“**KNOWLEDGE CENTRE** ”

“CERTIFICATION AUDIT IN AUTONOMOUS DISTRICT COUNCILS AS PER APPLICABLE FINANCIAL ATTEST AUDIT MANUAL”

Vide Hqrs. letter No. 321/Trg. Divn/20(vi)-2010 dated 28th April 2011

CONSTITUTIONAL PROVISIONS –

Constitution of District Councils and Regional Councils.— There shall be a District Council for each autonomous district consisting of not more than thirty members, of whom not more than four persons shall be nominated by the Governor and the rest shall be elected on the basis of adult suffrage

(2) There shall be a separate Regional Council for each area constituted an autonomous region under sub-paragraph (2) of paragraph 1 of this Schedule.

(3) Each District Council and each Regional Council shall be a body corporate by the name respectively of “the District Council of (*name of district*)” and “the Regional Council of (*name of region*)”, shall have perpetual succession and a common seal and shall by the said name sue and be sued.

(4) Subject to the provisions of this Schedule, the administration of an autonomous district shall, in so far as it is not vested under this Schedule in any Regional Council within such district, be vested in the District Council for such district and the administration of an autonomous region shall be vested in the Regional Council for such region.

5) In an autonomous district with Regional Councils, the District Council shall have only such powers with respect to the areas under the authority of the Regional Council as may be delegated to it by the Regional Council in addition to the powers conferred on it by this Schedule with respect to such areas.

Paragraph 2 has been amended in its application to the State of Assam by the Sixth Schedule to the Constitution (Amendment) Act, 2003 (44 of 2003), so as to insert the following proviso after sub-paragraph (1), namely:—

"Provided that the Bodoland Territorial Council shall consist of not more than forty-six members of whom forty shall be elected on the basis of adult suffrage, of whom thirty shall be reserved for the Scheduled Tribes, five for non-tribal communities, five open for all communities and the remaining six shall be nominated by the Governor having same rights and privileges as other members, including voting rights, from amongst the un-represented communities of the Bodoland Territorial Areas District, of which at least two shall be women." Paragraph 2 has been amended in its application to the State of Assam by the Sixth Schedule to the Constitution (Amendment) Act, 1995 (42 of 1995), s. 2, so as to insert the following proviso after sub-paragraph (3), namely:—

"Provided that the District Council constituted for the North Cachar Hills District shall be called as the North Cachar Hills Autonomous Council and the District Council constituted for the Karbi Anglong District shall be called as the Karbi Anglong Autonomous Council."

*Paragraph 2 has been amended in its application to the State of Assam by the Sixth Schedule to the Constitution (Amendment) Act, 2003 (44 of 2003), s. 2, so as to insert the following proviso after the proviso in sub-paragraph (3), namely:—

"Provided further that the District Council constituted for the Bodoland Territorial Areas District shall be called the Bodoland Territorial Council." Subs. by the Assam Reorganisation (Meghalaya) Act, 1969 (55 of 1969), s. 74 and Fourth Sch., for sub-paragraph (1) (w.e.f. 2-4-1970).

The Governor shall make rules for the first constitution of District Councils and Regional Councils in consultation with the existing tribal Councils or other representative tribal organisations within the autonomous districts or regions concerned, and such rules shall provide for—

(*a*) the composition of the District Councils and Regional Councils and the allocation of seats therein;

(*b*) the delimitation of territorial constituencies for the purpose of elections to those Councils;

(*c*) the qualifications for voting at such elections and the preparation of electoral rolls therefor;

(*d*) the qualifications for being elected at such elections as members of such Councils;

(*e*) the term of office of members of [1][Regional Councils];

(*f*) any other matter relating to or connected with elections or nominations to such Councils;

(*g*) the procedure and the conduct of business [2][(including the power to act notwithstanding any vacancy)] in the District and Regional Councils;

(*h*) the appointment of officers and staff of the District and Regional Councils.

