



Government of Odisha

Internal Audit Manual

2014

**A Guide to Planning, Performing, Reporting and Monitoring
on Internal Audit Engagements**

(For Official Use)

Finance Department

CONTENTS

| | |
|--|-----------|
| PREFACE | 1 |
| GLOSSARY | 2 |
| ABBREVIATIONS..... | 8 |
| 1. INTRODUCTION..... | 10 |
| 1.1. Overview..... | 10 |
| 1.2. Background | 10 |
| 1.3. Purpose of Manual..... | 11 |
| 1.4. Applicability | 11 |
| 2. INTERNAL AUDIT APPROACH..... | 14 |
| 2.1. Definitions of Internal Audit..... | 14 |
| 2.2. Position & Mission of Internal Audit | 14 |
| 2.3. Goal | 15 |
| 3. INTERNAL AUDIT STRUCTURE | 16 |
| 3.1. Organogram | 16 |
| 3.2. Role of Internal Audit Organizations | 17 |
| 3.2.1. System Strengthening..... | 17 |
| 3.2.2. Financial Compliance | 17 |
| 3.2.3. Performance Review..... | 17 |
| 3.2.4. Capacity Building..... | 18 |
| 3.3. Job Descriptions | 18 |
| 3.3.1. Financial Advisers/Assistant Financial Advisers | 18 |
| 3.3.2. Senior Audit Officer cum Deputy Secretary..... | 20 |
| 3.3.3. Internal Audit Officer cum Under Secretary | 20 |
| 3.3.4. Audit Officer..... | 21 |
| 3.3.5. Assistant Audit Officer | 24 |
| 3.3.6. Auditor | 27 |
| 4. PROFESSIONAL STANDARDS..... | 30 |
| 4.1. Professional Standards of Auditors | 30 |
| 4.2. Audit Quality..... | 30 |
| 4.2.1. Computer Assisted Audit Techniques (CAATs) | 31 |
| 4.3. Audit Quality Evaluation | 31 |
| 4.3.1. Peer Review | 31 |
| 4.3.2. Use of Experts | 33 |
| 4.3.3. Recognition | 33 |
| 4.3.4. Capacity Building..... | 33 |
| 5. PLANNING AN AUDIT..... | 34 |

| | | |
|--------------|--|-----------|
| 5.1. | Annual Audit Programme Planning through Risk Assessment | 34 |
| 5.1.1. | Risk Score Chart | 34 |
| 5.1.2. | Preparing Annual Audit Program | 36 |
| 5.1.3. | Preparing Audit Schedule | 37 |
| 5.2. | Communication of Audit Programme | 37 |
| 5.3. | Coordination with the Head of Auditee..... | 37 |
| 6. | INITIATING AN AUDIT | 38 |
| 6.1. | Planning Individual Audits..... | 38 |
| 6.2. | Risk Based Assessment..... | 39 |
| 6.3. | Assessment of Internal Controls..... | 41 |
| 6.3.1. | Types of controls..... | 41 |
| 6.3.2. | Tests of Internal Controls..... | 42 |
| 6.4. | Sampling | 43 |
| 6.4.1. | Sampling Sheet | 43 |
| 7. | CONDUCTING AUDIT | 44 |
| 7.1. | Verification of Receipts | 44 |
| 7.2. | Verification of Payments | 45 |
| 7.3. | Verification of Contingencies | 46 |
| 7.4. | Verification of Grants-in-Aid | 47 |
| 7.5. | Verification of Public Works | 48 |
| 7.6. | Audit of Procurements (Goods and Services) | 49 |
| 7.6.1. | Scope of Procurement Review..... | 50 |
| 7.6.2. | How to undertake a Procurement Review | 50 |
| 7.7. | Verification of Stores..... | 51 |
| 7.8. | Performance Audit or Value for Money Audit | 51 |
| 7.9. | Budget Review | 52 |
| 7.10. | Utilization Certificate Review | 52 |
| 7.11. | Reconciliation Audit | 53 |
| 7.12. | Special Audits..... | 54 |
| 7.13. | Working papers..... | 54 |
| 8. | INTERNAL AUDIT REPORTS..... | 56 |
| 8.1. | Qualities of a good report | 56 |
| 8.2. | Preparing the Internal Audit Report | 57 |
| 8.2.1. | Part – I: General Information | 57 |
| 8.2.2. | Part – II: Previous Audit Compliance | 57 |
| 8.2.3. | Part – III: Scope of Audit | 57 |
| 8.2.4. | Part – IV: Observations and Recommendations | 58 |
| 8.2.5. | Part – V: Result of Audit..... | 59 |
| 8.2.6. | Annexure..... | 59 |

| | | |
|------------|---|-----------|
| 8.2.7. | Glossary | 60 |
| 8.3. | Submission of Internal Audit Report | 60 |
| 9. | INTERNAL AUDIT MONITORING | 62 |
| 9.1. | Internal Audit Compliance Review Committee | 62 |
| 9.2. | Internal Audit Monitoring Cell..... | 62 |
| 10. | CAPACITY BUILDING | 65 |
| 10.1. | Induction and Departmental Orientation | 65 |
| 10.2. | Skill Enhancement on Periodic Basis | 65 |
| 11. | ANNEXURES | 67 |
| | Annexure – 1: List of Departments functioning under Government of Odisha and List of Departments having Common Cadre Auditors..... | 67 |
| | Annexure – 2: A Sample Risk Score Chart..... | 68 |
| | Annexure – 3: Sampling Sheet | 73 |
| | Annexure – 4: Sample template of Internal Controls Assessment | 74 |
| | Annexure – 5: Checklist for Verification of Receipts..... | 78 |
| | Annexure – 6: Checklist for Verification of Payments | 80 |
| | Annexure – 7: Checklist for Verification of Cash and Bank | 82 |
| | Annexure – 8: Checklist for Verification of Stores | 83 |
| | Annexure – 9: Sample Template for Review of UCs Position..... | 84 |
| | Annexure - 10: Format of Internal Audit Report (IAR) | 85 |
| | Annexure – 11: Format of Monthly Progress Report (MPR) | 89 |
| | Annexure – 12: Format of Physical verification of Cash, Bank and Others..... | 91 |
| | Annexure – 13: Format of Audit Progress Report Register | 92 |
| | Annexure – 14: Format of Weekly Audit Progress Report | 93 |
| | Annexure – 15: An Overview of Audit Process | 94 |



PREFACE

The Internal Audit in Government of Odisha is carried out by the Auditors placed at various Government Departments and the cadre of such Auditors is controlled by the Finance Department. The cadre is known as Common Cadre of Auditors (CCA), which was formed in accordance with the Finance Department resolution no. 33420/F, dated the 12th June 1986. The Common Cadre Auditors are presently posted in 22 Departments to conduct Internal Audit.

The Internal Audit Manual contains detailed guidelines and procedures to be followed by the Common Cadre Auditors in conducting Audit and also in preparation of Reports. In this manual, the role of audit personnel has been designed as “Partners” to the Department for strengthening the existing financial management system. The Manual outlines the professional standards of audit to be maintained by the audit personnel. The manual also covers standardized formats and detailed checklists for planning, conducting, reporting and monitoring the Internal Audit functions. It introduces new concepts of Risk Score Chart for planning audits, peer review concept for ensuring audit quality and scientific sampling procedures for qualitative audits. Besides, it introduces the concept of Internal Audit Compliance Review Committees (IACRC) for effective monitoring of Internal Audit compliances and closure of paras.

I am confident that, this Internal Audit Manual will bring out a uniform procedure and help in achieving the objectives of Internal Audit in a better and efficient manner. This Manual is to be followed by all Audit personnel of the Administrative Departments having Internal Audit System. This Manual will provide guidance for conducting Transaction Audit, Compliance Audit, and Financial Reports Review.

I thank the members of Technical Committee in Finance Department for helping in shaping the Manual in its current format and also thank the Technical Assistance Support Team of the Odisha Modernizing Economy, Governance and Administration (OMEGA) Programme- IPE Global for developing the Manual with value added concepts for effective internal audit function in the State Government.

15/8/2014
(Upendra Nath Behera)
Additional Chief Secretary

GLOSSARY

The definitions/descriptions/meanings of the various terms used in this manual are as follows:

- **Accountant General** means the head of the office of audit and accounts subordinate to the Comptroller and Auditor General of India who keeps the accounts of the State and exercises audit functions on behalf of the Comptroller and Auditor- General of India.
- **Administrative Approval** means the formal approval or acceptance of the Administrative Department to a scheme, proposal or work for the purpose of incurring expenditure thereon. For every work (excluding petty works and repairs) it is necessary to obtain, in the first instance, the concurrence of the competent authority of the Administrative Department requiring the work.
- **Assembly or Legislature** means Odisha Legislative Assembly.
- **Auditee** means an organization (or part of an organization) that is being audited.
- **Audit Camp** means the location specified by the auditee for conducting audit by the auditor or audit parties.
- **Audit Party** means the Composition of audit personnel as framed and approved in the audit programme of the respective Administrative Department.
- **Audit Programme** means a detailed plan of the auditing work to be performed, the procedures to be followed in verification, audit personnel involved and estimated time required to complete the audit.
- **Audit Sampling** means the application of audit procedures to less than 100% of the items to enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected, in order to form or assist in forming a conclusion.
- **Bank** means any branch of the State Bank of India acting as the agent of the Reserve Bank of India in accordance with the provisions of the Reserve Bank of India Act, 1934 (2 of 1934), any branch of a subsidiary bank as defined in section 2 of the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959) which is authorised to transact Government business as agent of the State Bank of India, or any branch of a bank as may be appointed by the Reserve Bank of India as its agent under the provisions of sub-section (I) of section 45 of the Reserve Bank of India Act, 1934 (2 of 1934).

- **Budget Year** means the year commencing on the 1st of April and ending on the 31st of March following
 - **Comptroller and Auditor General** means the Comptroller and Auditor General of India appointed under article 148 of the Constitution of India.
 - **Competent Authority** means the Government or any other authority to which the relevant powers may be delegated by Government.
 - **Constitution** means the Constitution of India.
 - **Consolidated Fund Account** means the Account of the State into which the revenues received by the Government, loans or ways and means advances taken by the Government, moneys received by the Government in repayment of previous loans and receipts by issue of treasury bills, are credited and from which the expenditure of the Government, when so authorized by the State Legislature, is met.
 - **Contingency Fund Account** means the account of the moneys placed at the disposal of the Governor to enable advances to be made by him, for meeting unforeseen expenditure pending authorization of such expenditure by the State Legislature under appropriations made by law.
 - **Controlling Officer** means a Head of a Department or other Departmental officer who is entrusted with the responsibility of controlling the incurring of expenditure and or the collection of revenue by the authorities subordinate to the Department.
 - **Computer Assisted Audit Techniques** means the practice of using computers to automate the audit process, which normally includes using basic office productivity softwares i.e., spread sheets, word processers and more advanced software packages involving use of statistical analysis.
 - **Drawing and Disbursing Officer** means a Departmental officer who is entrusted with the responsibility of drawing and disbursing funds of the Government.
- NOTE- Administrative Departments/Heads of the Departments shall be competent to declare Gazetted Officers under their Administrative Control as Drawing and Disbursing Officer in respect of specific establishments.(F.D.O.M. No.- Codes 92/76-57970/F, dated the 9th December, 1976).
- **Finance Department** means the Finance Department of the Government of Odisha.

- **Financial Year** means the year beginning on the 1st of April and ending on the 31st of March following
- **Grant** means the amount voted by the Legislative Assembly in respect of a Demand for grant.
- **Government** means the Government of Odisha.
- **Half Margin Memo** means a letter issued by the Auditor/Assistant Audit Officer to the Head of Office/Auditee requesting to produce relevant accounting records, registers, files and other documents required to be checked in course of audit and seeking clarifications on observations/findings made during the course of audit.
- **Head of a Department** means (i) Any authority declared to be such by the competent authority with reference to Rule 20 of the Orissa Service Code, Vol. 1, if the declaration is made in general terms, and not with reference to certain specified rules only and (ii) Includes any other officers, declared to be such by the competent authority.
- **Head of an Office** means any authority declared to be such by the Administrative Department or Head of Department; if the declaration is made in general terms and not with reference to specified rules, the Head of an office may exercise all powers vested in him not only under these rules, but also other financial rules e.g. the Orissa Service Code, the Orissa Travelling Allowance Rules, General Provident Fund (Orissa) Rules, the Orissa Treasury Code, the Contritutory Provident Fund (Orissa) Rules, (F.D.O.M. No..- Codes 92/76-57970/F, dated the 9th December, 1976).
- **Internal Audit Compliance Review Committee** means a Committee formed for the purpose of internal audit objections compliance review. This Committee shall be formed and meetings shall be organised by the Financial Adviser of an Administrative Department at Zonal or District level offices.
- **Internal Control** means the procedures adopted by the management of an entity to assist in achieving management's objective of ensuring the orderly and efficient conduct of its business, including adherence to management policies, safeguarding of assets, prevention and detection of fraud and error, accuracy and completeness of the accounting records, and timely preparation of reliable financial information.
- **New Service or Scheme** means new form of a service or a new instrument of service which is contemplated newly for the first time and taken up after the sanction of the

Legislature either through a new Demand Schedule or a Supplementary Demand Schedule.

