be used as audit evidence is influenced by its source and its nature, and the circumstances under which it is obtained.

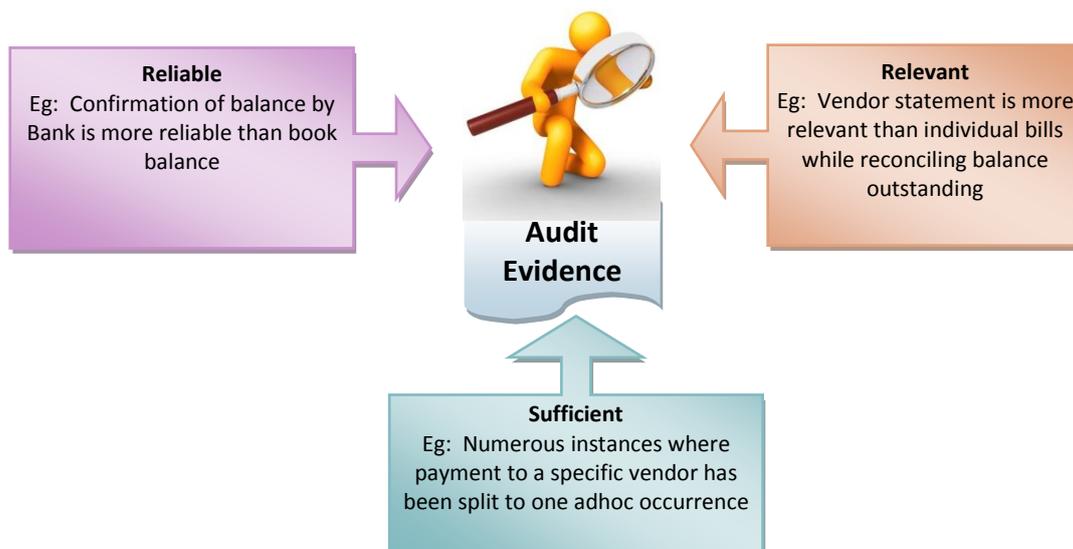


Figure 5: Audit Evidence characteristics

The primary types of Audit Evidence are:



- ❖ **Physical examination** - Inspection or count by the auditor of a tangible asset such as fixed assets, stock, cash, etc.
- ❖ **Confirmations** - The receipt of a written or oral response from an independent third party. Such as Bank/Vendor providing a confirmation of balance, etc.
- ❖ **Documentation** - As part of audit supporting evidence files have to be examined. Documents may be internal or external. Generally, external documents are more reliable than internal documents. Documents are vouched to examine if they support a recorded transaction or amount.
- ❖ **Analytical Procedures** - Audit studies relationships among data. Unusual fluctuations occur when
  - significant difference are not expected but do exist (For example there is no additions/deletions of employees but the paybill is significantly higher) or
  - when significant differences are expected but do not exist (For example a number of employees have resigned but the paybill remains the same). These procedures are required during the planning and completion phases on all audits.
- ❖ **Inquiries of the Client** - Auditor obtains information from the client in response to questions. Although much evidence is obtained through inquiry, it cannot be regarded as conclusive and may be biased in the client's favor.
- ❖ **Re-performance** – Re-performance involves rechecking a sample of the computations and transfers of information. Rechecking of computations consists of testing mathematical accuracy. Rechecking of transfers of information involves seeing if information is recorded consistently in the accounting records.
- ❖ **Observation** - Auditor witnesses the physical activities of the auditee. This differs from physical examination because physical examination counts assets, while observation focuses on auditee's activities.

## VOUCHING

Vouching is considered to be the backbone of auditing. Vouching is a substantive audit procedure which aims at verifying the genuineness and validity of a transaction contained in the accounting records. It involves examination of documentary evidence to support the genuineness of transaction. If the primary document is wrong or irregular, the whole accounting statement would be wrong and irregular

When vouching/examining a transaction, the essential points to be ensured are:

- The date of the voucher falls within the accounting period;
- Voucher/transactions therein are duly and properly authorized by the relevant signatory;
- The transactions being examined belongs to the entity and took place during the relevant period;



- The transaction is recorded in the proper account;
- All transactions which have actually occurred have been recorded; and
- The voucher that is being examined need to be properly supported with all and relevant documents.

## WORKING PAPERS

---

Audit working papers serve four major purposes. Firstly they constitute a permanent record of the objectives and scope of the audit, as well as the work performed during the audit. Work papers organize and coordinate all phases of the audit. They contain the back-up material in support of the audit findings, conclusions, opinions, and comments. They contain the basic material from which the audit report is prepared. They reflect the quality and reliability of the work performed by the auditor and substantiate and explain in detail the opinions and findings presented to management.

Information obtained through audits should be treated as confidential not only to outsiders but also to employees of the TP audited who would not otherwise have access to the information. Further, the working papers include information concerning the scope of the examination and the extent of selective tests made, and this information should not be available to the staff of the audited entity. Therefore, audit working papers should be safeguarded at all times against the possibility of them being examined by unauthorized persons.