The elected members of the District Council shall hold office for a term of five years from the date appointed for the first meeting of the Council after the general elections to the Council, unless the District Council is sooner dissolved under paragraph 16 and a nominated member shall hold office at the pleasure of the Governor.

Autonomous District Councils

The Sixth Schedule (schedule) to the Consitution of India provides for constitution of specified tribal areas. For that purpose, it provides for constitution of District Council for each autonomous district with powers to make laws on matters listed in Paragraph 3(1) of the Schedule mainly in respect of allotment, occupation, use etc. of land, management of forests other than reserve forests, use of any canal or water courses for agriculture, regulation of the practice of Jhum or other forms of shifting cultivation, establishment of village or town committees or councils and their powers, village or town administration including police, public health and sanitation and inheritance of property. Council can also establish, construct or manage primary schools, dispensaries, markets, cattle pounds, ferries, fisheries, roads road transport and water ways in the respective autonomous districts.

Management of District Fund

The Sixth Schedule provides for the constitution of a District Fund for each autonomous distrct to which is to be credited all moneys received by the Council in the course of administration of the district in accordance with the provisions of the Constitution. In terms of para 7(2) of the schedule, rules are to be framed by the Governor for the management of the District Fund and for the procedure to be followed in respect of payment of money into the said Fund, withdrawal of moneys there from, custody of moneys therein and any other matter connected with or ancillary to these matters.

Maintenance of Accounts – As per para 7(3) of the Sixth Schedule to the Constitution of India, the form in which the accounts of the District Council are to be maintained was prescribed by the C&AG with the approval of the President in April 1977.

Statutory Provisions for audit of Autonomous District Councils

The Comptroller and Auditor General audit the accounts of the District Council as per provisions contained in Para 7(4) of the Sixth Schedule of the Constitution of India and submits the report to the Governor of the concerned State on the issues arising from the audit of the financial transactions of the Autonomous District Council. exercising power or command. 'Body' has been interpreted to mean an aggregate of persons, incorporated or unincorporated.

AUTONOMOUS DISTRICT COUNCILS IN NORTH EASTERN REGION INCLUDING SIKKIM

1. ASSAM

   a. North Cachar Hills District Autonomous Council
   b. Karbi Anglong District Autonomous Council
   c. Bodo Land Territorial Autonomous Council

2. MEGHALAYA
    a. Khasi Hills Autonomous District Council
    b. Garo Hills Autonomous District Council
    c. Jaintia Hills Autonomous District Council

3. MIZORAM
    a. Lai Autonomous District Council
    b. Mara Autonomous District Council
    c. Chakma Autonomous District Council

4. TRIPURA
    a. Tripura Tribal Areas Autonomous District Council

Overview of Accounts of Autonomous District Councils

The financial statements certified are normally the Income and Expenditure Account (Revenue Account / Receipt and Payments Account) and Balance Sheet.

The Offices of the Principal Accountant General (Civil Audit) or Accountant General (Civil Audit) of the Accountant General (Commercial, Works and Receipt Audit) of the field office concerned in accordance with the audit jurisdiction are responsible for conduct of Financial Attest Audit of Autonomous District Councils

As observed from the Audit Reports of the Autonomous District Councils in the North-Eastern States as listed above, only Receipt and Expenditure Statement/Accounts are being prepared. The Balance Sheet is not being prepared in respect of these Autonomous District Councils.

Introduction, Concepts and Overview of Financial Attest Audit

The process of Financial Attest Audit as encompassed in the Financial Attest Audit Manual like planning, field audit, audit completion, documentation, reporting, supervision and review, quality assurance etc., would be included in the course-schedule for Certification Audit in Autonomous District Council.

Financial Attest Audit is primarily concerned with expression of audit opinion on a set of financial statements. It includes:

- examination and evaluation of financial records and expression of opinions on financial statements;
- audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations which affect the accuracy and completeness of accounting records; and
- audit of internal control and internal audit functions that assist in safeguarding assets and resources and assure the accuracy and completeness of accounting records.

