

## **CHAPTER 12**

### **GUIDELINES FOR INTERNAL AUDIT OF THE DEPARTMENTAL ACCOUNTS ORGANISATIONS**

#### **12.1 INTRODUCTORY**

**12.1.1.** The scheme of departmentalization of Union Government accounts provides for setting up of an efficient internal audit organization to ensure accuracy in accounts and efficiency in the operation of the accounts set up. Internal Audit organizations have accordingly been set up in most of the Ministries/Departments. The scope and function of the internal audit organization will depend on the nature of work, the number of subordinate offices, the strength of establishment, nature and quantum of expenditure etc. Each Ministry/Department therefore, will draw up a Manual of Internal Audit specifying the duties and functions of the organization, with particular reference to the prevailing conditions in the Ministry/Department. The guidelines contained in this chapter will regulate the working of these organizations. These guidelines are however, broad in nature and have to be supplemented by detailed instructions issued by each Ministry/Department.

#### **12.2 SCOPE OF INTERNAL AUDIT**

**12.2.1** The Internal Audit Unit will work directly under the Pr.CCAs/CCAs/CAs, with overall responsibility remaining with the concerned Financial Adviser and the Secretary of the Ministry/Department. The Principal Accounts Office, the Pay and Accounts Offices as well as the offices of the D.D.Os in Ministries/Departments, Indian Missions and other Govt. of India offices abroad, shall be within the jurisdiction of internal audit. In addition to these offices, internal audit shall be required to audit the implementing agencies for various schemes and programmes of the Ministry/Department.

Internal Audit shall also check the initial accounts maintained in the executive offices to ascertain the extent of following of the rules and regulations, system and procedures in accounting and financial matters. The scrutiny would cover checking of all accounting records including those relating to fund accounts, loans and advances, disposal of confiscated stores (in CBEC), review of the installation and operating efficiency of expensive equipments and machinery and examination of records relating to physical verification of stores, equipments, tools and plant. The accounts of all grantee Institutions or Organizations shall be open to inspection by the sanctioning authority and audit, both by the Comptroller and Auditor General of India under the provision of CAG (DPC) Act 1971 and internal audit by the Principal Accounts Office of the Ministry or Department, whenever the Institution or Organization is called upon to do so and a provision to this effect should invariably be incorporated in all orders sanctioning grant in aid.

#### **12.3 DUTIES OF INTERNAL AUDIT**

**12.3.1.** The duties of the internal audit organization will include the following :

- (i) Study of accounting procedures prescribed for the department with a view to ensuring that they are correct, adequate and free from any defects or lacunae;
- (ii) Watch over the implementation of the prescribed procedures and the orders issued from time to

time;

- (iii) Scrutiny and check of payments and accounting work of the accounting units;
- (iv) Investigation of important arrears in accounting and other connected records;
- (v) Coordination with other Ministries and C.G.A. regarding internal audit procedures;
- (vi) Periodical review of all accounts records;
- (vii) Pursuance/settlement of objections taken in test audit notes issued by statutory audit offices and other matters relating to statutory audit;
- (viii) To examine and report on points or irregularities brought to its notice by the Principal Accounts Office/P.A.Os; and
- (ix) Preparation and submission of 'Annual Review' on performance of internal audit wing to the Controller General of Accounts.

### **12.3.2 Duties as per New Charter of Chief Controllers of Accounts :**

As per the new charter of duties and responsibilities of Chief Controllers of Accounts issued by the Secretary, Department of Expenditure, Ministry of Finance, the following functions will be carried out as per the guidelines issued by the Controller General of Accounts from time to time.

- (i). The appraisal, monitoring and evaluation of individual schemes;
- (ii). Assessment of adequacy and effectiveness of internal controls in general, and soundness of financial systems and reliability of financial and accounting reports in particular;
- (iii). Identification and monitoring of risk factors including those contained in the Outcome Budget;
- (iv). Critical assessment of economy, efficiency and effectiveness of service delivery mechanism to ensure value for money; and
- (v). Providing an effective monitoring system to facilitate mid course corrections.