- **Performance Audit** means an assessment of efficiency and effectiveness of the programmes, with due regard to economy and addresses the issues of inputs, processes, outputs (products) and outcomes (impact).
- **Peer Review** means an examination and review of systems and procedures employed by an internal audit team while conducting audit to determine the quality of audit services rendered. The review is done by another internal audit team on specific requisition or order.
- **Public Account** means the Public Account of India or the Public Account of a State referred to in clause 2 of Article 266 of the Constitution or both as the context may imply.
- **Primary Unit of Appropriation** means a lump sum of money placed by the Government at the disposal of a subordinate authority by the method prescribed in rules contained in Chapter II of the Orissa Budget Manual.
- **Re-appropriation** means the transfer of funds from one unit of appropriation to another such unit.
- **Reserve Bank** means any office or branch of the Banking Department, of the Reserve Bank of India constituted under the Reserve Bank of India Act, 1934 (2 of 1934).
- **Risk Based Assessment** means the process of (i) Identifying and analyzing potential risks posing threat on the department's financial aspects as well as achievement of its objectives and (ii) Developing response to address the identified risks and prioritizing audit focus in the risk potential areas.
- **Risk Score Chart** means a score chart for assigning scores and ranks to the offices on the basis of the risk indicators.
- **Sampling** means the process of selecting a subset of the population of the items to draw inferences that represent the entire population.
- **State** means except where it appears otherwise from the context, refers to the state of Odisha as included in the first schedule of the Constitution.
- **Treasury Rules** means the Treasury Rules, of the State Government of Odisha embodied in the Orissa Treasury Code.

- **Utilization Certificate** means a format given as FORM O.G.F.R. 7-A. in Orissa General Financial Rules under Rule 172.
- **Value for Money Audit** means an independent assessment of the project, programme, scheme or of an organisations in terms of their goals and objectives and ascertaining the extent to which the expected results have been achieved from the use of available resources of men, money and materials.
- **Working Papers** means those papers which are formally referred to as (i) Audit documents or (ii) Audit file. The documents serve as proof of audit procedures performed, evidence obtained and the conclusion or opinion of the auditor.

ABBREVIATIONS

| | |
|--------------|--|
| AAP | Annual Audit Programme |
| AAO | Assistant Audit Officer |
| AR | Audit Report |
| ATR | Action Taken Report |
| CAAT | Computer Assisted Audit Techniques |
| CAGR | Compound Annual Growth Rate |
| CCA | Common Cadre Audit |
| CGA | Controller General of Accounts |
| DDO | Drawing and Disbursing Officer |
| FA | Financial Advisor |
| FO | Field Office |
| GoO | Government of Odisha |
| HoO | Head of Office |
| HO | Head Office |
| IAO | Internal Audit Organisation |
| IAD | Internal Audit Department |
| IAMC | Internal Audit Monitoring Cell |
| IACRC | Internal Audit Compliance Review Committee |
| JS | Joint Secretary |
| MPR | Monthly Progress Report |
| OGFR | Orissa General Financial Rules |
| OTC | Orissa Treasury Code |
| OPWD | Odisha Public Works Department |
| RSC | Risk Score Chart |
| SR | Subsidiary Rule |
| UC | Utilisation Certificate |

1. Introduction

1.1. Overview

1. The Finance Department of Government of Odisha (GoO) aims to strengthen the financial management systems of various Administrative Departments operating under the state of Odisha. An effective Internal Audit function strengthens the functioning of the Administrative Departments and helps in achievement of the objective of service delivery. Finance Department has attempted this manual to ensure transparency and accountability in audit procedure comprising a set of guidelines for directing and regulating internal audit function in GoO.

1.2. Background

2. The Accountant General of Odisha is the statutory auditor for the state of Odisha for conducting statutory audit. The Government of Odisha (GoO) conducts the following internal audits in State of Odisha:
 - i. **Internal Audit:** The Common Cadre Audit (CCA) was formed¹ by the Finance Department, GoO in the year 1986 with an intention of conducting internal audit in various Administrative Departments within the State of Odisha. Currently out of 40 Administrative Departments CCA is functioning only in 22 Departments under the guidance of the Finance Department, Government of Odisha. List of Departments functioning under Government of Odisha and the list of Departments covered by CCA is given in [Annexure-1](#).
 - ii. **Local Fund Audit:** Directorate of Local Fund Audit (DLFA), Odisha is conducting audit of local bodies and government managed / aided institutions². It is functioning under the administrative control of Finance Department and a separate Directorate has been formed w.e.f. 01.10.2012.

¹ Common Cadre Audit (CCA) was formed in accordance with the Finance Department resolution No. 32242, Dt:22.08.1985 and 33420/F, Dt:12.6.1986.

² LFA is conducting audit in Zilla Parishads, Panchayat Samities, Gram Panchayats, Development Authorities, Urban Local Bodies (Municipalities + NACs), Aided Educational Institutions (Colleges and Schools), Universities and Endowments.

- iii. **Efficiency Audit:** The Efficiency Audit Organization (EAO) was created³ in Finance Department with the objective of conducting performance audit of either whole or any particular aspect of schemes/programmes and suggests improvement in existing methods or rectification of any defect in the existing practice leading to wastage of public money or leakage of revenue. The assessment of efficiency in performance is fundamental basis of this audit. EAO also conducts special audits on requisition by Departments.

1.3. Purpose of Manual

3. Internal Audit Manual is developed to guide/assist the internal audit wing of the Administrative Departments to provide independent, objective, value-added and advisory services to the executive authority in Administrative Departments in order to improve the achievement level of the Department. More specifically this manual is intended to provide internal audit wing of Administrative Departments with tools and information for assessing risk in processes and activities, developing an appropriate internal auditing work programme and planning, performing and reporting on audit engagements.

4. It is intended:

- i. To act as a handbook for internal auditors,
- ii. To identify roles & responsibilities of internal audit teams of Administrative Departments,
- iii. To shift the focus of internal audit from detection to solution,
- iv. To introduce the annual audit programme planning through risk based assessment,
- v. To develop the concept of systematic sampling,
- vi. To standardize reporting and monitoring mechanism to improve audit effectiveness,
- vii. To set roadmap for capacity development of internal audit team.

1.4. Applicability

5. This manual is designed for the Common Cadre Auditors who are primarily responsible for carrying out the internal audit function across different Administrative Departments of the

³ Efficiency Audit Organization (EAO) was formed by the Finance Department resolution No. 49767/F, Dt: 24.12.1962.

State. Each of the Administrative Department is involved in different departmental functions assigned to them and hence the scope of operation of these Departments differs from one to another on various aspects. This manual contains guidance of a generic nature and outlines common procedures for conduct of internal audit in the Departments.

6. The manual is intended for internal use by the Departments of Government of Odisha.

2. Internal Audit Approach

2.1. Definitions of Internal Audit

The Institute of Internal Audit, (IIA) USA defined, "Internal Auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analysis, appraisals, recommendations, counsel and information concerning the activities reviewed."

The Institute of Chartered Accountants of India (ICAI) defined, "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."

2.2. Position & Mission of Internal Audit

7. Internal Audit Team to work as '**PARTNERS**' with the Administrative Departments to strengthen financial management systems, build capacities of the audit/accounts personnel of the Department and to guide them in achieving their objective of public service delivery in a more efficient manner. The major scope of internal audit activity is summarised below:

Planning of Annual Audit Programme

Assessment of Internal Controls within the Department

Risk Assessment and Sampling to narrow down areas of focus

Tracking audit objections and monitoring compliance

New schemes evaluation with special reference to its economy, efficiency and effectiveness

Ensure/Suggest adequate Capacity Building measures to the Administrative Departments

Reconciliation of Budgeted and Actual Figures and analysis of the variances

Strengthening of Financial Management System

2.3. Goal

8. Facilitate reduction of statutory audit observations by;
 - i. Identifying system weakness and bottlenecks in implementation of the departmental plans/programmes;
 - ii. recommending suggestions to improve the system;
 - iii. Monitoring the compliance on recommendations.
9. Facilitate settlement of statutory audit observations / paras raised by the C&AG and others.

3. Internal Audit Structure

3.1. Organogram

10. An overview of the internal audit structure in Government of Odisha is given in **figure no.1**.

11. The audit personnel of

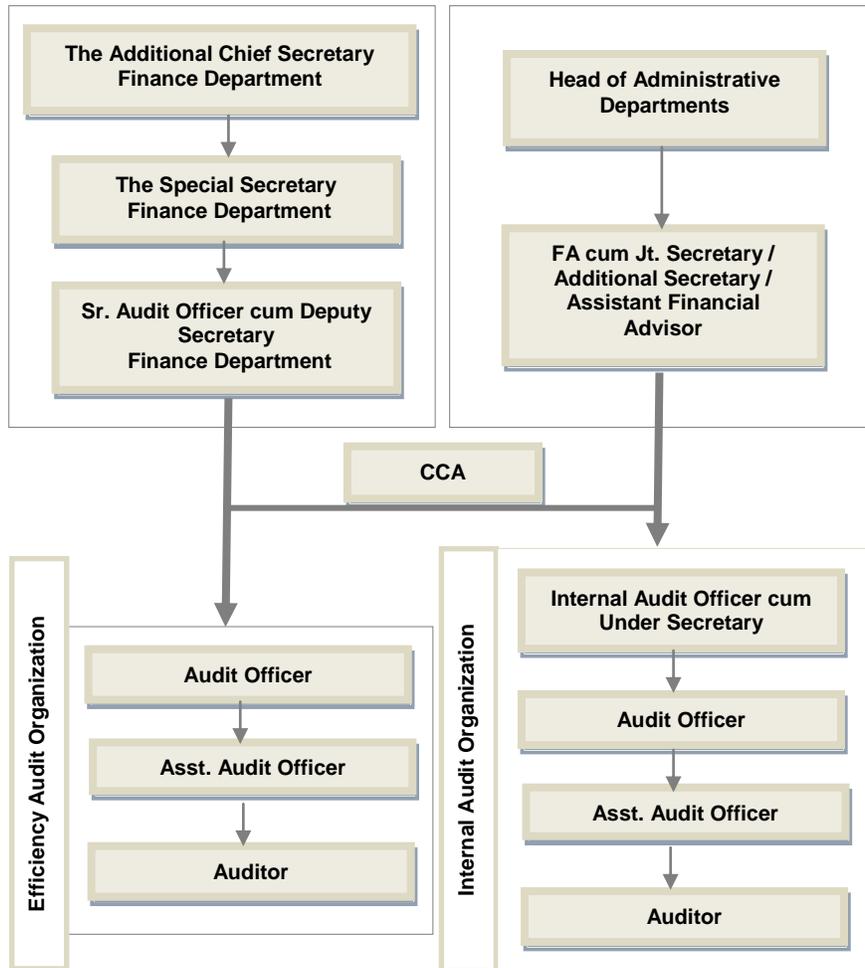
Internal Audit Organizations (IAO) are working directly under the control of respective head of the Administrative Departments.

12. The Administrative Department exercises certain powers and control on internal audit organizations/personnel working under them as per delegation of powers by the Finance Department⁴.

13. Financial Advisor (F.A.) / Assistant Financial Advisor (A.F.A.) of each

Administrative Department⁵ heads the Internal Audit Organizations of the Department and he/she controls and supervises the work of internal audit team placed within the Department.

Figure 1: Organizational Structure of Internal Audit in GoO



⁴ In accordance with FDOM No. 19476/F, Dt:29.04.1992

⁵ According to Para XVIX of Annexure-E of “Delegation of Financial Powers Rules, 1978 as corrected and revised upto 8th April 2013

3.2. Role of Internal Audit Organizations

14. The envisaged role of Internal Audit Organizations under Government of Odisha is broadly divided into four areas as discussed below:

3.2.1. System Strengthening

15. Internal audit should aim at strengthening of systems in the auditee. System strengthening shall include review of established systems like accounting procedures, procurement procedures/methods, internal control mechanisms and any other system operating in the auditee. Suitable recommendations shall be given for strengthening of the existing system for better management of the office and achievement of the Departmental goals.

3.2.2. Financial Compliance

16. They should also focus on financial compliance while conducting different types of audits as mentioned below:

- i. **Transaction audit** includes examination of all relevant vouchers of receipts and expenditure as per the cashbook to establish the expenditure with reference to the activities.
- ii. **Compliance audit** means examination of documents as to whether money spent was legally available for expenditure and sanctioned by the competent authority.
- iii. **Financial Reports Review** includes examination of Profit and Loss account, Balance Sheet etc. as per the prescribed rules, in case of Government Departments having commercial activities.

3.2.3. Performance Review

17. Performance review is an assessment of efficiency and effectiveness of the programmes, with due regard to economy and addresses the issues of inputs, processes, outputs (Products) and outcomes (impact). Internal Audit functions on the principle of 3Es:

- **Economy** – means acquiring resources at the lowest cost by observing financial proprieties keeping in view the objectives of the Auditee.
- **Efficiency** – refers to the relationship of inputs and outputs in terms of goods, services or other results and the resources used to produce them.
- **Effectiveness** – means the extent to which an auditee has achieved the objectives and the relationship between intended impact and actual impact of any activity.

18. A separate set of guidelines named as “Performance Audit Guidelines” have been issued by the Finance Department, which will be followed by all while conducting Performance Audit.

19. Any one or more types of audits may be applied simultaneously by the Auditor as per requirement.

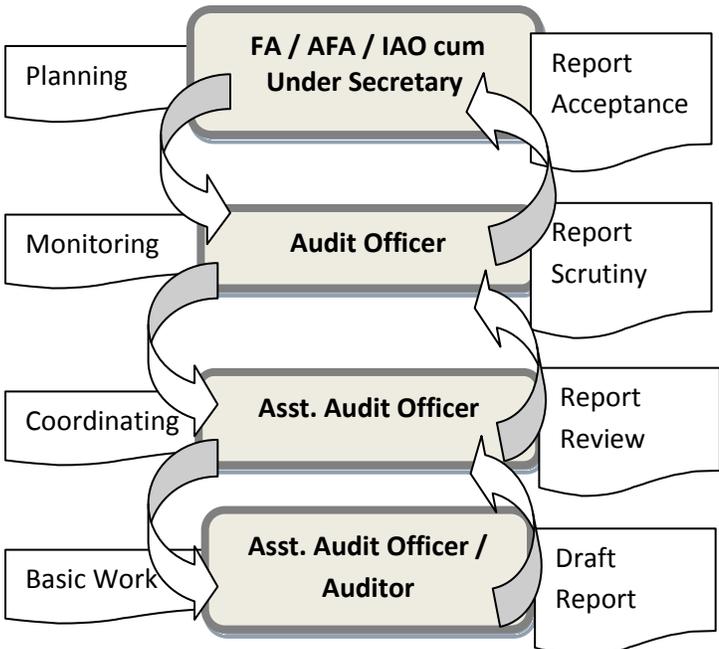
3.2.4. Capacity Building

20. Internal Audit shall also support in building capacities of the accounts and financial management within the auditee. They should facilitate skill transfer by sharing of knowledge on better accounting practices.