The applicable provisions of the Financial Attest Audit Manual have to be suitably adopted in the conduct of audit, and certification of the accounts of the Autonomous District Councils.

The Indian Audit and Accounts Department carries out financial attest audits of the Balance Sheet, Profit and Loss Account / Revenue Account / Income and Expenditure Accounts in respect of the Autonomous Bodies.

Separate instructions are available in respect of the financial attest audits of autonomous bodies which may be updated from time to time. However, the provisions in this Manual are generally applicable for any kind of financial attest audit and may be suitably adapted for audit of these entities. The provisions in this Manual are also applicable irrespective of the basis of accounting (Cash or Accrual).

FINANCIAL ATTEST AUDIT PROCESS

Auditing Standards – Aim to improve the auditing practices and provide a framework for the auditing steps and procedures. Conduct of an Audit in accordance with auditing standards gives necessary reassurance to people making use of the financial statements and audit reports.

International Federation of Accountants (IFAC) Standards has issued various International Standards on Auditing (ISAs). ISAs do not override the statutory, regulatory or professional regulations in a country and are not binding on the auditors of the SAI, but provide an authoritative view of what are internationally recognized as generally accepted auditing practices.

Institute of Chartered Accountants of India (ICAI) has issued a number of Auditing and Assurance Standards (AASs) which are generally based on the corresponding ISAs issued by IFAC, taking into consideration the applicable laws, customs, usages and business environment in India.

INTOSAI issued the Auditing Standards which do not have mandatory application, but reflect "best practices" consensus among the Supreme Audit Institutions and each SAI is required to judge the extent to which the Standards are compatible with the achievement of its mandate.

Auditing Standards of the CAG of India

Were first issued in 1994 and again updated and issued in 2002, in harmony with the INTOSAI Auditing Standards and comprise

- General Standards (concerned with relationship of the auditor to the audited organization and personal conduct of auditor)
- Field Standards; and (concerned with audit)
- Reporting Standards (concerned with audit)

The Auditing Standards of the C&AG of India are mandatory in Audit and Accounts Department and failure to observe the audit standards will render the auditor answerable for such failure. Failure to observe AS affects the quality of the audit work done. If the auditors' work is ever questioned in a court of law, failure to observe the AS would be deciding factor whether the auditor had acted with reasonable care and skill.

GENERAL PRINCIPLES AND PRACTICES OF FINANCIAL ATTEST AUDIT

Audit objectives

- the primary objective of financial attest audit; (the process of attestation of financial accountability of accountable entities; involving examination and evaluation of financial records and expression of opinions on financial statements.

- objectives which might be set by the C&AG or Statute; (determine the way the financial audit is carried out and reflect the audit mandate and policy)

- the general audit objective of any financial attest audit; (Assertions in financial statements)

Assertions for Receipt and Payments or Income and Expenditure Account items

General Audit Objectives (Assertions)

- Completeness (means that all transactions relevant to the year of account have been recorded)

- Occurrence (means that all recorded transactions occurred and were relevant to the year of account)

- Measurement (means that the recorded transactions have been correctly valued, properly calculated, or measured in accordance with established accounting policies, on an acceptable and consistent basis)

- Disclosure (means that the recorded transactions have been properly classified and disclosed were appropriate)

- Regularity (is a unique requirement for Government accounts and requires that the recorded transactions are in accordance with the primary and secondary legislation and other specific authorities required by them)

Assertions for Balance Sheet or items of Assets and Liabilities

- Completeness (means that all assets and liabilities have been recorded in the accounts and nothing was omitted)

- Existence (means that all recorded assets and liabilities exist)

- Valuation (means that the values given to the assets and liabilities are accurate and have been arrived at in accordance with the established accounting policies on an acceptable and consistent basis)

- Ownership (means that the assets are owned by the entity, the liabilities are properly those of the entity and both arise solely from regular activities)

- Disclosure (means that the assets and liabilities have been properly disclosed in accordance with the applicable reporting framework)

Financial statements are not required to be absolutely correct. The audit opinion provides reasonable assurance that the financial statements are free from material misstatement and irregularity.