## **12.4 PROCEDURE FOR CONDUCTING INTERNAL AUDIT**

**12.4.1.** The work relating to internal audit should normally be conducted by inspecting various units and offices and "on the-spot" verification of accounts records. The work of the inspection parties may be coordinated through internal audit cell at the headquarters, depending upon the nature, number and size of the internal audit set up.

## **12.5 QUANTUM OF AUDIT**

**12.5.1.** An internal audit party should conduct a general review of all the accounts records maintained by an office since the last inspection or in case of new units, since the formation of that office. Apart from the general review, it should also conduct a detailed check of accounts records of at least one month in a year, selected by the Controller/Deputy Controller in charge of internal audit. The percentage of bills/vouchers/cases etc. other than the month selected for detailed check will be left to the discretion of the Head of the internal audit unit/team. The extent and nature of checks will include the following:

- (a) Detailed scrutiny of accounts records required to be maintained in Pay and Accounts Offices/ DDOs offices;
- (b) Verification of payment and accounting procedures in the departmentalized system of accounts including procedures to be followed by cheque drawing DDOs. It will be seen in particular that the scope and extent of pre-check and post-check by PAOs are adequate and that the procedures for maintenance of provident fund accounts, finalization of pension cases etc are duly observed.
- (c) Verifying the extent and frequency of controls and checks exercised by head of office to locate any lacunae in the procedures, that may cause frauds or defalcations either individually or in collusion. Wherever necessary, steps to remove such lacunae will be suggested;
- (d) Scrutiny of the sanctioning and purchase procedures in the office inspected, so as to ensure that they are free from any defect or lacunae;
- (e) Checking the procedures followed for disposal of assets etc to ensure they are as per laid down condemnation and disposal procedures;
- (f) Scrutiny of general office management procedures adopted by the heads of offices in areas having financial and accounting implications, so as to suggest measures for tightening up administrative and financial control, savings in expenditure or streamlining of accounting.

## **12.6 NATURE OF CHECKS TO BE EXERCISED**

**12.6.1** Internal audit parties will exercise the following checks during inspection of accounts records of various offices:

### **(A) Pay and Accounts Offices :**

- (a) All the required accounts records are being maintained in the prescribed forms, compiled accurately and in correct manner;
- (b) Payments are made in accordance with the rules and orders governing them with correct arithmetical calculations;
- (c) Last claims of government servants are correctly paid and over payments if any, brought to the notice of concerned DDO for appropriate action;
- (d) Recoveries and deductions made from the bills are in order;
- (e) Pay fixations are correct;
- (f) All payments and receipts are duly accounted for;
- (g) All transactions are accounted under the correct heads of account and the classification checked by the JAO/AAO/AO/Sr.AO to the extent prescribed. No unauthorized head of account is operated in the Classified Abstract/Consolidated Abstract;
- (h) Various Broadsheets, Objection Books and Calendar of Returns are being maintained properly. It will further be seen that the broadsheets are closed regularly on monthly basis, differences between Broadsheets and Ledger figures are analyzed and steps taken for their expeditious clearance;
- (i) The balances outstanding under various Debt, Deposit, Suspense and Remittance heads are reviewed at periodical intervals and steps taken to clear them as expeditiously as possible;