3.3. Job Descriptions

21. Position wise detailed job description is stated below and an overview of the broad job description for different positions of CCAs is given in figure No. 2.

Figure 2: Overview of job description of CCAs



3.3.1. Financial Advisers/Assistant Financial Advisers

22. The Financial Adviser (FA) / Assistant Financial Adviser (AFA) shall control⁶ and supervise the functions of the Internal Audit Organizations of the Departments and will ensure effective audit of the accounts of the sub-ordinate offices. Detailed job description of FA / AFA relating to the Internal Audit is given below:

- i. To ensure optimum utilization of services of audit personnel placed for internal audit in the Department.
- ii. To review, recommend and obtain approval of the Annual Audit Programme from the Head of the Administrative Department.

⁶ According to the Para – XVIX of Annexure – E of “Delegation of Financial Powers Rules, 1978 as corrected and revised upto 8th April 2013

- iii. To issue a letter of intimation to the Head of Office of the auditee before Auditors/Audit teams proceed to the audit camp.
- iv. To guide, direct and supervise the internal audit assignments on the following principles:
 - a) The approved audit programmes are followed unless deviation is justified and authorized.
 - b) The audit is conducted with due, professional care.
 - c) The working papers and evidence adequately support the audit conclusions and provide sufficient data to prepare a meaningful audit report.
 - d) The audit objectives as planned and defined are substantially achieved.
- v. To highlight the major audit objections and misappropriations to the notice of the Head of the Administrative Department and Finance Department.
- vi. To approve audit reports reflecting minor irregularities and in case of special audits or any audit report depicting serious nature of loss of Govt. money shall be processed by him and endorsed to the Secretary of the concerned Administrative Department for approval.
- vii. To issue the relevant audit reports to proper quarters for compliance.
- viii. To take steps for realization of recoveries suggested by the audit and to ensure credit of the recovered amount to Treasury under appropriate Head of account.
- ix. To attend Internal Audit Compliance Review Committee (IACRC) meetings conducted for speedy disposal of audit objections/paras.
- x. To review the cases of non-cooperation/non-compliance by the auditee and take steps to its logical end.
- xi. To appraise the Finance Department on internal audit programme and achievements.

3.3.2. Senior Audit Officer cum Deputy Secretary

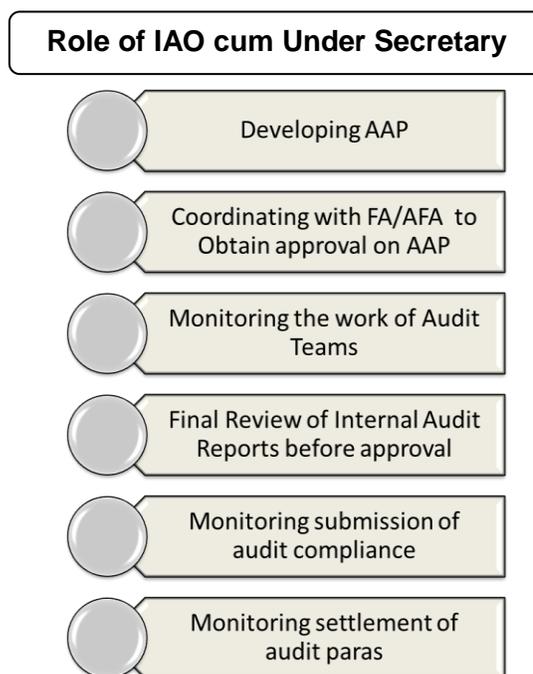
23. Brief job description of Senior Audit Officer cum Deputy Secretary:

- i. To prepare audit plan, audit schedule and annual work plan for Efficiency Audit Organization of Finance Department.
- ii. To monitor the activities of Internal Audit Monitoring Cell, Efficiency Audit Monitoring Cell and functioning of the Efficiency Audit Organization.
- iii. To review the auditing standards maintained by different Administrative Departments of the Government of Odisha and suggest for improvements.
- iv. To liaison with different Administrative Departments for settlement of outstanding audit paras of their Internal Audit Reports and on Efficiency Audit reports relating to their Department.
- v. To conduct final review of the Efficiency Audit Reports and Submission of it to the Higher Authority for approval.
- vi. To perform any other duties assigned by the Higher Authorities.

3.3.3. Internal Audit Officer cum Under Secretary

24. Brief job description of Internal Audit Officer cum Under Secretary:

- i. To work under the direct supervision of Financial Advisor and responsible for smooth functioning of the Internal Audit Organization within the Administrative Department.
- ii. To prepare the audit plan on the basis of Risk Assessment or otherwise and develop audit schedule, annual audit programme.
- iii. To coordinate with higher authority for approval of the annual audit programme.
- iv. To communicate and coordinate with Auditors and Audit Teams on Annual Audit Programme.



- v. To review the status of audit, audit reports, audit observations etc. and preparing Monthly Progress Reports (MPRs) of the Internal Audit Organization within the Administrative Department
- vi. To arrange periodic review meetings with internal audit team within the department to assess the progress in different fields of audit.
- vii. To ensure submission of audit report within the specified time limit, in the prescribed format duly filled in all respect.
- viii. To review and scrutinize draft audit reports and submit it to the Higher Authority for approval within 7 days of receipt of the report.
- ix. To coordinate with the Administrative Department and Finance Department for necessary flow of information relating to internal audit and compliance on the internal audit reports.
- x. To take follow up action on the audit reports till final settlement of Paras.
- xi. To review the compliances furnished by the auditee on all audit reports.
- xii. To prepare periodical report on outstanding paras of the audit reports and suggest suitable measures for obtaining compliance from the defaulting auditee as well as action for settlement of those Paras.
- xiii. To attend Internal Audit Compliance Review Committee (IACRC) meetings conducted for speedy disposal of audit objections/paras.
- xiv. To appraise the Financial Adviser on internal audit programme and achievements.
- xv. To perform any other duties assigned by the Higher Authorities.

3.3.4. Audit Officer

25. Brief job description of Audit Officer under Common Cadre of Audit:

- i. To assist Internal Audit Officer cum Under Secretary in preparing audit plan and drawing annual audit programme:
 - a. To prepare a risk analysis report of the units functioning under the control of the Administrative Department based on the Risk Score Chart (RSC).
 - b. To develop a work plan of audit based on the results of the risk analysis and internal control assessment.

- c. To obtain approval of annual audit programme from the Head⁷ of the Administrative Department through concerned higher authority in time.
 - d. To estimate requirement of manpower for carrying out the audit.
 - e. To schedule the programme of Audit and deployment of Auditors and AAOs.
- ii. To monitor and facilitate completion of audit in time. Any difficulty or need for deviation will be brought to the notice of the higher authorities for need full action.
 - iii. To supervise the work of AAO and Auditors in the Office as well as in the camps and to take necessary action for addressing the issues/difficulties of concerned AAOs and Auditors.
 - iv. To assess the work of each Auditor and AAO and bring instances of inefficiency, indiscipline etc. to the notice of concerned higher authority promptly.
 - v. To review the performance of AAOs and Auditors half yearly and annually and submit his review note to the higher authority.
 - vi. To review and finalize audit reports:
 - a) To ensure submission of audit report within the specified time limit, in the prescribed format duly filled in all respect.
 - b) To assess the reliability of financial and accounting reports in particular.
 - c) To examine the Half Margin Memos issued by audit, its relevance, compliance given/not given by the auditee and subsequent findings.
 - d) To review the draft audit reports both at Head Quarters and in the Field Offices.



⁷ It may be the “Additional Chief Secretary” or “Principal Secretary” or “Commissioner cum Secretary” or “Secretary” or “Special Secretary” of the Administrative Department as applicable.

- e) To discuss the audit objections with the respective DDOs/Head of Offices before finalization of the audit report.
- vii. To finalize the draft audit reports and forward it to the higher authority for approval.
- viii. To initiate follow up action on the Internal Audit Reports till their final settlement.
- ix. To review the compliance position of the pending audit reports. Prepare periodically outstanding position of audit reports and objection paras against each office and to place the same before the higher authority for necessary action.
- x. To examine outstanding paras containing irregularities and based on satisfactory compliance suggest to drop the paras.
- xi. To propose issue of necessary instructions and guide lines for smooth running of audit work
- xii. To initiate proposal for extension of time to the Audit teams wherever required in consideration of their work load on the recommendation of AAO.
- xiii. To initiate Confidential Character Role⁸ (CCR) of all AAOs working in the audit cell and to submit the same to the Higher Authority
- xiv. To attend Internal Audit Compliance Review Committee meetings to be held under the Administrative control of the Department.
- xv. In the absence of Internal Audit Officer within the Administrative Department or as directed by the Higher Authority, Audit Officer may perform the role of Internal Audit Officer as specified in paragraph no.3.3.3.
- xvi. To perform any other duties assigned by the Higher Authorities.

⁸ In accordance with FDOM No. CCA.II-42/04/23845, Dt: 13.05.2005 and FDOM No. CCA.II-5/2008-7393/F, Dt: 20.02.2008.

3.3.5. Assistant Audit Officer

26. Brief job description of Assistant Audit Officer is given below:

27. As a Supervising Officer at Headquarters, AAO shall perform the following tasks:

- i. To supervise and facilitate the work of Auditors.
- ii. To develop a detailed audit plan based on approved audit programme including interaction⁹ with Head of Office/Officer/In-charge of audit.
- iii. To make periodical supervision of audit works at camps and review vouchers/records audited by the Auditors and submit a report to his/her Higher Authority immediately indicating the irregularities, mis-appropriation or defalcation of cash or any lapses noticed in the auditee.
- iv. To examine the Half-margin memos issued by the audit parties and replies furnished by the auditee.
- v. To provide support to the Auditor to draw the conclusions on the observations raised, basing on the compliance received.
- vi. To ensure completion of work on time. Extra time or handhold support if required will be intimated to the Higher Authority immediately.
- vii. To discuss with the concerned Head of the auditee regarding the irregularities, defects, omissions, misappropriation etc. detected during course of audit and try to settle the Paras as far as possible before completion of audit.



⁹ Audit Interaction at planning stage means interaction with senior most officers of the Department to understand their requirement/ direction/ focus etc.

- viii. To review and finalize the draft audit reports prepared by Auditors after completion of audit. Scrutiny the draft audit reports and ensure adequacy and reliability of data/information in the report submitted by the Auditors and suggest for improvement, if any.
- ix. To give suggestions in the draft audit report for improvement in the system of Auditee, if required.
- x. To submit the draft audit report to the Higher Authority for approval within 7 days from the date of receipt of draft audit report.
- xi. To coordinate with higher authority for approval of the audit reports.
- xii. To take follow up action on the compliances furnished by the auditee in respect of audit reports.

28. As a Head of Audit Party, AAO shall perform the following tasks:

- i. To inform the auditee office well in advance preferably before 15 days to keep requisite records ready for the audit.
- ii. To collect information from Administrative Department before commencement of audit about the functioning of the Auditee and accustom him/herself with specific Acts & Rules/ Guidelines/ Scheme operating details and Government instructions governing the activities of the office/establishment.
- iii. To introduce the team to the Head of the auditee on the first day of commencement of audit and appraise him/her the purpose, time schedule, and records to be provided by the auditee for smooth progress and completion of the audit within the time schedule.
- iv. To perform risk assessment, internal controls review etc. at field offices as per guidelines outlined in Chapter 6, if necessary. Based on assessment results, prepare a detailed audit plan for the particular office such as:
 - a) Areas of audit focus,
 - b) Sampling methods/techniques to be followed, if applicable
 - c) Emphasis to be given for detail checking on risk based areas.

- v. To develop a systematic work plan in consultation with the team mate(s) keeping in view the time allotted, volume of the work at hand and distribute the work according to the work plan
- vi. To conduct a general review of all accounts and records maintained by the auditee.
- vii. To make a requisition for production of records to be verified.
- viii. To conduct physical verification of the cash on the date of commencement of audit with reference to the closing balance in the main and subsidiary cash books as well as bank balances. To record the findings in the cash book. To report findings of gross financial irregularities if any noticed during physical verification of cash immediately to the Higher Authority.
- ix. To record the position of opening balance and closing balance of the Cash book with details of break up and analysis of closing balance for the period covered under audit.
- x. To bring to the notice of the higher authority if any extra time or extra hand or both are required for the audit.
- xi. To review functioning and performance of different schemes implemented by the Department.
- xii. To review funds released out of the budgetary provision and utilized for the purpose for which it was sanctioned.
- xiii. To visit Banks, Treasuries or other offices if required, to examine or to refer to any material or documents in connection with audit.
- xiv. To take assistance of technical persons if required for verification of any work site under orders of the Government.
- xv. To conduct test check of stocks of selected samples if necessary, and record the findings in the corresponding stock register.
- xvi. To review the position of pending audit reports and paras and expedite the compliance.
- xvii. To look to the facts that the Half Margin Memos are issued with proper facts, figures and with legal standards.