Audit Materiality concept underlines the whole process of financial audit. Materiality should be considered when (a) determining the nature, timing and extent of audit procedures; and (b) evaluating the effect of misstatements.

These are sometimes known as ‘planning materiality’ and ‘reporting materiality’. Materiality is a relative term and requires the exercise of professional judgment. Planning materiality is primarily concerned with materiality by value.

The materiality of errors by nature and by context is a matter to be considered specifically at the end of the Audit. Reporting materiality applies at the end of the audit when all errors are evaluated and viewed in relation to their known effects on the financial statements.

Materiality is of three types

- Materiality by value (The point where the total value of errors in an account becomes unacceptable to Audit, so that Audit would have to qualify the audit opinion)

- Materiality by nature (Does the error affect a figure in the accounts which users expect to be stated with a high degree of accuracy or which is likely to be of great interest to them? This recognizes that in any set of accounts some are more material than others.

- Materiality by context (Is the error material because of its implication for other aspects of the accounts?"

Risk-based audit approach

Policy of C&AG to adopt a risk based audit approach which focuses audit efforts on areas of greatest risk to the proper presentation of financial statements of government entities. Risk in auditing means that Audit accepts some level of uncertainty in performing the audit.

Audit risk has three components: Inherent risk, control risk and detection risk.

Inherent Risk (IR) is the susceptibility of an account balance or class of transactions to misstatements that could be material, individually or when aggregated with misstatements in other balances or classes, assuming that there were no related internal control.=s

Control Risk (CR) is the risk that a misstatement that could occur in an account balance or class of transactions and that could be material individually or when aggregated with misstatements in other balances or classes, will not be prevented or detected and corrected on a timely basis by the accounting and internal control systems.

Detection Risk (DR) is the risk that an auditor's substantive procedures will not detect a misstatement that exists in an account balance or class of transactions that could be material, individually or when aggregated with misstatements in other balances or classes.

$$AR = IR \times CR \times DR$$

Use of the overall audit risk model enables the auditor to assess risk in order to plan and perform the audit to reduce overall audit risk to an acceptably low level. Audit has to assess whether to take high, medium or low assurance (or indeed any assurance at all) from the accounting environment. Accounting Environment means anything which has an influence on whether or not an error is likely to occur in the first place. Audit is concerned with material error and inherent risk assessment may be applied to an account area or to the account as a whole.

Audit evidence

As per the Auditing Standards, the auditor should obtain competent, relevant and reasonable evidence to support his judgment and conclusions.

In financial attest audit, evidential matter primarily consists of underlying accounting data and all corroborating information available to the auditor. The evidence should be collected with reference to the general and any special objectives of audit. The principal source of evidence for audit conclusions will be the records of the auditee. It is primary duty of Audit to ensure that the audit conclusions drawn about the financial statements subjected to audit are based on sufficient, competent and relevant evidence. Evidence must be planned, gathered and analysed before any conclusion can be reached.

Evidence gathering

- physical observation, including joint inspection by the auditors and the executive, the resultant observations being signed by both as confirmation of performance or achievements;
- re-performance of accounting routines (checking computation);
- analysis of financial statements and inter relationships or comparison between elements of relevant information;
- vouching i.e., checking of documents in support of transactions;
- critical scrutiny of documents (eg. Reviewing data to identify unusual items);
- confirmation and inquiry;
- evaluation of the quality of internal control mechanisms;
- interviews with executives; and
- computer assisted audit techniques (CAATs)

Commonly used Audit Procedures

- Analytical procedures (APs) consist of the evaluation of financial information in audit, made by a study of plausible relationships among both financial and non-financial data. It involves analysis of significant ratios and trends including fluctuations that are inconsistent with other relevant data or which deviate from expectations.