- (j) Interest wherever required has been correctly calculated and accounted for;
- (k) GPF/CPF accounts are being maintained properly and reconciled through the prescribed broadsheets. It will further be checked that no missing debits/credits and un-posted items are kept outstanding for unduly long periods and the closing of annual accounts and issue of statements of account are done by the due dates;
- (l) Foreign service contributions wherever necessary are recovered correctly;
- (m) Loans, advances and grants-in-aid are paid correctly and over payments if any, are brought to the notice of concerned DDO for appropriate action;
- (n) Receipt scrolls/payment scrolls with challans and paid cheques are received in time from the bank branches, checked properly as per laid down instructions and the discrepancies if any, are pointed out promptly;
- (o) In the case of payments made by cheque-drawing DDOs, the list of payments accompanied by paid vouchers are received from them every week by the prescribed dates, checked properly and accounted for;
- (p) The weekly accounts of receipts realized and remitted by the departmental officers with duplicate copies of challans are being received, and checked properly with the bank scrolls;
- (q) The instructions on reconciliation of figures under the heads Public Sector Bank Suspense and RB Deposits are being duly followed;
- (r) The instructions regarding reconciliation of expenditure and revenue receipts are being followed; and
- (s) To check whether there have been undue delay in the finalization of pension cases, Internal Audit Party will conduct test-checks with reference to the pension papers received from the Heads of Office.
- (t) To check whether the contributions towards Defined Contribution Pension Scheme are correctly recovered from the Government servants covered under the Scheme and bills for drawal of Government's Contributions are drawn/submitted alongwith the pay bills. the monthly reports on Defined Contribution Pension Scheme are sent to the Principal Accounts Office on due dates and the records pertaining to Defined Contribution Pension Scheme are properly maintained. All instructions with regard to Defined Contribution Pension Scheme are complied with by PAO's.
- (B) Cheque drawing/non-cheque drawing DDOs**
- (a) All the required accounts records are maintained in the prescribed forms;
- (b) Payments made by the Cheque Drawing DDOs are in accordance with the rules and orders governing them, with correct arithmetical calculations and proper recoveries/deductions made from the bills. It will further be checked whether the List of Payments with paid vouchers are sent by them every week to the concerned PAO by the prescribed dates, and as per given instructions;
- (c) The instructions for the maintenance of Cash Book, Contingent Register, Stock and Stores Accounts, Log Books and other accounts records are duly observed;
- (d) 'Account Payee' cheques issued by PAOs after pre-check of relevant bills to DDOs are not being entered in their own cash book, and that the delivery and acknowledgement of such cheques is being watched through a separate register required to be maintained for the purpose in CAM-12.

- (e) Pay fixations are done correctly;
- (f) The weekly accounts of receipts with duplicate copies of challans are being sent to the concerned PAO;
- (g) Purchases are made as per rules and orders governing them and the reasons recorded for the cases where lowest quotations are not accepted;
- (h) All sub-vouchers pertaining to contingent charges/bills that are not required to be sent to the PAO are available in the office, are otherwise in order and properly cancelled;
- (i) GPF/CPF accounts of Group 'D' employees are maintained properly;
- (j) The instructions relating to the processing and submission of pension cases are observed;
- (k) Verification through vouchers etc that payment entries are made properly in the Pay Bill Register for the advances drawn, and that the recoveries are being effected regularly from the concerned Government servants. The correctness of entries should also be checked in the monthly abstracts of recoveries, especially those relating to 'transfer in' and 'transfer out' cases.
- (l) Every Personal Deposit Account in the Ministry/Department is alive and in operation.
- (m) All instructions relating to Defined Contribution Pension Scheme including maintenance of Pay Bill Register, Pay Bills etc are strictly followed.

The Internal Audit Party shall take an extract from the Register of P.P.Os in the Principal Accounts Office for the P.P.Os routed through it and those sent directly by the P.A.O. A test check of these cases as well as those paid by the originating Pay & Accounts Office itself will be carried out in the PAO, with reference to the pension papers received from the concerned Head of Office.

## **12.7 CHECKING OF RECEIPTS**

**12.7.1.** The Departmental authorities are primarily responsible to ensure that all revenues or dues to Government are correctly and properly assessed, realized and credited to Government account. Internal Audit shall conduct mandatory checks to see whether the Department has prescribed adequate regulations and procedures for effective check on collection and accounting of all revenue receipts and refunds, and that they are followed correctly. The nature of checks exercised by the Departmental authorities for the following shall also be ascertained. This includes checks for ensuring prompt detection and investigation of irregularities, leakage or loss due to double refunds, refunds with reference to fraudulent and forged vouchers/challans and other types of omissions or commissions in the process of levy/collection of taxes or their refunds.

