


HAPPY TO  
BE  
WITH  
YOU  
-P.C.GUPTA-

**AUDIT AND AUDIT RELATED  
PARAS AND THEIR  
SETTLEMENT**



# WHAT IS AUDIT?

- ▶ A systematic examination of the books and records of a business or an organization in order to ascertain/verify the correctness of transaction and to report upon the facts regarding the financial operations and results thereof.
  - ▶ An independent evaluation of an administrative activity – its operation and results.
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# Cont.....

- Evaluation according to accepted procedures of proper management which are guided by normative behaviours.
- Comparison between the performance of a certain activity and a reasonable norm



**Cont.....**

**Audit Examines:**

**Action Against Norm**

**Defines Deviations**

**Recommends Corrections**



# Government Audit

- **Assessments, realization and accounting of revenue receipts of the state conform to the best standards of fiscal management.**
- **Government expenditure is incurred in conformity to the principles of regularity. ( i.e. laws, rules, regulations and instructions).**
- **Procedures are observed and followed in letter and spirit, and propriety.**
- **Govt. Expenditure is incurred in conformity to the**
  - **Principles of legality and regularity**
  - **Economy**
  - **Efficiency**
  - **Effectiveness**
  - **Integrity**



# Types of Audit

**INTERNAL  
AUDIT**



**Internal Audit Wing  
of Accounting  
Organization  
of Ministry/Deptt.**

**STATUTORY  
AUDIT**



**Comptroller & Auditor  
General of India**



# Purpose of Internal Audit

- ▶ **Aid and guidance to the Management**
- ▶ **Minimize the mistakes in accounts.**
- ▶ **To keep a watch over financial transactions**
- ▶ **To minimize the scope of audit paras when statutory audit is conducted**
- ▶ **To promote improvement by streamlining the procedures.**
- ▶ **To point out financial and other irregularities.**





# Purpose of Statutory Audit

- ▶ **To publish audit report on**
  - **Receipts**
  - **Expenditure of departments**
  - **Commercial activity**



# Audit Approach

In the course of scrutiny of accounts and transactions of Government, Audit is empowered to:

- To make queries and observations
- To call for
  - Records
  - statements
  - returns
  - explanations



# Audit Evidence

Before any conclusion is reached by the Audit, Evidence are

- Planned
- Gathered
- Analyzed



# Gathering Evidence

- **Physical observation**
- **Joint inspection by the auditors and the executive**
- **Confirmation of performance or achievements**
- **Review of documents**
- **Evaluation of the quality of internal control mechanisms**
- **Interviews with executives**
- **Enquiry from third parties through a reputed agency**



# Audit of Receipts

- ▶ **Assessments of revenues pursuant on taxation laws have been correctly made.**
- ▶ **Moneys assessed are promptly recovered and proper accounts thereof are kept.**
- ▶ **Moneys received are actually credited to government accounts.**
- ▶ **Proper procedures and regulations have been followed in assessing, realizing and crediting the revenue receipts.**
- ▶ **No amounts due to the state government remains unrealized for undue long periods without sufficient reasons.**
- ▶ **No, credit is kept under 'Suspense' heads for unduly long periods.**

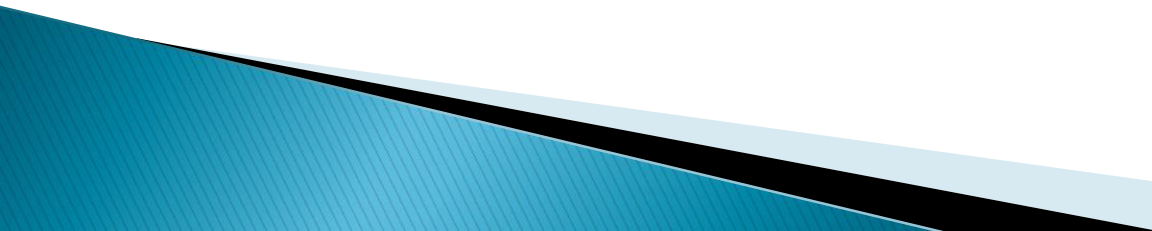


# Audit of Expenditure

- **All expenditure is incurred in conformity and to the extent of the appropriation and reappropriation.**
- **Exchequer Control**
- **Sanction of the competent authority has been accorded.**
- **Sanction issued conform to the rules and regulations and are covered by appropriate delegation of powers.**
- **Expenditure has been incurred by the authorized officer.**



# **Audit of Expenditure, contd.**

- **Amounts have been paid to the persons entitled to receive them under proper acquittance;**
  - **Payments made have been properly classified;**
  - **Records of payments are maintained in accordance with the prescribed procedures and in prescribed forms;**
  - **Any objectionable payments, over payments, short payments etc are made, which need to be recovered.**
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# Commercial Audit

- ▶ **The operation of public sector undertakings and commercial activities of the government are examined to see the regularity of the transactions.**