- Some of the commonly used analytical review procedures are

- Comparisons involving a single component (2 types of comparisons. First type involves comparison of the recorded value of a component with its budgeted value. Second type (trend analysis) involves a comparison of a component's current value with its value in previous years)

- Comparisons across components (involves analysis of the relationship between more than one financial statement component (ratio analysis)

- System analysis (involves identification of anomalous items within an account balance rather than a macro level analysis of the balance itself- scan or analyze individual entries in transaction listings so as to locate unusual entries or abnormalities)

- Predictive analysis (involves the creation of an expectation using not just financial data but also operating or external data, independent of the accounting system)

- Regression analysis (statistical technique that creates an equation to reveal how one variable is related to one or more other variables)

- Business analysis (High (macro) level analysis of financial statements involving critical ratios related to profitability, liquidity, financial stability, debt, etc. Useful technique for identification of risk areas during planning and audit completion states and also for a better understanding of the entity and its operations.

- Systems bases Audit (SBA) The approach whereby the auditor relies upon the entity's system of internal control is known as the System Based Approach. Various steps involved in SBA

- The identification and in-depth evaluation of relevant key controls, and assessment of the extent, if any, to which the auditor can rely upon these controls provided that they are found to be operating effectively;

- The testing of the operation of those key controls to establish whether they have operated effectively throughout the period under examination;

- The evaluation of the results of the tests of control to establish whether the degree of reliance foreseen can be taken from the examination of the controls;

- Substantive testing of a number of transactions, account balances, etc, to determine (as relevant to the audit objectives)whether, irrespective of the entity's system of controls, the financial statements of the entity are properly presented, free from material misstatements and the underlying transactions were regular.

  In addition, evidence gathering techniques like review of documents, review of performance, physical observation or interviews will be used to test check whether the key control function as envisaged has been achieved.

- Direct Substantive Testing (DST) When the audit objectives can be achieved without relying on the systems in place in the auditee, and thus without undertaking tests of control, it is known as the Direct Substantive Testing approach.

- Direct substantive tests are those tests of transactions and balances which seek to provide evidence as to the completeness, accuracy and validity of information in the accounting or financial statements, involving examination of samples of transactions or account balances and is a form of inductive reasoning where the reasonableness of the aggregate results is inferred from the evidence of reliability of the individual details that have been tested.

Audit sampling is the testing of less than 100% of the items within a population to enable Audit to form certain conclusions about the population. The population can be a class of transactions (like grants-in-aid) or an account balance (like loans). A population should be divided (or stratified) into at least three segments (i) High value items; (ii) Key items; and (iii) the remainder. The high value and key items are separately examined 100 per cent and Audit would examine a sample of the remainder. Representative samples – Block selection, Judgmental selection, Monetary Unit Sampling (MUS)

SAMPLING TECHNIQUES APPLIED FOR AUDIT OF AUTONOMOUS DISTRICT COUNCILS

- identify the specific objectives to be addressed;
- ascertain the nature of the population; and
- determine the sampling and selection methods which are most appropriate and cost effective for the objectives given the nature of the population.

Sampling uncertainty – margin of uncertainty can be reduced to acceptable levels by increasing the sample size or by finding a more efficient sampling method, if available.

Statistical sampling are used to generally find a way of producing unbiased, or almost unbiased, estimates of population values and of calculating objective measures of uncertainty in the estimates.

Non-statistical sampling

Non-statistical sampling is selecting small group of transaction and would mean 100 percent testing of a defined group of transactions, such as those authorized by a particular individual between specified dates. 100 per cent testing would be applied only to the identified group of suspect transactions. The auditors can also use 100 per cent testing to a group of transactions within an account of area which they believe have either a particular sensitivity, or a particular risk.