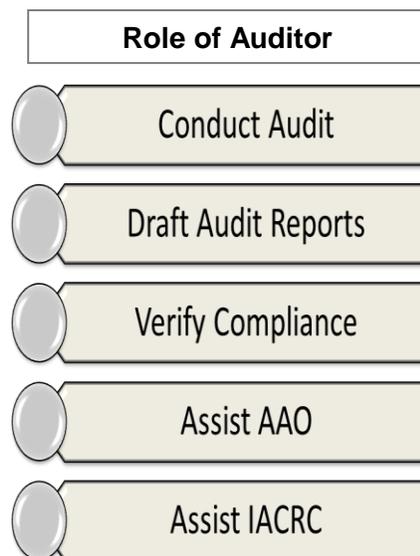
- xviii. To scrutinize vouchers and relevant records with reference to existing laws and different circulars and instruction of Government issued from time to time.
- xix. To report to the Department promptly on irregularities of important nature like loss of money or stores by means of embezzlement, theft, mis-appropriation etc. detected in course of audit.
- xx. To report on progress of work weekly to the Internal Audit Officer cum Under Secretary / Audit Officer in the prescribed format.
- xxi. To ensure compliance on Half Margin Memos within the stipulated time not exceeding three working days from the date of issue.
- xxii. To ensure issue of Half Margin Memos serial numbered by keeping a duplicate copy and duly acknowledged by the officer to whom issued.
- xxiii. To collect relevant documents and information from the auditee for drafting of audit reports before completion of audit.
- xxiv. To discuss with the Head of the auditee before closure of the audit about the objections pointed out by audit.
- xxv. To draft the audit report with assistance of the Auditor and submit the same to the next higher authority within 5 days of the date of completion of audit.
- xxvi. To give views on the quality of accounts maintained by the office and suggest for improvement, if any.
- xxvii. To specify the names of the official/officials responsible for financial irregularities leading to misappropriation or loss of Government money.
- xxviii. To perform any other duties assigned by the Higher Authorities.

3.3.6. Auditor

29. Brief job description of the Auditor is given below:

- i. To visit to the auditee to carry out internal audit in accordance with the approved annual audit programme.
- ii. To issue Half Margin Memo to the Head of Office / DDO for production of relevant accounting records, registers, files and other documents required to be checked in course of audit.

- iii. To conduct physical verification of the cash book and cash balance on the date of commencement of audit. Findings of the physical verification shall be reported in the Internal Audit Report¹⁰.
- iv. To obtain a general view of all accounts, records maintained by the auditee to prepare detailed plan of audit.
- v. To evaluate the effectiveness of Internal Control System followed in the auditee.
- vi. To review the compliance with the existing financial rules, regulations, procedures¹¹ etc. and executive instructions/orders issued by the competent authorities.
- vii. To conduct a detailed check of accounts of records of the period as given in the approved audit programme.
- viii. To conduct a detailed check of selected samples.
- ix. To verify whether the Cash book is written in the prescribed form and maintained according to SR 37 of Orissa Treasury Code Volume 1.
- x. To verify the correctness of opening balance, totaling of receipt and expenditure shown in the cash book and closing balance for the period of audit.
- xi. To examine the receipts and disbursements with reference to relevant supporting documents and registers.
- xii. To identify the areas of wastage of resources, cases of general misuse of funds or properties and misappropriations of financial resources, if any.
- xiii. To verify the reconciliation statements pertaining to bank and advances.
- xiv. To verify the status of submission of Detail Contingency (DC) Bills



¹⁰Internal Audit Report format is discussed in Chapter No. 8.

¹¹Orissa General Finance Rules, Orissa Treasury Code, Delegation of Financial Power Rules, Orissa Fiscal Responsibility and Budget Management Act etc.

- xv. To verify whether parking funds in banks etc. beyond authorized period, if any
- xvi. To conduct review of the procurement procedures of goods and services adopted by the auditee.
- xvii. To conduct performance review of specific scheme objectives and outcomes, if any applicable for the auditee. (For this purpose he/she shall refer to the **Performance Audit Guidelines** prescribed by the Finance Department.)
- xviii. To conduct review of the utilization certificates position on different schemes and report the outstanding position as per the prescribed format.
- xix. To maintain a register for indicating progress of audit done on daily basis. A prescribed format is given in Annexure – 13.
- xx. To submit weekly progress reports to the Head Quarter on the progress of audit. A prescribed format is given in Annexure – 14.
- xxi. To conduct review of the status of past audit reports, AG audit objections, and other audit findings and its compliances.
- xxii. To conduct review of the budgetary compliances such as timely release of grants/allotments, expenditure as per allotments, re-appropriation if any whether as per rules or not.
- xxiii. To issue Half Margin Memos in duplicate to the Auditee for the objections raised during audit (original copy to be handed over to the Auditee by keeping the duplicate copy with the Auditor) and review its compliances.
- xxiv. To prepare draft audit reports in the prescribed format enclosing relevant documents.
- xxv. To submit the draft audit report to the Asst. Audit Officer or Audit Officer within 5 days of the date of completion of the audit.
- xxvi. To perform any other duties assigned by the Higher Authorities.

4. Professional Standards

Professional Standards prescribe the norms, principles and practices, which the Internal Auditors shall adhere to during the course of audit. These standards shall act as a guide to auditors and overall audit function, thereby ensuring efficiency in operations and professional conduct.

4.1. Professional Standards of Auditors

30. The Auditors are expected to maintain the following professional standards:

- **Objectivity:** Auditors should acknowledge and incorporate all information received from the Auditee without withholding any information which may distort the reporting of activities under review. Auditors shall be fair in reporting and any improper activities and transactions noticed should be reported without fear or favour.
- **Competency:** They should possess thorough knowledge of the audit process, applicable rules and orders and objectives of the audit. They should continually engage in improving their proficiency in audit procedures and techniques by attending training sessions, reading rules, manuals and instructions issued by the Government from time to time.
- **Confidentiality:** Auditors should not disclose the information acquired during audit to any person unless there is a legal or professional obligation to do so. They should not use the information for any personal gain or in any other manner, which is detrimental to the Government.
- **Integrity:** Auditors should comply with ethical principles and code of conduct governing the auditor's professional behavior and responsibilities, which include; Integrity, Objectivity and fairness, Confidentiality and Technical Standards.

4.2. Audit Quality

31. The services rendered by the **Auditors** is expected to be of high quality and the quality can be maintained by following:

- Understanding the programme of the Auditee going to be audited
- Understanding the subject of audit

- Frequent discussions with the Auditee
- Conduct of field review by the reviewing authorities
- Use of standard sampling methods
- Use of Computer Assisted Audit Techniques (CAATs)

4.2.1. Computer Assisted Audit Techniques (CAATs)

32. Computer Assisted Audit Techniques (CAATs) is the practice of using computers to facilitate and speed up the audit process by using spread sheets, word processors, advance software packages involving use of statistical analysis etc.

33. Usage of CAAT increases economy and efficiency in audit covering huge volume of transactions, saves times and focuses on areas of risk.

34. While planning an audit, the auditor may use both combinations of manual as well as computer assisted audit techniques and to consider its applicability to the situation and context.

35. While deciding use of CAATs, the Auditors may consider the following factors:

- Availability of CAATS with the Auditee;
- IT infrastructure;
- Availability data and data sources;
- Economy and time constraints.

4.3. Audit Quality Evaluation

36. Proper evaluation of the audit reports will lead to improvement of audit quality in due course of time. The following tools may be used for the purpose of audit quality evaluation:

- Peer Review
- Use of Experts

4.3.1. Peer Review

37. Peer Review is a mechanism to review and assess the quality of the audit conducted by audit teams. It deals with examination of systems and procedures adopted by the internal audit team and to identify opportunities for improvement.

38. The peer review work may be conducted by a person or team of Internal Audit Monitoring Cell or Efficiency Audit Organization functioning under the Finance Department but not connected with the same audit.
39. As a best practice, the Secretary from any Department can request to the Finance Department for a Peer Review on Internal Audit Functions. The Finance Department may consider such requests by arranging Peer Review of Internal Audit functions of the respective Administrative Department.
40. The peer review work shall be initiated and planned by the Efficiency Audit Organization of the Finance Department.
41. For selection of audit reports for peer review some pre-determined criteria may be followed:
- i. Maximum expenditure and receipts audited and reported in one audit report
 - ii. Audit reports submitted without any major irregularities
 - iii. Audit reports contains major observations of non production of records or non cooperation for audit or non-compliance of audit objection memos
 - iv. Audit has taken unusual extra time than the prescribed approved audit programme
 - v. Huge volume of major irregularities reported in an audit report etc.
42. Basing on the volume of audit reports submitted to the Finance Department, and based on the available manpower, number of audit reports shall be selected for the Peer Review.
43. While conducting peer review, the team shall evaluate the audit functions based on the professional standards, and criteria provided by the Finance Department from time to time. The peer review methodology shall involve examination of:
- i. Audit team's approach to strategic planning
 - ii. Auditing standards and Audit guidelines followed by the audit team
 - iii. Collection of audit evidence Documentation and reporting by the audit team
 - iv. Proper review and supervision mechanism whether followed
 - v. Proper interactions held with auditee
 - vi. If any other guidelines and approaches followed by the internal audit team
44. The Head of the peer review team shall report and identify opportunities for improvement in the system along with a plan of action.

45. The peer review report shall be submitted to the concerned Administrative Department with due approval from the Finance Department and in special cases of important suggestions shall be communicated to all Departments for necessary action and information.

4.3.2. Use of Experts

46. While conducting audit, auditors might come across certain specialised areas which require help of an expert, hence the concerned Department or the Finance Department may empanel experts of specialised domains who can be engaged to impart specialized training to the auditors for conducting such audits and their capacity buildings.

4.3.3. Recognition

47. To encourage and motivate Internal Audit teams, due recognition shall be given to outstanding teams or best performing teams for their efforts. Finance department may select best Internal Audit Report and present some awards or incentives to audit personnel each year.

48. While selecting the best report, authority shall consider systems and procedures employed by the team, any innovative solution provided by the team to handle any problem, quality of reporting or any other criteria which the Finance Department think fit to consider.

4.3.4. Capacity Building

The Finance Department should facilitate and provide adequate support to all the personnel of Internal Audit Organisation to help them in complying with the professional standards. Internal Audit Personnel shall be given formal professional training as discussed in detail in Chapter – 10, Capacity Development.

5. Planning an Audit

This section deals with steps involved in selection of auditee units annually for the purpose of audit and planning the annual audit programme. The Administrative Department may not have resources to audit all the offices during the course of one year; hence, Head of the Internal Audit shall select audit units for audit in each year on the basis of a systematic framework.

5.1. Annual Audit Programme Planning through Risk Assessment

49. Since it is not possible to audit all offices of any Administrative Department every year hence a scientific method should be in place to select offices cautiously for the purpose of audit. Since the objective of conducting internal audit is to ensure effective conduct of activities and achievement of desired goal by the Department, hence offices shall be selected on the basis of degree of risk parameters.
50. The Head of the Internal Audit¹² is responsible for selection of offices for audit and prepares an Annual Audit Programme of the Department for each financial year.
51. An approved Annual Audit Programme of the Department shall be communicated to all concerned officials and to the Finance Department by end of February each year.

5.1.1. Risk Score Chart

52. As discussed above a systematic framework should be in place for selection of offices as per their risk profile, hence a **Risk Score Chart (RSC)** shall be prepared, which assigns score and ranks to the offices on the basis of the risk indicators.
53. A risk profile needs to be prepared listing the risk parameters on which scores will be assigned to the offices. The risk parameters are broadly divided into three categories, which are as follows:
 - Financial Indicators
 - Non-Financial Indicators
 - Analytical Indicators
54. An overview of three broad categories of risk parameters is given in Table no.1. In case of Financial Indicators, only the year of analysis will relate to the proposed year(s) of audit.

¹²It can be FA / Asst. Financial Advisor/ I.A.O. / Senior Internal Audit Officer or any authority in charge of Head of Audit.

Table No.1: An overview of three broad categories of risk parameters

| S. No. | Financial Indicators (In Amount) | Non-Financial Indicators (In Nos.) | Analytical Indicators (Yes/No) |
|---------------|--|--|--|
| 1. | Total budgeted funds received in the financial year | No. of years pending for internal audit | Any new scheme introduced in the office during the financial year |
| 2. | Total funds received from other sources in the financial year (outside budgeted funds) | No. of schemes implemented in the office (including State Plan, Central Plan and Centrally sponsored Plan) | Any change in accounting procedure relating to receipt or expenditure systems such as shifting to online direct payments, introducing computerized system etc. |
| 3. | Total revenue received during the financial year | - | Whether AG Audit was conducted in last 3 financial years |
| 4. | Total expenditure incurred from budgeted funds in the financial year | - | Any allegations reported in newspapers/media during the last years |
| 5. | Total expenditure incurred from other sources in the financial year | - | Whether any assembly questions were raised for the office or relating to the office in the assembly |
| 6. | Total amount of utilisation certificate (UC) pending at the end of the financial year | - | - |
| 7. | Total amount of Detail Contingency (DC) Bill pending for submission at the end of the financial year | - | - |
| 8. | Total amount held in Personal Ledger (PL) account at the end of the financial year. | - | - |

Note: The Administrative Department can add more indicators (Financial, Non-Financial and Analytical) to chalk out the Risk Parameters.

55. The Head of the Internal Audit¹³ with the help of subordinate staff will collect requisite data from the Administrative Department / Controlling Officer. After collecting the data requisite

¹³It can be FA cum Additional Secretary / Joint Secretary / Asst. Financial Advisor / Internal Audit Officer cum under Secretary/Senior Audit Officer or any other Officer in charge of Internal Audit.

fields of the RSC shall be filled in. The RSC will assign scores and rank to the offices. Separate RSC shall be prepared for every level (State level/District level/Block level) of offices in an Administrative Department.