## ANNEX 2: FORMATS

---

### Form IAM 1- Audit Calendar

Audit Calendar for the Quarter \_\_\_\_\_

Region:

Prepared By:

Date:

Approved By:

Date:

1	2	3	4	5
TP Name	Resource Names	Start Date	End Date	Estimated Mandays
Example:				
Hubli	AAA-IAO	01-Apr-13	07-Apr-13	5
	BBB- IAA	01-Apr-13	07-Apr-13	5

---



**Form IAM 2- Region-wise Quarterly Audit Time Table**

**Quarterly Audit Time Table and resource allocation**

Region:

Prepared By:

Approved By:

Date:

Date:

TP Name	W1	W2	W3	W4	W5	W6	W7	W8	W9	W10	W11	W12	W13
<b>District &lt;AAA&gt;</b>													
TP1	IAO												
TP2		IAO											
TP3			IAO										
TP4				IAO									
TP5					IAO								
..... <All TPs under the respective district>													
<b>District &lt;BBB&gt;</b>													
TP36	IAO												
TP37		IAO											
TP38			IAO										
TP39				IAO									
TP40					IAO								
.....													
..... <All Districts and TPs under the respective Region>													

**Key**

IAO Name of the IAO & IAA scheduled to conduct the audit

**Form IAM 3- Audit Plan & Programme****Internal Audit Wing  
Audit Plan & Programme****Region:****District:****Objectives:****Scope:****Audit Steps To Be Completed****A. Planning and Administration Section**

1. Review the Permanent File and prior working papers, including policies/procedures, organizational charts, agreements, previous reports, etc.
2. Conduct audit planning meeting with IAO and document discussion held. The following should be discussed:
  - Timing of audit kick-off meeting / planned participants in the meeting
  - Timing of fieldwork
  - Risk areas / internal controls
  - Audit objectives
  - Assignment of audit objectives (if more than one auditor is working on audit)
  - Testing to be performed (if this can be determined at this time)
  - Estimated hours  
(Audit calendar in Form IAM1 has to be prepared & attached)
3. Send Intimation letter to TP
4. Schedule the audit kick-off meeting with auditee. Discussions held should be documented and include the following:
  - Timing of the audit
  - Audit objectives
  - Key contacts for the audit
5. Send an information request list to the auditee. Items to consider:
  - GOs, circulars, internal policies, etc.
  - Relevant agreements/contracts
  - Organizational charts
  - Relevant reports utilized by the auditee
  - Strategic documents (e.g. budgets, action plans)
  - Registers

**B. Fieldwork**

This may vary based on risk assessed during TP Key Indicators review. Different audit objectives, samples, etc. may be prescribed for the different risk categories.

**1. Audit Area-wise: Ex- Rent Receipts**

- a. Risk Assessed : Ex -Medium
- b. Extent of check : Ex - top 50% value of transactions
- c. Sampling details : Ex - Random sample



<b>Audit Steps To Be Completed</b>
<b>2. Second Objective</b>  a.  b.  c.
<b>3. Add Additional Objectives as Necessary</b>
<b>C. Communicate Results</b>  1. As testing is completed, any issues found should be communicated to the auditee to confirm the results. 2. After verification of the issues, a summary of findings form should be completed and sent to the auditee so that a response (i.e., action plan and target date) can be developed. 3. Submit work papers for IAO review as audit steps are completed. This will help facilitate timely review. 4. Clear all appropriate review notes.
<b>D. Close Out and Submit Report</b>  1. Prepare Draft Report and submit for review. 2. Conduct an exit meeting with auditee to discuss issues noted during the audit and obtain agreement on the issues. 3. Communicate to the auditee their responsibilities in addressing the issue found. 4. Discuss the recommendations, action plans and timelines for addressing the issue. 5. Based on the discussion, make any necessary changes to the report and submit for appropriate review. 6. Issue Final Report after review is completed.

**Prepared By:**

**Date:**

**Approved By:**

**Date:**



**Form IAM 4- Internal Audit Report Format**

<b>Audit Report No &amp; Date:</b> TP Name/MMM-YY/Number					
<b>Part A: Brief details of the auditee and audit</b>					
i) Name and address of the Auditee :					
ii) Names of the office bearers: :					
iii) Name/s of the Audit Team Members: :					
iv) Days of audit :					
v) Period covered in the previous audit :					
vi) Period covered in the current audit :					
vii) Name of the Reviewing Officer:					
viii) Date of review:					
<b>Part B: Executive Summary and Suggestions/Recommendations</b>					
Provide an Executive Summary of the observations in Part D along with suggestions/recommendations. Only those observations that are dealt with in either Part D should be included in this. Observations may be tabulated as follows with details of sampling methodology, extent of sampling, etc. for each observation:					
Para Ref	Observation	Implications with risks involved	Action Recommended	Auditee's Comments/ Agreed Action	Agreed Timeline for compliance, if any
1	2	3	4	5	6
<b>Part C: Compliance to previous Audit Reports</b>					
In this part, provide the status of compliance with previous reports and detail the pending audit observations. The views of the auditee should also be mentioned. In case there is any difficulty or problem in resolution of audit findings, these should be clearly highlighted.					
Audit Report & Para Ref	Observation	Auditee's Comments/ Agreed Action	Agreed Timeline for compliance	Remarks on Present Status	
1	2	3	4	5	
<b>Part D: Serious Observations</b>					
In this part, give details of serious audit observations such as ineligible expenses, major lapses in internal controls, systemic weaknesses, procurement procedures not followed, incorrect information submitted for reimbursements, Difference between cash drawn and expenditure reported, Procedural Lapse, Accounting Lapse, Accounting books & records not maintained.					
<b>Part E: Other Observations</b>					
Observations that are not serious in nature, but nonetheless require the attention of the Project or the GP should be detailed in this part.					
<u>Name of the officer of the Auditee office with whom discussed</u>					
Name:					
Designation:					
Date of discussion					
<u>Auditor</u>					
Name:					
Designation:					
Sign:					