Specific statistical sampling techniques for tests of detail

- ***simple random sampling***; (all transactions have the same chance of being included in the sample)
- ***stratified random sampling***; (is an extension of simple random sampling, in which the population is first divided into discrete bands, or strata, each being fairly homogeneous with respect to value and risk)
- ***monetary unit sampling*** (MUS); (is a statistical sampling method in which a high value transaction is more likely to appear in the sample than one of lower value)
- ***multi stage sampling*** (is required if transactions are processed or accounting records are held at a number of locations in such a way that we cannot directly extract a sample from across the entire population)

- Overview of the financial attest audit process

- A) Planning (a timely, well though out and well executed planning effort is essential to the performance of an effective and efficient financial audit).

- It involves Understanding the entity (documented compilation)

- Establishing Audit Objectives and Scope (Objective to provide opinion on a set of financial statements and the audit process has to be designed to enable the certificate to be given). For expressing an opinion on the financial statements, Audit collects evidence. To be relevant, audit evidence must relate to the general audit objectives (also called ‘assertions’)

- Determining the materiality

- Assess Risk

- The Audit

- Develop Audit Programme

- Perform Tests on Analytical Review, Substantive Tests of Details (If No assurance from controls is derived)

- Review working papers and conclude

- Evaluate Audit Results

- Audit Report

- Or if assurance from controls is derived perform tests on Reliance on Internal Control, Substantive tests of Details, Review working papers and conclude, evaluate audit results and issue Management letter.

- B) Executing

- C) Reporting

Cash Vs Accrual based accounts

Accounts are categorized into

- ***Cash Accounts*** – which include only the transactions which actually take place within the period covered by the accounts; and
- ***Accrual Accounts*** – which reflect all the transactions relating to the period of the accounts without regard to the actual date of payment or receipt

Audit Certificates

Is made up of two parts

- Scope – The auditor has to provide information about the audit carried out
- Opinion – The auditor has to give opinion on the financial statements audited.

Audit opinion

- Normally given in a standard formed
- Relates to the financial statements as a whole
- Within the legal framework for the audit
- To indicate whether it is unmodified or modified (whether in certain respects, adverse or a disclaimer of opinion)
- The generally used practice is to indicate audit opinion as to whether the financial statements give a ‘true and fair’ view.
- Instances where the financial reporting framework and legal and regulatory requirements require audit opinion in a different form of wording.

AUDIT PLANNING

- Detailed Audit Plan for each office to be framed – as prescribed by Headquarters Office

- A single integrated plan to include central audit of vouchers and other records, routine inspections (phase audit), financial attest audits and performance audits.

- Detailed Annual Programme for Financial Attest Audits of various auditee entities to be prepared in January for ensuing FY

- Should be in accordance with the Annual Plan and approved by AG (Audit)

- Should be communicated to Admin. Deptts., HODs and Chief Executives of Auditee Entities

- Shortage of resources – Mandatory FAAs to be carried out with priority over others

- Audit resources to be diverted to mandatory FAAs

AUDIT PLANNING FOR INDIVIDUAL FINANCIAL ATTEST AUDIT

Audit Plan for carrying out audit of financial statements of specific entities

PURPOSE OF PLANNING

- Helps develop an audit approach ensuring sufficient procedure is gathered to support the audit opinion in most cost-effective manner
- C&AG's Auditing Standards require that audit should be planned to ensure high quality audit in an economic, efficient and effective way and in timely manner.
- Audit plan should be documented – part of audit working papers
- Planning processes – to be carefully noted – steps are inter-related
- Thorough understanding of the auditee entity and its operations
- Understanding for – determining materiality for audit
- Identifying factors of increased risk of material misstatement or irregularity
- Preparing an audit approach – testing of specific risk factors

PLANNING PROCESS

- ***Understanding the entity*** – For obtaining sufficient understanding to inform determination of materiality, risk and audit approach
- ***Understanding Operations and Organization*** –
- Familiarise with operations and organization of the auditee entity
- The financial statements
- The regularity framework
- The general legal framework governing the entity's operations;
- Identify Parliamentary and Legislative interest and public interest in the entity and its financial statements;
- Understand the accounting processes and the degree of computer involvement;

- Assess the overall control environment and in particular the controls to prevent irregularity, illegality and fraud;
- Perform preliminary analytical procedures;
- Analyise the financial statements into account areas

Interim visits – Make interim visits to the auditee entity during the financial year without waiting for the year end.