56. RSC gives relative scoring to offices i.e. office with the lowest data will be given zero and office with the highest data will be given highest score. The scores will be assigned in an interval of 10. RSC will take cumulative score of all the parameters and will assign Ranks to offices starting from highest score office to the lowest. The ranks will be assigned in the ascending order for the purpose of selection i.e. Rank 1 has highest risk and hence shall be selected first and likewise.
57. After assignment of ranks to the offices, Head of the Internal Audit team will decide number of offices to be selected for audit depending on the availability of the manpower.
58. The RSC to be used for assignment of ranks. A sample RSC is annexed to the manual as [Annexure-2](#) and for the purpose of understanding an illustration has been shown for selection of district level offices in Women and Child Development Department.

Example: There are 5 district level offices in Women and Child Development Department named A, B, C, D and E. After filling of requisite data of all offices for all the indicators scores are assigned to the offices. For Financial Indicator 1 i.e. total budgeted funds received in last year, District Office D has received the highest funds and therefore RSC has assigned 40 to Office D and Office C has been assigned 0 since it has received the lowest funds amongst all five offices. After taking cumulative score of all offices of all indicators, Rank is assigned to the offices in order of selection. Office E has been given the highest score cumulatively 250 therefore Rank 1 is given to Office E and so on and forth to the other offices in the same order.

5.1.2. Preparing Annual Audit Program

59. **To indicate Objectives of the Internal Audit:** An essential step in internal audit process is to clearly define and indicate the objectives of the Internal Audit. Each and every Department has different objectives and operation and hence they will have certain unique audit objectives to be met, such as cash and contingency audit, regularity audit, compliance audit, performance audit etc.
60. Generally, Annual Audit Program contains the following details:
 - Name of the Institutions/Offices selected for audit
 - Name of the Auditors/Assistant Audit Officers assigned the work of audit
 - Period of Accounts to be audited

- Number of working days allotted for completion of audit

61. The number of working days required for conducting audit will be decided by the FA/ AFA of the Department taking to consideration the experience from the last audit, quantum of receipt and expenditure to be audited, number of new schemes to be verified etc.
62. Once the audit plan is finalized by the Head of the Internal Audit, he/she will obtain the approval of the Annual Audit Programme from the Secretary of the Department.

5.1.3. Preparing Audit Schedule

63. As the Annual Audit Program provides only the No. of working days allotted for each Institution/Office for carrying out audits, the respective Auditor and AAOs shall schedule the visit dates to each Office/Institution. They need to list the activities to be taken up during the course of audit.

5.2. Communication of Audit Programme

64. The Head of the Internal Audit will communicate the programme of audit to the concerned Head of the Office well in advance preferably before 15 days indicating name of the Auditor, Assistant Audit Officer, Period of accounts to be audited, date of commencement of audit and number of working days allotted for completion of audit. A copy of this communication will be provided to the Auditor/Audit Team to take up and complete the audit within the stipulated time. In view of time limit fixed, the head of Office will be requested to extend their cooperation for completion of audit in due time.

5.3. Coordination with the Head of Auditee

65. Audit Team Head /In-Charge shall seek cooperation of the Head of Office (HoO)/ Drawing and Disbursing Officer (DDO) and Other Office personnel responsible for maintaining accounts / records for smooth conduct of audit. For that purpose an Open-meeting / Introductory meeting may be conducted with Head of Office and other staff, on the date of commencement of audit.

6. Initiating an Audit

66. It is the responsibility of Auditor/AAO to take necessary steps to initiate the audit as planned in annual audit programme. Before proceeding to conduct the audit they shall ensure that below mentioned steps are taken.

6.1. Planning Individual Audits

67. While planning individual audits, due considerations should be given to the information available in previous audit files of the auditee. In case of first audit, sufficient time should be given to the audit team to gain knowledge on the working of the Department. Preliminary planning involves:

- i. **Gaining an understanding of the Auditee functions:** Auditor should have fairly good knowledge of the organization and its operations. This includes understanding the rationale behind establishing the Department, structure of the Department and functions of the Department. Primary source of information about the Department can be obtained through the following documents:
 - Previous internal audit plans,
 - Previous audit reports,
 - AGs inspection reports,
 - Budget estimates, revised estimates and actual expenditure,
 - Auditee's policy and procedures manuals, if any,
 - Rules and regulations framed by the Department that significantly governs the Auditee,
 - Important circulars issued by State and Central Government from time to time
 - Organization charts and flow charts of processes,
 - List of accounting registers and records maintained in the Department,
 - MIS reports,
 - Any other document relevant to audit.
- ii. **Understanding Controls:** The Auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal controls in place. After gaining understanding of the organization, auditor should identify key control areas in the Department. He/She may examine and evaluate the existence and operation of control systems specified in the various codes, manuals and government orders relating to the accounting procedures.

- iii. **Analyzing the earlier audit reports:** Analysis of the earlier audit reports are needed to verify the Department's compliance on the recommendations of the audit. Following issues needs to be verified to understand the environment:
- Errors corrected at the instance of the audit,
 - Remedial recourse or penal actions taken on the recommendation of the audit,
 - Improvements in internal control systems in response to auditor's recommendations,
 - Any special audits conducted that reduces the significance of the present audit.
- iv. **Identifying legal compliances to be made:** Auditor should acquaint himself with the applicable legal provisions like adherence to Codes, Rules and various government orders.
- v. **Sharing and finalizing the areas of the audit in discussion with the Auditee:** Based on the understanding of Auditee functions and environment, scope of audit will be discussed with the Auditee and areas of audit shall be finalized.
- vi. **Providing an overview of the audit process to the Auditee:** Once the areas of Audit are finalized, the Auditors/AAO's shall provide an overview of the audit process to be carried out. Requirements, support or any other information or disclosures required from the auditee may be obtained.

6.2. Risk Based Assessment

68. Risk assessment is the process of:

- i. Identifying and analyzing potential risks posing threat to the Department's financial aspects as well as achievement of its objectives, and
- ii. Developing response to address the identified risks and prioritizing audit focus in the risk potential areas.

69. For illustration, in Government Departments one of the potential risk area is tendering of contracts for procurement of goods or services, where high level of risk is involved. The activities like award of contract to the right person whether followed or not, keeping in view technical and financial aspects provided in the tender document. The auditor may identify those areas which pose risk and evaluate the effectiveness of the operations in those areas.

70. A simple and practical risk assessment model is discussed below for conducting risk assessment. This model is applicable only when detailed audits are not taken up.

71. For identification of risk the matrix given in Table no.1 for Financial, Non-Financial and Analytical Indicators may be followed. In addition to those parameters the following may also be followed for risk based assessment:

- i. **Financial:** Auditors shall select those areas, accounts, schemes or programmes where maximum financial amount is involved and those areas shall be selected for detailed testing.
- ii. **Non-Financial:** Auditors shall give high priority to the areas having high significance due to its nature of operations irrespective of the financial amounts involved. For example i.e. areas where several and persistent irregularities are reported through previous audits (AG / Internal), several grievances or complaints are registered, assembly questions raised etc.
- iii. **Analytical findings:** Audit areas can also be identified by doing analytical studies between certain facts to locate any discrepancies. Unusual or abnormal observations noticed while comparing data can be a risk parameter for detail audit.
 - Budgeted provisions vs. Actual expenditure
 - Fund received vs. Fund utilised
 - Percentage of targets achieved (Target fixed if any)
 - Achievement on Work Development Schedule
- iv. **Random review / Selection:** Auditors shall select certain areas randomly based on their professional judgment or experience within the Department. In random selection, priority shall be given to the areas which are not covered in previous year audits or not yet audited. For example different months may be selected from one to another year. Internal Auditor shall not set a uniform pattern of selection every year but shall introduce an element of surprise.

72. After identification of risk areas, Auditors shall finalize the audit plan and more attention is to be given to potential risk areas where deployment of internal controls systems are weak or not existing at all. In-depth checking shall be undertaken in those focus areas.

6.3. Assessment of Internal Controls

73. Internal control mechanism is an integral process operated by an organization, designed to address risks and to provide a reasonable assurance in pursuit of organization's mission.

Following general objectives are achieved by the process of Internal Control:

- Execution of orderly, ethical, economical, efficient and effective operations;
- Fulfilling of accountability obligations;
- Compliance with applicable laws and regulations;
- Safeguarding resources against loss, misuse and damage.

74. Auditors shall do an assessment of Internal Controls to ensure that an adequate internal control framework is in existence and operating as designed by the Department and errors if any to be located with the operation of established internal controls. Internal Control Assessment will help Auditors to know the following:

- Reliability of records and registers maintained by the Department;
- The extent and the depth of the examination that needs to be carried out in the different areas of accounting;
- What are the areas where controls are weak and where it is unnecessarily excessive;
- Whether suggestions can be given to improve the control systems.
- Whether the internal controls are sufficient
- Whether the internal controls are followed

6.3.1. Types of controls

75. Generally there are two types of internal controls such as:

- i. **Preventive Control:** This type of internal control would prevent a risk from occurring.

For example:

- a. All transactions and events are initiated on proper authorizations and approvals.
- b. Segregation of functions/duties among the official as far as practicable to prevent risk.
- c. Control over access to resources and records to prevent unauthorized or improper use of resources.

- ii. **Detective Control:** Detective controls are measures that would point to any loss/misdeeds/misappropriation that is taking place in the organisation. Any kind of reconciliation (bank reconciliation), analytical reviews, post audit, etc. would fall under

this category as they help to detect if something had gone wrong. Some examples of control activities are:

- a. **Verifications:** Transactions or events are verified to ensure correctness and validity. Personal records / service books etc. are periodically verified to ensure their correctness.
- b. **Reconciliations:** This is one of the most commonly used and effective control measure. Reconciliation of one set of records with another are made to ascertain correctness of the transactions or facts.

6.3.2. Tests of Internal Controls

76. Through audit procedures the effectiveness of the Auditee's internal control systems are assessed. The Auditors should make a list of internal controls which are in operation in the Auditee. Then Auditors shall perform tests of controls to assess the existence and adequacy of internal controls. However the Auditor may not be required to test all the internal controls, he may select some sample controls based on the results of the risk assessment and professional judgment.

77. The Auditors may initially check the controls by conducting a compliance testing that is, testing to assess compliance with the internal control. Substantive testing is required to obtain evidence to ensure the completeness, accuracy and validity of the data produced by the accounting system. To illustrate,

- i. Whether the Cash book is maintained following the principles outlined in SR 37 of the Orissa Treasury Code Volume 1 or not?
- ii. Whether the bank reconciliations are made with the cash book or not?
- iii. Whether rule 114 of OGFR volume 1 regarding safe custody of cheque books is followed or not?
- iv. Whether the stock and store registers are maintained or not? If maintained annual physical verification of stock is done or not under rule 111 of OGFR volume 1? Etc.

78. The Auditor will first check whether there is compliance with the control measure. If it is seen that the control measure is not operating properly, then the auditor would have to go for a substantive testing of the transactions to examine whether non-compliance with the control has resulted in any untoward incident.

79. Substantive testing includes tests of details of classes of transactions, account balances and disclosures.
80. The Auditor after assessing controls shall give his recommendation on the operation of the internal controls, whether operation of internal controls is satisfactory or needs improvement or is not in existence. A sample template for assessment of Internal Controls is attached as [Annexure – 4](#).

6.4. Sampling

81. Audit sampling means the application of audit procedures to less than 100% of the items to enable the auditor to obtain audit evidence and evaluate some characteristic of the items selected, in order to form a conclusion concerning the population / total items. Selection of a sample is influenced by the size of the population, objectives, complexity, type of activity, transaction frequency and level of comfort expected from the test.
82. Since verifying each and every transaction is quite time-taking, the Auditor may use sampling techniques to verify events, records, controls etc. so that the audit conclusions would apply to the entire population.

6.4.1. Sampling Sheet

83. Although there are many different methods of sampling depending upon the nature of population and degree of accuracy required, e.g. non-statistical sampling and statistical sampling methods but keeping in mind nature of operation in government departments a practical sampling procedure may be followed for conducting audit.
84. Sampling methods shall be applied in the cases where the controls are found existent and operating effectively and books of accounts are maintained properly.
85. A sample template of Sampling Sheet has been attached with this manual ([Annexure - 3](#)) as an illustration. Method of sampling and sample units are required to be documented in the Internal Audit Report.

7. Conducting Audit

86. While conducting audit, Auditors are required to visit various field offices located across Districts, Blocks, GPs and villages. Further, field work involves verification of accounts, relevant records and compliance to rules, codes and various orders; however the responsibility of the Auditor is not limited to verification of accounts and procedures but also to give recommendations to improve the financial management system of the auditee.
87. Any discrepancies noticed while conducting audit or non-production of any record or non-cooperation by any Officer-In Charge shall be brought to the notice of the Head of office by way of issue of Half Margin Memos. In case there is non-compliance even after intervention of the Head of Office, the matter may be reported to the Administrative Department.
88. Whenever any loss of money or stores is detected by means of any mis-appropriation or fraud, the fact shall be reported promptly through an Interim Report to the Administrative Department who shall consider the gravity of the case and take appropriate actions.
89. Auditors are expected to continually update themselves with the various Departmental and other guidelines issued from time to time concerning audit.