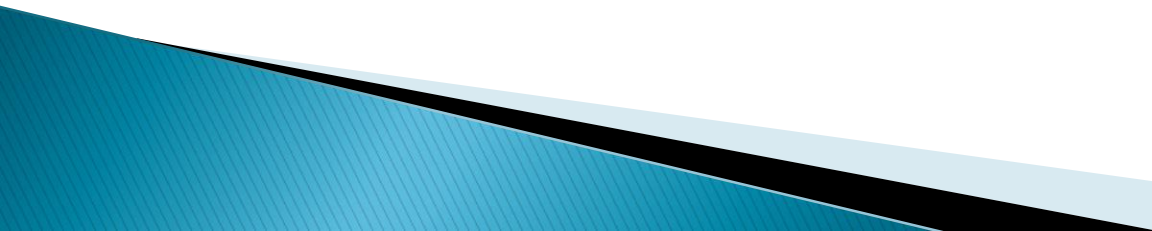
# Audit Paras

- ▶ **Audit Paras embody:**
  - **Financial irregularities**
  - **Accounting irregularities**
  - **Procedural Lapses**
  - **Non-production of records**
  - **Non-maintenance of records**

# P.A.C. Paras

- ▶ **Audit paras which cannot be settled in local discussions, periodical meetings etc. and involve serious financial irregularities, are then, in the form tentative draft paras, are reported to**
  - **the Head of Department**
  - **Department of Finance/Financial Advisor**
- ▶ **If still not settled, these tentative draft paras are included in the audit report to be placed before the legislature.**
- ▶ **Such paras through the audit report get examined by the Public Accounts Committee (P.A.C.), as such these paras are termed as P.A.C. Paras.**

# **P.A.C. Paras, contd.**

- ▶ **The P.A.C. makes recommendations on such paras, after oral examination of the concerned secretaries of the government, fixing responsibility for irregularities involved**
  - ▶ **The Accountant General is also present in such meetings of the P.A.C.**
  - ▶ **These audit paras are settled after action is taken on recommendations of the P.A.C.**
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# Important financial irregularities

- ▶ **Expenditure incurred without sufficient sanction.**
- ▶ **Expenditure incurred without sufficient appropriation/reappropriation.**
- ▶ **Re-appropriation within a grant which is not made in accordance with the rules in force.**
- ▶ **Expenditure on a “New Service” not covered by a vote of the Legislature unless the requisite funds have been arranged by obtaining an advance from the contingency fund before incurring expenditure.**

# Defective or inaccurate Budgeting

- Provision of the same item of expenditure under two or more budget heads .
- Omission to provide in the estimates for all sanctioned charges and charges that can be foreseen.
- Provision under wrong budget head.
- Treatment of new items as ordinary items of expenditure.
- Supplementary demands obtained unnecessarily or in excess of the amount required for repayment to the contingency fund i.e. for recoupment of expenditure incurred from the contingency fund in the previous years.
- Overestimating and underestimating.
- Budgeting net of receipts.

# Defective control over Expenditure

- **Unnecessary or excessive supplementary grants**
- **Unnecessary or excessive re-appropriation**
- **Injudicious re-appropriations and surrenders causing excess over allotments.**
- **Unspent and un-surrendered appropriations**
- **Unremedied or uncovered excesses, and late allotments**

# Others

- ▶ Loss of public moneys or property due to fraud, neglect or misappropriation.
- ▶ Drawl of money from treasury which is not required for immediate disbursement.
- ▶ Abandonment of revenue without proper sanction e.g. sale of property below market rates or reduction of dues payable under a license or lease, without the sanction of the competent authority in each case.
- ▶ Any large claim against another government, local body or other outside party allowed remaining outstanding for an unduly long time.

# **Audit Reports draw attention to:**


- ▶ **Matters arising from Appropriation Accounts, the more important being:**
  - **Cases of excess over grants/appropriations requiring regularization**
  - **Cases where expenditure has been incurred on a 'New Service' 'New Instrument of Service' without specific authority of the Legislature**
- ▶ **Points relating to efficiency of budgeting and control over expenditure**
- ▶ **Points of interest arising from Finance Accounts**



# Contd.....

- ▶ **Points arising from the audit of expenditure (including expenditure on commercial and Trading activities carried on by Government departments) and of accounts of stores and stock; the Report indicates important cases of non-observance of rules and standards of financial propriety.**
- ▶ **Points arising from a review from the financial aspect of the achievements of selected projects and schemes undertaken by Government.**
- ▶ **Important cases of losses, writes-off and of wasteful or infructuous expenditure.**

# Contd..

- ▶ **Points arising from the audit of other financial transactions of Government, such as receipts, debt deposit and remittance transactions**
  - ▶ **Matters relating to Government companies, statutory corporations and other autonomous bodies, the accounts of which are audited by Indian Audit and Accounts Department**
  - ▶ **Any other matter of interest from the financial or accounting point of view which the Comptroller and Auditor General considers necessary to bring to the notice of the Legislature**
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# Settlement of Audit Paras

- ▶ The detailed results of audit are reported by the Audit Officers to the disbursing and controlling authorities, responsible for the early settlement of the objections raised in audit, in the form of an Audit Report.
- ▶ by necessary compliance and/or recovery or regularization of excess or irregular payments, if any.
- ▶ Audit Officers keep a constant and careful watch over the objections raised by them and to keep controlling authorities and also the Government where necessary, fully acquainted not only with individual cases of serious disregard of financial rules but also with the progress and clearance of objections.

# Settlement of Audit Paras, contd.

- ▶ **Audit objections included in the text Audit Notes by Statutory Audit offices should be settled and replied within the stipulated time.**
- ▶ **The progress made towards the settlement of outstanding objections should be reviewed quarterly to ensure their speedy settlement.**
- ▶ **Internal Auditors should also verify the compliance with the objections reported to have been made by D.D.Os.**

Thank You