<u>Entity operations and organization</u>

- What are the products manufactured / services delivered / operations performed?
- What is the statutory basis for these operations?
- How are they funded?
- What is its relationship with other entities / government organizations?
- Is the entity stable or major changes took place / planned?
- Who are the recipients of its products / services?
- How does it deliver its products / services or perform its operations?
- Who is the Accounting Officer?
- Who are likely to be the main contacts for Audit in the organization?
- Who are the key members of the entity's management team and what are their responsibilities?
- Is there an audit committee and what is its scope?
- What is the organizational structure of the entity? Is it centralized or decentralized?
- What are the principal geographical locations and how are the operations distributed between them?

Information can be obtained from

- Previous years' accounts
- Past audit experience and observations on previous years' accounts (including transaction audit observations)
- The audited entity by discussion with management and internal audit personnel

- From documents such as statutes, policy and procedural manuals, internal audit reports, annual reports, budgets, minutes of management meetings
- Interim accounts
- Observation of the entity's activities and operations

Financial Reporting requirements

- Familiarise with the formats of financial statements
- Any changes in law, regulations, accounting standards, accounting rules or accounting policies
- Any new heads of accounts introduced
- Any changes in the formats of Accounts
- Any items requiring exercising judgment or estimation

Regularity and Legal Framework

- Familiarise with legal and regularity framework – Entity operation
- Primary and secondary legislation and any changes
- Regulations or instructions issued by the Finance Ministry or controlling department

Parliamentary and Legislative interest

- Identify the extent of Parliamentary or Legislative interest and public interest
- High level of comment in India
- Significant number of Parliamentary or Assembly questions
- Parliamentary or Legislative debates on the entity and its activities
- Level of interest

Accounting processes and formations

- Understand the accounting process, key feeder systems and management information systems
- Treasuries and Sub-Treasuries
- Pay and Accounts Offices
- Principal Accounts Offices in Ministries of Union Government
- Public Works Divisions

- Forest Divisions
- Inter-Governmental Transactions / Adjustments
- Reserve Bank of India
- SBI of any other Public Sector Bank transacting government business on behalf of RBI
- Office of the AG(A&E) including branch offices
- Understanding the nature and accounting treatment of different streams like Income, Tax Revenue, Non-Tax Revenue, Grants-in-Aid, Capital Receipts, Revenue expenditure, Fixed Assets / Capital Expenditure, Revenue Receipts, Loans and Advances, Public Debt, Public Account, Investments, Currents Assets and Current Liabilities
- Understand the records and procedures used to identify record, process, summarise and report material classes of transactions and to maintain accountability for assets.
- Distinguish between material classes of transactions which are processed systematically and those that are not.

<u>Computer involvement</u>

- Review the information technology systems used in preparation of financial statements
- Classify the degree of computer involvement
- Assess the complexity of the computer based financial systems
- IT Audit trained personnel should be associated where there are developing systems, use of IT is extensive, technologically complex
- External IT experts may be associated with prior approval of Hqrs
- Deploy Critically Assessment Tool for assessing the degree of complexity of IT Systems, developed by IT Audit Wing of Hqrs.

<u>Control environment</u>

- Evaluate the Internal controls
- Is it generally conducive to reliable accounting systems and effective internal control
- Does it determine if specific components increase or decrease
- If in doubt about the effectiveness, report to the entity and note while carrying financial attest audit.
- Consider management’s characteristics, philosophy, operating style and commitment to accurate financial reporting

- The operating environment and culture
- Managements’ commitment to designing and maintaining reliable accounting systems;
- The ability of management to control the operations: the organizational structure of the entity; methods of assigning authority and responsibility; supervision and monitoring; senior management control methods.