7.1. Verification of Receipts

90. The receipts of an Administrative Department mainly consists of revenue derived from taxes, duties, fees, fines, penalties, rents of government buildings and lands, receipts of loans, advances and deposits, interest or any other receipts.
91. In conducting the audit of receipts, the chief aim is to ascertain that adequate regulations and procedures have been framed to secure an effective check on the assessment, and collection and to see that such regulations and procedure are being followed. The Auditor shall also ascertain the adequacy of compliance with regulations and procedures for effective receipt, remittance, reconciliation and accounting of receipts.
92. Audit shall also be diligent in detection of irregularities, leakage or loss, fraudulent and forged receipts, other types of omissions or commissions in the process of levy and collection of taxes etc.

93. Auditor shall carefully verify any government dues left outstanding and suggest to the Departmental authorities for the recovery. A checklist for verification of receipts is given in [Annexure - 5](#).

7.2. Verification of Payments

94. Government payments are normally classified as revenue and capital expenditure, payment of loans and advances etc.

95. The procedure for incurring expenditure from the consolidated fund of a State approved by the legislature comprises of:

- **Provision** - Competent authority should make provision of funds and fix limits for incurring expenditure
- **Sanction** – There should exist appropriate sanction accorded by a competent authority, authorizing the expenditure
- **Propriety** – Expenditure should be incurred with due regard to financial propriety

96. Auditors should verify the above mentioned procedures apart from verifying accounting aspect of expenditure while auditing.

97. Audit of expenditure should not merely be confined to see that the expenditure is covered by a sanction; but should also verify that the authority according the financial sanction is empowered to do so by virtue of powers vested in it by the constitution, laws and rules framed by the executive or by delegation.

98. Auditors shall verify the payments made by the Auditee with reference to the following documents:

- The office copies of the paid vouchers
- Counterfoils of cheques
- Copies of bank scrolls
- Pay bill register
- Book of drawl
- Supporting bills, receipts and
- Approvals

- Stock entries in respect of procurement of goods
- Performance reports in respect of procurement of services.

99. While checking each payment, Internal Auditors shall also check the procedures of the payments. A sample checklist for verification of payments is attached in [Annexure – 6](#). Checklist for verification of cash and bank is attached in [Annexure – 7](#).

7.3. Verification of Contingencies

100. As per SR 236 of OTC Volume 1, the term "contingent charges" or "contingencies" means and includes all incidental expenses of a miscellaneous character, 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 classifications of expenditure, fall under such other heads as 'works', 'repairs', 'stock' or 'tools and plant' etc.

101. The Auditor shall verify the expenditure as per prescribed procedure for each category of contingencies incurred by Departments. The classification of contingent charges are defined in SR 239 of OTC Volume 1 such as:

- Scale Regulated Contingencies,
- Contract Contingencies,
- Special Contingencies,
- Countersigned Contingencies,
- Fully Vouched Contingencies.

102. Generally the risks of error in respect of contingent expenditure are as follows:

- Excess amounts are drawn under contingent expenditure beyond budgetary provision,
- The standards of financial propriety are not observed while incurring expenditure,
- Forged bills are accounted and payments made,
- Expenditure incurred without proper sanction or beyond the sanction orders,
- Amount sanctioned and spent under permanent advance violates the prescribed Rule 82 of OGFR Volume 1. etc.

7.4. Verification of Grants-in-Aid

103. The main aim of audit of grants-in-aid is to ensure that the amounts sanctioned as grants for the purposes are not mis-utilized and standards of financial propriety are maintained in expending of resources.
104. Audit can be applied to the original grant itself or to the expenditure which is subsequently incurred out of the grant. Audit of the grant shall be conducted according to the general principles/rules laid down for the expenditure from the consolidated fund of the state and special terms and conditions specified, if any, in the sanction order of the grants in aid.
105. Following documents and registers to be verified during the audit of grants in-aid:
- i. Order sanctioning the grants,
 - ii. Register of grants,
 - iii. Bills for the withdrawal of the grants,
 - iv. Bank pass books,
 - v. Cash book, Ledger indicating utilization of grants and
 - vi. Utilization certificates.
106. The Auditor should verify the following while auditing grants-in-aid:
- i. The nature of grant should be verified from Grants-in-aid sanction orders specifying normal grants or special purpose grants. If it is of special in nature then auditor must see that the circumstance under which grant was sanctioned continues to exist and the expenditure was made for the said purpose only.
 - ii. Whether proposals for grants-in-aid are prepared with proper estimations.
 - iii. Whether grant is disbursed only when the grantee utilizes substantial amount of the grant.
 - iv. Ascertain the achievement of overall objectives of the schemes for which grants-in-aid are sanctioned and there is no waste full expenditure.
 - v. Utilization certificate whether furnished for all the sanctioned grants.
 - vi. Any unused portion of grants is refunded or pending for utilization.

- vii. Whether grant-in-aid is transferred to any other purposes, without prior sanction of the competent authority.

7.5. Verification of Public Works

107. The Public Works includes Buildings, Roads, Irrigation, their construction, maintenance and repairs, etc. Audit of Works expenditure shall examine whether the expenditure has been incurred as per the procedure prescribed under the Central Public Works Accounts Code.

108. The auditor should check proper maintenance of the following registers and documents by the Public works department and should test check few entries with actuals:

- i. Cash book
- ii. Muster roll
- iii. Measurement book
- iv. Works abstract
- v. Store accounts
- vi. Contractors ledger
- vii. Register of works
- viii. Priced stores ledger
- ix. Transfer entry book
- x. Register of revenue realized and refunds
- xi. Register of rents of building and lands
- xii. Bank accounts, cheque books and bank draft registers.

109. The auditor should verify the following points while auditing work accounts:

- i. Whether administrative approvals and technical sanctions have been accorded by the competent authority and provision of funds have been made.
- ii. The procedures of calling for tenders and allotment of the work is to be examined to verify transparency in the system.
- iii. Whether Divisional Accountant has conducted initial check as required by rules.

- iv. Whether the rate paid for the work done are as per the rates allowed by the contract agreement.
- v. Scrutiny of Contractors Ledger maintained if any, to verify and assess the correct position of dues or advances.
- vi. Recoveries from the contractors for store materials supplied by the office are made at the correct rates.
- vii. Advances given to contractors are as per proper sanctions and are adjusted timely.
- viii. Whether final payment is made on obtaining completion report of work or not.
- ix. Fixation and timely collection of rent on buildings to be reviewed and any undue delays should be reported.
- x. In the absence of contract agreements, the manner of release of payments and rates thereon needs to be examined with reference to the schedule of rates prevalent
- xi. Whether payments in excess or in contravention of the terms of the contract causing undue financial aid to the contractor have been made.
- xii. Cases involving financial losses to Government and undue financial aid to the contractors are specially examined.
- xiii. Payments for deviations in the work made with due approval and rate of payment whether correct or not.
- xiv. Penalty levied if any for non-completion of work in time as per agreement.
- xv. Extension of time and extra payments for that if any whether as per rules.

7.6. Audit of Procurements (Goods and Services)

110. Procurement Audit sometimes also termed as pre-audit and conducted for purchase of both goods and services.

7.6.1. Scope of Procurement Review

111. In Procurement review Internal Auditors shall assess whether:

- i. The contract terms and conditions for procurement of goods and services were comprehensively drawn up, and was unambiguous, free from uncertainties, indefinite liability, misinterpretation and serve to protect Govt. Interests;
- ii. The tender documents are comprehensively prepared, adequately addressed the interest of the Govt. and ensured evaluation of bids on equitable and fair basis in a transparent manner;
- iii. Equal opportunity has been given to all bidders;
- iv. The system is tamper proof while receiving tenders;
- v. The system ensures complete transparency in Opening Tenders;
- vi. The procurements are of specified quality and are made at competitive rates;
- vii. Quantities purchased are not in excess of requirement (more than indented quantity) so as to avoid wasteful expenditure;
- viii. Advance payments made if any, were un-avoidable and was done with suitable safeguards to fully protect Govt. Interest;
- ix. Adequate measures were taken to avoid loss to Govt. in the event of non-performance by the supplier (performance guarantee whether provided or not in the contract);
- x. Priority was accorded to post contract follow up so as to avoid time and cost over runs, loss to Govt. and/ or un due benefit to suppliers.

7.6.2. How to undertake a Procurement Review

112. Under procurement review the Auditors shall:

- i. **Review the Procurement Procedures and Protocol** followed by the Auditee. This includes alignment to OGFR / any other prescribed guidelines issued by the Government of Odisha. During this process, the Auditors shall also consider scheme specific cases where procurement guidelines / procedures / manuals are defined otherwise. Auditors shall also refer to the Finance Department OM No. 42284/F, Dtd: 26.09.2011, OM No. 4939/F. Dtd: 13/02/2012 and OM No. 13290/ F Dtd: 02.04.2013.

- ii. **Verify the Procurement Records and Reports** as mandated within the guidelines applicable to the Auditee. The Auditors shall also review all the relevant documents and records related to the procedure for procurement of goods and services, indents, quotations, tender papers, bid process documents, contract orders / purchase orders / work orders, in-ward receipts, quality certificates approvals, allotment letters, payment terms, etc. mandated to be maintained by the Auditee.
- iii. **Prepare a Review Report:** The Auditors shall develop a checklist for Procurement Review. If there are any gaps identified in the procurement process, the Auditors shall report the same in the format given in **Table no.2**

Table No.2: A Sample Template for Procurement Review Report

| Procurement Order Number | Date | Procurement Value | Detailed observations | Recommendations |
|--------------------------|------|-------------------|-----------------------|-----------------|
| | | | | |

7.7. Verification of Stores

- 113. The Auditee is required to carry out annual physical verification of stores and record certificate of such verifications in the stock register. If no physical verification of stock is done at all, the Auditor shall undertake random verification of stock to ascertain the actual position of stock in few cases.
- 114. The Auditor is to ascertain that the Departmental regulations governing purchase, receipt and issue, custody, condemnation, sale and stock-taking of stores are properly carried out. He/She should bring to the notice of Government any important deficiencies noticed during verification of stores or any grave defects in the system of control.
- 115. During physical verification undertaken if any, Auditors shall compare the physical stock position with reference to stock balance of the stock register.
- 116. A detailed Checklist for verification of stores is given in [Annexure - 8](#)

7.8. Performance Audit or Value for Money Audit

- 117. The Auditors are required to follow the Performance Audit Guidelines issued by the Efficiency Audit Organization, Finance Department while conducting performance audit.

7.9. Budget Review

118. The Auditors shall analyze the variance between budgeted and actual expenditure of the Auditee for a specific period taking to account the appropriate and re-appropriate sanctions.

119. The Auditors shall verify the following:

- i. Expenditure booked under each head whether correctly classified or not.
- ii. Approval of expenditure obtained from competent authority or not.
- iii. The limit of expenditure prescribed for the Departments under cash management system whether followed or not
- iv. Excess expenditure under different account heads should be identified with reasons for such occurrence.
- v. A standard template is given in Table no. 3 for recording budget vs. excess expenditure review.

Table No. 3 : A sample template for Budget to Excess Expenditure (Variance) Review

| Name of the Department: | | | | | |
|--------------------------------|---------------------|------------------------|---------------------------|-------------------|-------------------------------|
| Period from: | | To: | | | |
| Account Code | Account Head | Approved Budget | Actual Expenditure | Over spent | Reasons for deviations |
| | | | | | |
| | | | | | |
| | | | | | |
| Grand Total | | | | | |

7.10. Utilization Certificate Review

120. The Auditors shall verify the following documents while conducting review of Utilisation Certificates¹⁴ (UC) position for the period of audit.

¹⁴ Financial Rules (OGFR, Rule-173) provide that for the grants in which conditions are attached to the utilisation of the grants, Utilisation Certificates (UCs) should be furnished by the grantee institutions in duplicate (in form OGFR-7A) countersigned by the disbursing authorities so as to reach the Administrative Department by 1 June of the succeeding year. One copy of the certificate shall be retained in the Administrative Department and another copy shall be sent to the office of the Principal Accountant General (A&E), Orissa, by 30 June of that year.

- i. Statement or Register showing the date and amount of receipt of grants / sanctions from Government of Odisha or Central Government or any other agency.
- ii. Certificate of Utilisations submitted by the Auditee.
- iii. Statement of expenditure showing unit wise details on the utilisation of grants/sanctions.
- iv. The release orders or advices received from the Government of Odisha or Central Government or any other agency in support of the receipts
- v. The statement of UC is to be supported with expenditure of the Auditee with reference to the sanctions or grants-in-aid received.
- vi. The opening balances of Utilisation Certificates are tallied with the Closing balances of previous Utilisation Certificates for unit wise /scheme wise grants both for recurring and non-recurring nature.
- vii. The amounts of grants or sanctions released by the Government are properly reflected in Utilisation Certificates.
- viii. Balances of unutilized grants or sanctions are properly reflected in the UC statements.
- ix. The unutilized balances reflected in the UCs are tallied with the books of accounts.
- x. Any unutilized amount for which UC has been submitted.

121. The UCs are duly authorized and submitted on time by the concerned authority. In case of any variances noticed in the review, the Auditors shall report the same and propose corrective action to be taken by the Auditee. A sample template is given in [Annexure – 9](#) for UC review.

7.11. Reconciliation Audit

122. The Auditee is required to reconcile the transactions on the following cases:

- i. Treasury figures relating to PL account and deposit made through challans,
- ii. Bank balances with reference to Cash book and Bank draft register
- iii. With Head Office relating to release of grants through bank drafts, if any
- iv. Outstanding Advances with reference to Advance ledger,
- v. Any other as appropriate.