**12.7.2.** In the audit relating to revenue receipts, the Internal Audit Party should ensure the following by such test checks as may be considered necessary:

- (a) That the demands are raised promptly in the manner required by the Law or Act of Parliament and that no amount due to Government is left outstanding in its books without sufficient reasons;
- (b) That the collection and refunds are accounted for regularly and properly under the appropriate heads of account and that no sums are credited to Government by debit to any suspense head. The credit must follow and not precede actual realization;
- (c) That proper safeguards exist against willful omission or negligence in the levy or collection or

taxes and in arranging refunds, wherever due;

(d) That double refunds, fraudulent or forged refund orders or other revenue losses through fraud, default or mistake are promptly brought to light and investigated; and

(e) That all revenue receipts collected by departmental officers are promptly remitted to the bank or the PAO as the case may be, and that reconciliation between their books of records and those booked in Government accounts based on receipted challans are carried out, in accordance with the procedure laid down in Chapter 1 of this Manual.

## **12.8 PROGRAMME FOR INTERNAL INSPECTION**

**12.8.1** The internal inspection programme for each party will be chalked out by the internal audit organization with the approval of the Chief Controller/Controller/Deputy Controller in charge of Internal Audit Wing. Timely intimation of the proposed visit of inspection party will be sent to all the officers concerned. A copy of the programme will also be forwarded to the concerned PAO.

## **12.9 RECORDS, DOCUMENTS TO BE MADE AVAILABLE TO THE INTERNAL AUDIT PARTIES**

**12.9.1** The Heads of the Offices that are to be inspected will be advised of the dates of inspection well in advance. A list of records proposed to be examined during internal audit shall also be prepared and sent to him along with the notice of inspection, so that these are kept ready before the arrival of the audit party.

**12.9.2** The accounts records maintained will be made available promptly to the internal audit parties, by the offices visited.

**Note 1 :** The payments made by a cheque drawing DDO during the selected month(s) will be verified by the internal audit party with reference to the counterfoils of cheques, copies of bank scrolls, Pay Bill Register and the office copies of the paid vouchers available with the DDO. It will not be necessary for the inspection party to obtain original paid vouchers etc from the PAO. However, for payments relating to long term loans/advances etc for which bills are presented to PAO for pre-check and payment, the Internal Audit Party shall obtain the list of payments made during the month(s) selected for audit from the PAO. This is for the purpose of checking that the cheques/bank drafts marked 'Account Payee' had been made over to the correct payees and their acknowledgements were obtained and for the cheques/bank drafts issued in favour of the cheque-drawing DDO for arranging payment in cash, they had been entered in the cash book maintained by him.

**Note 2:** In the case of DDOs without cheque drawing powers, the Internal Audit Parties will check the original paid vouchers for the month(s) selected for audit, and may be obtained from the concerned PAO.

**Note 3:** The lists of payments and paid vouchers will be furnished by the PAO to the inspection party promptly, on receipt of necessary requisitions. The PAOs will also furnish a list showing particulars of discrepancies/defects or other irregularities if any, noticed during the course of scrutiny of bank scrolls with reference to the related paid vouchers and cheques remaining unsettled. Any other important issue requiring investigation may also be included in the list and furnished to the Internal audit parties for 'on the spot' examination and report.

**Note 4:** In the case of Divisional Offices working on the Public Works system, the paid vouchers and other original records pertaining to the month(s) selected for audit shall be similarly sent by the PAO to the Internal Audit Party. A record of paid vouchers furnished to/received back from internal audit will

be maintained by the PAO in a register in the form given in Annexure 'A'. This register will be reviewed on monthly basis and necessary action shall be taken if the paid vouchers are not received back. It will be the Inspecting Officer's responsibility to return the vouchers immediately after completing the internal audit of the concerned office.

## **12.10 FREQUENCY OF INTERNAL AUDIT**

**12.10.1** While the frequency of internal audit is largely dependent upon the staff strength of Internal Audit Organization as well as the number of units falling under its purview, judicious planning and prioritization is required to optimize the outputs. The number of days for inspection and their frequency may be decided upon the nature of transactions, amount of allocation, arrears in relation to last audit, and the general health of accounts of each unit. It would however be desirable to conduct internal audit of at least the important offices every year.