Controls against irregularity, illegality and fraud

- Ensure regularity
- Ensure compliance with the legal and regulatory framework within which the entity conducts its operations; and
- Prevent and detect fraud by management, employees or third parties
- Ensure that the Executive follows proper financial procedures
- Public funds are properly and well managed and safeguarded
- Assets are similarly controlled and safeguarded
- Funds are applied only to the extent and for the purposes authorized by Parliament or Legislature
- Effective controls are developed and maintained to prevent fraud and are detected promptly
- Document particular control procedures to ensure regularity, legality, and prevention and detection of fraud.
- Assess whether procedures are effective
- If not consider the impact on the planning for FAA
- Lack of effective control procedures indicates increased risk of material misstatements or irregularity.

Preliminary Analytical Procedures

Analytical Review

- serve as a part of the risk assessment
- identify non-routine and unusual transactions and balances
- confirm and also improve on understanding of the business or operations of the entity
- be used as a starting point for substantive assurance
- to be performed during planning stage

- purpose to identify and enable audit to direct audit resources
- Helpful in identifying specific risk factors at entity level
- Analytical procedures to be carried out on interim financial statements, budgets or estimates, prior period’s financial statements and any other management information
- Computer interrogation software like IDEA to be used
- MS Excel and MS Access for data extraction and analysis
- Simple comparisons and ratio calculations
- Unexpected variations to be investigated and evaluated

Account Areas

- Analyze financial statements into account areas for effective audit
- Account areas are classes of assets, liabilities, income and expenditure which have similar underlying characteristics and transaction streams.
- Basis of accounting to be kept in mind – Accrual or Cash
- Establish linkage between the account areas and Departments and Grants
- Guiding factors for determining account areas – significant transaction types; accounting and financial reporting process; assessment of the risk and propensity to error of different transaction types; control systems operated by the entity; and the control systems operated in the accounting offices
- For understanding each account area – clear understanding of key components and transaction types included in the area; underlying accounting processes and controls; and the sensitivity of the area are required.

Significant versus non-significant audit areas

- significant areas – account areas that impact significantly upon an entity’s financial statements
- Are Audit areas – where audit should obtain sufficient, relevant and reliable audit evidence to certify that the financial statements are true and fair
- Audit of non-significant areas- over-auditing, inefficient utilization of audit resources

- ***Materiality –*** To determine the tolerable level of error or irregularity
- Materiality by value
- Materiality by nature
- Concerns of users of audit certificate

- ***Risk Assessment*** – To identify those factors which lead to an increased risk of misstatement or irregularity and controls which mitigate those risks
- Entity risks
- Account Area risks
- Mitigating controls including controls in IT systems

- ***Plan Finalization-*** To prepare an approach which focuses on specific risk factors while providing an acceptable level of assurance across the financial statements as a whole
- Audit approach to specific risk areas and specific risk factors
- Audit approach to other areas

Overall review of financial statements

In the completion phase of audit, the audit team should perform an overall review of the financial statements. The review will consider whether:

1. the financial statements comply with requirements of applicable statutes, rules and instructions, if any;
2. accounting policies conform to the relevant Accounting Standards, Rules and instructions and have been properly disclosed, consistently applied and are appropriate to the auditee;
3. the financial statements as a whole are consistent with the audit team's knowledge of the auditee and the results of audit procedures;
4. the manner of disclosure within the financial statements is fair/proper.

The overall review of financial statements serves the following purposes:

i) it ensures that the disclosures and information in the financial statements are adequate for expressing audit opinion on the true and fair view to be given and that the financial statements are prepared in accordance with the requirement of legislation, Accounting rules and applicable instructions;

ii) to look critically at the information presented in the financial statements and ensure that it is consistent with the audit team's knowledge of the auditee and the results of audit procedures.