123. The Auditors shall report reconciliation positions of the auditee in a format given in Table no. 4.

Table No. 4: Sample Report format of Reconciliation Audit

| S. No. | Name of the Reconciliation | Frequency of the Reconciliation (Monthly/Quarterly/Annually) | Status of Reconciliation |
|---------------|-----------------------------------|---|---------------------------------|
| 1 | Grants Reconciliation | | Reconciled/Not Reconciled |
| 2 | Banks Reconciliation | | Reconciled/Not Reconciled |
| 3 | Advance Reconciliation | | Reconciled/Not Reconciled |
| 4 | Any other | | Reconciled/Not Reconciled |

7.12. Special Audits

124. In case of special audits, which are taken up on the basis of specific requisitions, the Auditors should acquaint himself with such requirements of audit and proceed accordingly as per the guidelines provided in the requisitions.

7.13. Working papers

125. Working Papers shall be kept in audit file for future reference and verification. Working papers shall not be attached to the report, but shall stand as proof that due diligence was done before reporting any Audit observation. The Audit file may however, contain a list of Working papers referred / prepared to during the course of Audit. Generally working papers consists of;

- i. Audit plan
- ii. Audit Schedule
- iii. Previous Internal audit reports
- iv. Outstanding AG audit paragraphs
- v. The financial statements of the Auditee
- vi. Physical verification reports of cash/stock and store etc.
- vii. Bank reconciliation statements
- viii. Data relating to budget provision and actual expenditure for the period of audit
- ix. Analysis of performance of specific schemes both physical and financial
- x. Audit evidences relating to key audit findings
- xi. Half Margin Memos and compliance received from the Auditee and
- xii. Draft audit reports

8. Internal Audit Reports

126. The audit is concluded once all the audit procedures and checks are completed. The AAO shall finally review the working papers to see that the audit has been conducted according to plan and it has achieved its objectives. He should make note of any audit procedures that could not be completed because records were not produced by the department or due to lack of time.
127. No objection shall be booked or reflected in draft audit report without issue of a Half Margin Memo. The Half Margin Memos issued by auditors shall be complied by the Officers-In Charge of Accounts within 2 days from the date of issue and returned to the auditors with necessary reply under the signature of the head of the office or in his absence the Officer-in-Charge of Accounts.
128. In case the reply of the officer is found to be satisfactory, the objection need not be incorporated in the Audit Report. The original half margin memos with reply thereon shall be appended with the Audit Report for reference. The Auditor shall mark dropped with red ink on the memo with date and signature.
129. If half margin memo is not returned within stipulated time or returned with unsatisfactory replies, the Auditor shall incorporate the objection in the Audit report without waiting for an indefinite period for the reply. The duplicate copy of the memo shall be attached with the Report to substantiate the Audit views.
130. The Head of the Audit Teams / AAO should check the supporting evidence for each observation that is proposed to be put in the report. He should satisfy himself about the sufficiency and relevance of the evidence. Then He/she should prepare a Draft Audit Report.
131. The format of the draft report shall be same as final report after approval by the concerned authority. All the applicable quality checks equally holds good for draft report also except that the title of the report shall be "Draft Internal Audit Report".

8.1. Qualities of a good report

132. The Auditors should exercise due professional care to ensure that the internal audit report, inter alia, is:
 - i. Clear and not ambiguous
 - ii. Factual – presents all significant matters with disclosure of material facts

- iii. Specific
- iv. Concise
- v. Timely and
- vi. Complies with generally accepted audit procedures

8.2. Preparing the Internal Audit Report

133. Internal Auditors shall use a standard format for reporting audit observations. The Internal Audit report should be divided into five parts. A Sample Report format given in [Annexure – 10](#). Contents to be covered under each part of the Internal Audit Report is detailed below:

8.2.1. Part – I: General Information

134. The Auditors shall mention general information details in the prescribed format which includes following:

- **Auditee Profile:** Name, Address, Head of the Auditee Office, etc.
- **Auditors Profile:** Name and contact details (email and phone no.) of the Internal Audit Team who conducted the audit
- **Audit Profile:** Audit Period or cycle and Duration of Audit.

8.2.2. Part – II: Previous Audit Compliance

135. The Auditors shall mention the following details regarding previous audit status:

A. Previous Audit Observations and Compliance: In this section, the auditors shall provide the pending status of previous audit observations and compliances. (Internal and AG Audits)

B. Persistent Irregularities: Auditors shall give details of persistent irregularities which were identified during the past audits but are still not addressed. The Auditors shall identify the cases of non-compliance and list the same under Persistent irregularities.

8.2.3. Part – III: Scope of Audit

136. In this section, Auditors shall detailed out the scope of audit to be conducted. The Internal Auditors shall mention the scope of audit conducted and coverage of audit, sampling techniques and sample size. A detailed list of accounts and documents verified shall be given as an annexure to this section.

8.2.4. Part – IV: Observations and Recommendations

137. In this Section, Observation of Auditors shall be detailed out. This Section shall further be divided into two parts major irregularities and minor irregularities.

A. Internal Controls Review: Internal Controls assessment results shall be mentioned in this section.

B. Major Irregularities: All major irregularities noticed during the course of audit shall be mentioned separately in this section. The Auditors shall also report consequences for non-compliance of the same. Reference evidence and memos shall be attached as annexure. Some examples of major irregularities are mentioned below:

- Fraudulent withdrawal from treasury/ government bank accounts
- Bogus payment and non-payment to beneficiaries
- Misappropriation of cash and stocks
- Any excess payments
- Irregularities in procurement involving excess or illegal payments
- Loss in revenue and fee realization
- Irregularities in revenue and fee collections and utilizations
- Any un-authorized expenditure.

C. Other Irregularities: Here Auditor shall report the observations on irregularities noticed while conducting audit. On each item of verification as mentioned below, separate observations will be given on irregularities.

- i. Physical Verification of Cash, Stock and other items
- ii. Receipts
- iii. Payments
- iv. Contingencies
- v. Grants-in Aid
- vi. Public Works
- vii. Contracts
- viii. Stores
- ix. Procurements
- x. Reconciliations
- xi. Utilization Certificate Review
- xii. Budget and Actual Review

- xiii. Systems Review
- xiv. DC Bills Pendency Position
- xv. Any Other Review Conducted

D. Recommendations: In this section, Auditor shall provide the necessary recommendations to compile the lapses noticed during the audit.

8.2.5. Part – V: Result of Audit

138. This section shall be filled by the Auditors after consultation with the Auditee. The Auditor shall provide the list of the areas needing improvement and recommendations for compliance along with a proposed time line.

8.2.6. Annexure

139. The observations given by the Auditors in report need to be supported by relevant audit evidence. These evidences act as a reference to the Audit observations reported by the Auditor(s). Internal Audit report should ideally contain the following documents as Annexes:

- Issued Half Margin Memos
- Internal Control Assessment checklists, questionnaires
- List of books of accounting records verified
- Statements of closing stock, assets, cash and other valuables with physical verification reports
- Statement of the UCs status
- Procurement review checklists
- Performance review status
- Budget Vs Expenditure with reason for variance
- Receipts and Payments statement for the period of audit
- Bank Reconciliation statements
- Non – recoupment of advances
- Statement of recovery amounts
- Annexure of supporting evidence documents (Any photo copies, photos, CDs etc.)
- Any other Audit evidence which may be considered appropriate by the Internal Auditors

8.2.7. Glossary

140. This section would have a Glossary of terms explaining technical and uncommon terms used in the Internal Audit Report.

8.3. Submission of Internal Audit Report

141. After completion of audit the total no of days for approval of Internal Audit report shall be 15 days. The submission shall be done in the following manner:

- i. Auditors shall submit the draft audit report within 5 days of completion of the audit to the Audit Officer.
- ii. Audit Officer shall review the report over a period of 3 days and finalize the report in consultation with the Internal Auditors.
- iii. FA of the Administrative Department shall approve the report within a period of 7 days.
- iv. The final approved audit report shall be submitted to the Auditee and to the Finance Department within 5 days thereafter.

9. Internal Audit Monitoring

9.1. Internal Audit Compliance Review Committee

142. There shall be an Internal Audit Compliance Review Committee (IACRC) in each Department to review the progress of compliance to the Internal Audit Reports. The committee shall meet quarterly to review the status of the compliance of the audit paras of the concerned Administrative Department. The committee shall examine the compliance in each case and shall give necessary recommendations to settle the paras wherever compliances are found satisfactory. Where no compliance have been received, the Committee shall issue instructions to the Auditee to give compliance within a specified time.
143. The Finance Department may issue necessary resolution to form an Internal Audit Compliance Review Committee consisting the following members for quick disposal of audit paras:
- i. FA or AFA or IAO of the concerned Administrative Department
 - ii. A person not below the rank of Class 1 officer from the Directorate / Heads of Department of the concerned Auditee.
 - iii. Head of the Auditee.
144. The IACRC meetings shall be organized by FA of the respective Administrative Department at a convenient place preferably at Zonal level / District level.
145. In addition to the above functions, the IACRC may also look into various problems faced by the audit team during the progress of audit. Any new circular or guidelines relating to audit shall be circulated among the Auditors and Auditee.

9.2. Internal Audit Monitoring Cell

146. In order to monitor the internal audit status at State level there shall be an Internal Audit Monitoring Cell (IAM Cell) under the control of the Finance Department.
147. Each Administrative Department shall submit a **Monthly Progress Report (MPR)** to the IAM Cell of Finance Department by **15th of the succeeding month**.
148. The Monthly Progress Report shall provide the following information:
- i. No. of audit reports issued during the month and No. of paras involved.

- ii. Total amount held under objection as per the audit reports issued during the month.
- iii. Total amount suggested for recovery as per the audit reports issued during the month.
- iv. Total amount of misappropriation/losses pointed out in audit reports issued during the month.
- v. No. of compliances received during the month.
- vi. No. of paras settled during the month involving amount held under objection, amounts suggested for recovery, amounts reported as misappropriation.
- vii. Progressive pendency position of audit reports, paras, amounts held under objection, amounts suggested for recovery, amounts identified as misappropriation.
- viii. Age wise breakup of the pending audit reports and paras.
- ix. The MPRs should include the information on Efficiency audit Reports issued by the Finance Department.

149. The MPR format is given in [Annexure – 11](#).

150. The Finance Department through IAM Cell shall track the status of audit objections Administrative Department wise and their compliance with the recommendations.

151. The IAM Cell shall review and report the status of pending audit Paras to the Special Secretary / Additional Secretary of the Finance Department in charge of Efficiency Audit Organization.

152. The cell shall verify the actions on C&AG reports indicating serious lapses identified by the C&AG every year.

153. The cell shall prepare Department-wise consolidated report on the outstanding audit reports and paras, amount involved towards losses and defalcation, for review meeting to be conducted by the Finance Department.

154. The cell shall take a note of important irregularities, losses and defalcation, amount suggested for recovery after examining the copies of the audit reports received in the cell from different Departments for follow up action.

155. The cell shall issue necessary instructions to the Departments for ensuring timely receipts of compliance to the Audit Reports from the sub-ordinate offices under their control through reminders from time to time. The action taken in this regards should be intimated by the Department to the Monitoring Cell regularly in the MPR.
156. The IAM Cell shall prepare an Annual Report indicating internal audit performances of different Departments in a consolidated manner, which is to be placed by end of July each year before the Additional Chief Secretary/Special Secretary, Finance Department for his kind perusal.

10. Capacity Building

10.1. Induction and Departmental Orientation

157. As per the Orissa Auditors Service (Method of Recruitment and Conditions of Service) Rules 1987, the persons appointed to the service shall undergo such training as may be decided by the Government from time to time. The current practice in Government of Odisha is 3 months continuous structured training for the newly recruited auditors at State Level Training Institutes. However this can be re arranged as two months class room training and followed by on-job training in the field for next one month.
158. In the induction training programme, the following subjects may be included in addition to the present prescribed syllabus:
- i. Professional audit standards, process and basic audit techniques;
 - ii. Audit Manuals issued by the Finance Department;
 - iii. Usage of Computer Assisted Audit Techniques (CAATs).
159. After joining in the Department, an induction training programme may be conducted by the Head of the Internal Audit of the Department. As part of Induction Program, the Head of the Internal Audit may orient them on existing policies, procedures, manuals, schemes, orders/circulars of the Department.

10.2. Skill Enhancement on Periodic Basis

160. Continuous upgrading of knowledge levels is also required for conducting effective Internal Audit. Two weeks of skill development training may be conducted by the Finance Department, so as to cover all the auditors within 3 years. The Skill Development Programme may include:
- i. Frequent workshops/ trainings on Internal Audit functions;
 - ii. Trainings/Seminars on latest developments in audit areas, acts, rules, regulations etc.;
 - iii. Trainings on modern audit tools and techniques;
 - iv. IT skills training on use of software including using formulas in excel for analysis or any other audit related e.g. TALLY or analytical software etc.;
 - v. Trainings on report writing and documentation;

- vi. Any other training programs relating to Internal Audit.

State level workshop may be conducted by Finance Department for the Internal Auditors on Bi-Annual or Annual basis¹⁵. Agenda of such workshops should focus on learning's of the different auditors, and latest developments and implications of the acts, rules, regulations pertaining to the audit functions. Government shall identify the resource persons within the Departments. Government may also hire an external agency for conducting training programs for specific subjects.