## **12.11 DRAFTING AND PROCEDURE FOR SUBMISSION OF INSPECTION REPORTS**

**12.11.1** The inspection reports should be written in polite and dispassionate language pointing out the irregularities, rather than sounding accusatory. Offensive and strong words, sarcastic language etc. should not figure in the report on any account. At the same time suppositions, assumptions or allegations should be avoided in the reports. Further, the facts recorded in the reports should be based upon the available documents and records and only inevitable conclusions should be drawn. There should be no reference to judgemental inferences, for example fixing of responsibility for any irregularity, as it is for the administrative authorities to take action in the matter. The inspection report should be in two parts, Part-I comprising of Introductory Report and Part-II comprising the irregularities noticed during current audit.

Internal Audit Party should take up all the outstanding paras pertaining to an office during subsequent audit and settle them on the spot on verification of compliance. Where settlement is not possible, outstanding paras with their latest position should be taken as part of the new report and the old report(s) should be considered as settled.

**12.11.2** Routine errors of omissions or commissions noticed during the course of inspection may be got rectified on the spot. Inspection reports should also be invariably discussed with the Heads of Offices inspected, and their comments if any, should be suitably incorporated in the report. Inspection reports should be issued only after they have been vetted at the headquarters, with one copy each issued to the Head of Office inspected and the Pr. Chief Controller/Chief Controller/Controller of Accounts. Important points arising out of the internal audit should also be brought to the notice of FA and the Secretary through the head of the accounting organization by the Internal Audit Wing. The assessment of procedural risks that may be noticed or any suggestions that may arise on account of internal audit should be incorporated in the report as an aid to the auditee for improving the process under review. Also, any major systemic deficiency, which requires urgent action should be clearly brought out and reported to the higher authorities. The Controller of Accounts/Deputy Controller of Accounts in charge of Internal Audit Wing should watch the progress on settlement of points raised by Internal Audit as well as CGA's Inspection Unit. Internal Audit Party should also review all the outstanding points at the time of next inspection.

## **12.12 PURSUANCE OF TEST AUDIT NOTES ISSUED BY STATUTORY AUDIT**

**12.12.1** In order to keep a watch over the settlement of audit objections included in the Test Audit Notes issued by Statutory Audit, the Internal Audit Wing will maintain a register in the form given in Annexure 'B', with separate folios for each DDO. The progress made towards the settlement of outstanding objections should be reviewed on quarterly basis and appropriate action taken to ensure speedy settlement. The compliance of internal audit observations reported by the DDOs should be verified during the next audit of that office. Whenever asked for, the register will also be furnished to the Statutory Audit Parties to verify the settlement of objections.



**ANNEXURE A**  
**[Referred to in Note 4 below para 12.9.2]**

**REGISTER SHOWING PARTICULARS OF PAID VOUCHERS FURNISHED TO  
INTERNAL/STATUTORY AUDIT PARTIES**

Sl. No.	Particulars of office to be audited	No. & date of requisition	No. & date of letter with which sent	Particulars of inspecting officer to whom sent	Month(s) to which the vouchers required pertain	No. of vouchers furnished	No. & date of letters with which vouchers received back	No. of vouchers received back	No. & date of reminders, if any, issued	Remarks
1	2	3	4	5	6	7	8	9	10	11

**Note -** Separate register will be maintained for recording particulars of vouchers supplied to the internal and statutory audit parties.

**ANNEXURE -B**  
**[referred to in para 12.12]**

**Register of watching Settlement of Audit Objections included in the Test Audit Notes Issued by Statutory Audit**

Name of the office .....  
 Particulars of Audit Office .....

SI.No.	Letter No. & Date with which Test Audit Note received	Period of accounts covered by Audit	No. of objections raised	No. of objections settled (quote S.No. of paras settled)	Paras outstanding	Action taken	Remarks
1	2	3	4	5	6	7	8