¹⁵ As per discretion of the department and training needs assessment of the Internal Auditors

11. Annexures

Annexure – 1: List of Departments functioning under Government of Odisha and List of Departments having Common Cadre Auditors

| S. No. | Name of the Department | Covered by | S. No. | Name of the Department | Covered by |
|--------|---|------------|--------|--|------------|
| 1 | Agriculture | CCA | 21 | Micro, Small & Medium Enterprises | |
| 2 | Commerce & Transport (Commerce) | CCA | 22 | Panchayati Raj | CCA |
| 3 | Co-operation | CCA | 23 | Parliamentary Affairs | |
| 4 | Employee & Technical Education & Training | | 24 | C & T (T) | CCA |
| 5 | Energy | | 25 | Planning & Co-Ordination | |
| 6 | Excise | CCA | 26 | Public Enterprises | CCA |
| 7 | Finance | CCA | 27 | Public Grievances & Pension Admin | |
| 8 | Fisheries & Animal Resources Dev | CCA | 28 | Revenue & Disaster Management | CCA |
| 9 | Food Supplies & Consumer Welfare | CCA | 29 | Rural Development | |
| 10 | Forest & Environment | CCA | 30 | ST & SC Development, Minorities & Backward Classes Welfare | CCA |
| 11 | General Administration | | 31 | School & Mass Education | CCA |
| 12 | Health & Family Welfare | CCA | 32 | Science & Technology | CCA |
| 13 | Higher Education | CCA | 33 | Sports & Youth Services | |
| 14 | Home | | 34 | Steel & Mines | CCA |
| 15 | Housing & Urban Development | CCA | 35 | Handloom, Textiles & Handicrafts | |
| 16 | Industries | | 36 | Tourism | |
| 17 | Information & Public Relations | CCA | 37 | Culture | |
| 18 | Information Technology | | 38 | Water Resources | |
| 19 | Labour & Employees' State Insurance | CCA | 39 | Women & Child Development | CCA |
| 20 | Law | | 40 | Works | |

Annexure – 2: A Sample Risk Score Chart

| Annual Audit Programme Planning: Selection of Offices (Risk Score Chart) | | | | | | |
|--|-----------------------------------|------------------------------------|---------------------------------|------------------------------|--------------------|-------------------|
| NAME OF DEPARTMENT | | Women and Child Welfare Department | | | | |
| LEVEL OF OFFICE | | District Level | | | | |
| TYPE OF OFFICE | | District Welfare Office | | | | |
| NUMBER OF OFFICES | | 5 | | | | |
| | | Score | | | | |
| SNO | Name of the Office | Financial Indicators | Non-Financial Indicators | Analytical Indicators | Total Score | Total Rank |
| 1 | District Social Welfare Office, A | 130 | 90 | 20 | 240 | 2 |
| 2 | District Social Welfare Office, B | 70 | 80 | 10 | 160 | 5 |
| 3 | District Social Welfare Office, C | 80 | 100 | 30 | 210 | 3 |
| 4 | District Social Welfare Office, D | 150 | 40 | 20 | 210 | 3 |
| 5 | District Social Welfare Office, E | 170 | 50 | 30 | 250 | 1 |

| FINANCIAL INDICATORS | | | | | | | | | | |
|----------------------|-----------------------------------|---|------|-------|--|------|-------|--------------------------------------|------|-------|
| SN O | Name of the Office | Financial Indicator- 1 | | | Financial Indicator - 2 | | | Financial Indicator - 3 | | |
| | | Total budgeted funds received in the FY | Rank | Score | Total funds received from other sources in the FY (outside budgeted funds) | Rank | Score | Total revenue received during the FY | Rank | Score |
| 1 | District Social Welfare Office, A | 2,500,000.00 | 3 | 20 | 3,500,000.00 | 1 | 40 | 40,000.00 | 4 | 10 |
| 2 | District Social Welfare Office, B | 300,000.00 | 5 | 0 | 34,000.00 | 5 | 0 | 340,000.00 | 3 | 20 |
| 3 | District Social Welfare Office, C | 350,000,000.00 | 1 | 40 | 350,000.00 | 4 | 10 | 35,000.00 | 5 | 0 |
| 4 | District Social Welfare Office, D | 2,400,000.00 | 4 | 10 | 540,000.00 | 2 | 30 | 3,500,000.00 | 1 | 40 |
| 5 | District Social Welfare Office, E | 3,300,000.00 | 2 | 30 | 450,000.00 | 3 | 20 | 350,000.00 | 2 | 30 |

| FINANCIAL INDICATORS (Cont..) | | | | | | | | | | | |
|-------------------------------|-----------------------------------|--|------|-------|---|------|-------|---|------|-------|-------------|
| SN O | Name of the Office | Financial Indicator - 4 | | | Financial Indicator - 5 | | | Financial Indicator - 6 | | | Total score |
| | | Total expenditure incurred from budgeted funds in the FY | Rank | Score | Total expenditure incurred from other sources in the FY | Rank | Score | Total amount of utilisation certificate (UC) pending at end of the FY | Rank | Score | |
| 1 | District Social Welfare Office, A | 40,000.00 | 4 | 10 | 40,000.00 | 4 | 10 | 3,500,000.00 | 1 | 40 | 130 |
| 2 | District Social Welfare Office, B | 340,000.00 | 2 | 30 | 340,000.00 | 3 | 20 | 34,000.00 | 5 | 0 | 70 |
| 3 | District Social Welfare Office, C | 75,000.00 | 3 | 20 | 35,000.00 | 5 | 0 | 350,000.00 | 4 | 10 | 80 |
| 4 | District Social Welfare Office, D | 21,000.00 | 5 | 0 | 3,500,000.00 | 1 | 40 | 540,000.00 | 2 | 30 | 150 |
| 5 | District Social Welfare Office, E | 2,100,000.00 | 1 | 40 | 350,000.00 | 2 | 30 | 450,000.00 | 3 | 20 | 170 |

NON-FINANCIAL INDICATORS

| SNO | Name of the Office | Non Financial Indicator - 1 | | | Non Financial Indicator - 2 | | | Non Financial Indicator - 3 | | | Total Score |
|-----|-----------------------------------|---|------|-------|--|------|-------|--|------|-------|-------------|
| | | No. of years pending for internal audit | Rank | Score | No. of central govt. funding schemes implemented in the office | Rank | Score | No. of state govt. funding schemes implemented in the office | Rank | Score | |
| 1 | District Social Welfare Office, A | 3 | 1 | 40 | 5 | 2 | 30 | 3 | 3 | 20 | 90 |
| 2 | District Social Welfare Office, B | 2 | 2 | 30 | 5 | 2 | 30 | 3 | 3 | 20 | 80 |
| 3 | District Social Welfare Office, C | 1 | 3 | 20 | 9 | 1 | 40 | 22 | 1 | 40 | 100 |
| 4 | District Social Welfare Office, D | 0 | 4 | 10 | 3 | 4 | 10 | 3 | 3 | 20 | 40 |
| 5 | District Social Welfare Office, E | 0 | 4 | 10 | 3 | 4 | 10 | 9 | 2 | 30 | 50 |

ANALYTICAL INDICATORS

| | | Yes | 10 | Yes | 10 | Yes | 0 | Yes | 10 | Yes | 10 | |
|-----|-----------------------------------|--|-------|--|-------|---|-------|---|-------|--|-------|-------------|
| | | No | 0 | No | 0 | No | 10 | No | 0 | No | 0 | |
| SNO | Name of the Office | Analytical Indicator - 1 | | Analytical Indicator - 2 | | Analytical Indicator - 3 | | Analytical Ind-4 | | Analytical Indicator - 5 | | Total Score |
| | | Any new scheme introduced in the office during the FY (Yes/No) | Score | Any change in accounting procedure relating to receipt or expenditure systems such as shifting to online direct payments, introducing computerized system etc (Yes/No) | Score | Whether AG Audit was conducted in last 3 financial years (Yes/No) | Score | Any allegations reported in newspapers/media during the last years (Yes/No) | Score | Whether any assembly questions were raised for the office or relating to the office in the assembly (Yes/No) | Score | |
| 1 | District Social Welfare Office, A | YES | 10 | NO | 0 | YES | 0 | Yes | 10 | No | 0 | 20 |
| 2 | District Social Welfare Office, B | NO | 0 | NO | 0 | YES | 0 | No | 0 | Yes | 10 | 10 |
| 3 | District Social Welfare Office, C | YES | 10 | NO | 0 | No | 10 | No | 0 | Yes | 10 | 30 |
| 4 | District Social Welfare Office, D | NO | 0 | NO | 0 | No | 10 | Yes | 10 | No | 0 | 20 |
| 5 | District Social Welfare Office, E | Yes | 10 | NO | 0 | Yes | 0 | Yes | 10 | Yes | 10 | 30 |

Annexure – 3: Sampling Sheet

| <u>Sampling Calculation Sheet</u> | | | | | | |
|---|------------------|------------|--------|--|--|---|
| Particulars | | Nos. | | | | |
| Total Number of Vouchers | | 1000 | | | | |
| Total No. of Vouchers to be Audited | | 300 | | | | |
| Range | Amount | | | No. of vouchers | No. of vouchers to be audited | Percentage of sample selected to total Population |
| Highest Value Voucher | 10,00,000 | | | | | |
| Range 1: Value of voucher is between | 100000 | To | 800000 | Identify no. of vouchers in this range. If it is 100 | 100 | 100% vouchers from high value range |
| Range 2: Value of voucher is between | 800000 | To | 500000 | *** | (Total number of vouchers to be audited – Range 1)* 65% = 130 | 65% of vouchers |
| Range 3: Value of voucher is less than | 500000 | | | *** | (Total number of vouchers to be audited – (Range 1 + Range 2)) = 70 | Rest of the vouchers |
| Total | | | | | 300 | |

Note: 1. This sampling method shall be used only in the cases where the number of vouchers to be audited is ascertainable.

2. Number of vouchers to be selected for audit depends on availability of time frame and manpower
3. In case of special audits, this methodology is not applicable.
4. In case of mandate for 100% audit, sampling method will not be adopted.
5. **In this method, the auditors may require to divide the whole population of vouchers into three stratas i.e. high value strata, average value strata and low value strata.**
6. **The Auditors shall cover hundred percent of high value vouchers, less coverage of average value of vouchers and still lesser coverage of low value of vouchers since they are highest in number.**

Annexure – 4: Sample template of Internal Controls Assessment

| Assessment Aspect | Indication of Strong Controls | Indication of Weak Controls | Assessment Result | Recommendation for improvement |
|----------------------|--|---|---|--------------------------------|
| Cash Management | <ul style="list-style-type: none"> As per Rule 37 (iii) of The Orissa Treasury Code, the cash book should be closed regularly and completely checked. The head of the office verifies the totaling of the cash book or by any authorised person other than the writer of the cash book and initialed it as correct Bill wise / date wise analysis of closing balances on Treasury drawls are recorded | <ul style="list-style-type: none"> Same person doing both tasks of Maintenance of Cash book and Verification of Cash book etc. Handling of cash by unauthorized persons. | <p>Strong /</p> <p>Moderate /</p> <p>Weak</p> | |
| Bank Reconciliations | <ul style="list-style-type: none"> Bank reconciliations are prepared timely. Auditee performs a diligent review and signifies approval by signature and date. | <ul style="list-style-type: none"> Reconciliations are not performed timely or regularly. Concerned Officer-In-Charge in Auditee does not carefully review or formally approve statements or reconciliations. | <p>Strong /</p> <p>Moderate /</p> <p>Weak</p> | |

| Assessment Aspect | Indication of Strong Controls | Indication of Weak Controls | Assessment Result | Recommendation for improvement |
|-------------------------|---|---|---|--------------------------------|
| Funds/Grants Management | <ul style="list-style-type: none"> • Guidelines on use of grants/funds are well documented, and are understood by the employees who administer the funds; • Usage of funds is monitored by management, and • Accounts are reconciled. • Utilisation Certificates against grants submitted in time | <ul style="list-style-type: none"> • Guidelines or Restrictions for using funds are not clearly documented. • Accounts of funds/grants are not monitored by any concerned officer-in-charge; • Usage may not be in accordance with laid guidelines prescribed for the purpose of use of funds/grants. • Utilisation Certificates in arrears | <p>Strong /</p> <p>Moderate /</p> <p>Weak</p> | |
| Asset Management | <ul style="list-style-type: none"> • Equipment, supplies, inventory, and other assets are physically secured and periodically counted and compared to the amounts shown by the Auditee in the verification records/registers. • Assets records of Land and Buildings maintained | <ul style="list-style-type: none"> • Equipment, supplies, inventory and other assets are not protected. Verification records/registers do not exist or are not up to date. | <p>Strong /</p> <p>Moderate /</p> <p>Weak</p> | |

| Assessment Aspect | Indication of Strong Controls | Indication of Weak Controls | Assessment Result | Recommendation for improvement |
|---|--|---|--------------------------------|--------------------------------|
| Financial Records Management | <ul style="list-style-type: none"> Accounting Personnel understands records they are responsible to maintain and retains them for the requisite retention period. Records are appropriately filed | <ul style="list-style-type: none"> Accounting Personnel do not understand which records they are responsible for maintaining and The filing system is inadequate. | Strong / Moderate / Weak | |
| Budget Management | <ul style="list-style-type: none"> Budgets are compared to actual results and deviations are followed up on a timely basis. Adequate consideration is given to commitments. | <ul style="list-style-type: none"> An analysis of actual versus budgeted results is not performed, or Auditee does not follow up on deviations. | Strong / Moderate / Weak | |
| Separation of duties | <ul style="list-style-type: none"> Financial duties are divided among different people (responsibilities for authorizing transactions, recording them and handling the asset are separated) and documented | <ul style="list-style-type: none"> Not much separation of financial duty among employees / No documentation. | Strong / Moderate / Weak | |
| Financial performance review by concerned officials | <ul style="list-style-type: none"> Reviews are made of actual performance versus budgets, forecasts, and performance in prior periods for all major initiatives by the Head of the Auditee. Head of the Auditee analyzes and follows up as needed. | <ul style="list-style-type: none"> Analyses are not performed or Auditee does not follow up on significant deviations. | Strong / Moderate / Weak | |

| Assessment Aspect | Indication of Strong Controls | Indication of Weak Controls | Assessment Result | Recommendation for improvement |
|---|---|--|--------------------------------|--------------------------------|
| Access to Government Policies and Procedures on Accounts maintenance and other related matters | <ul style="list-style-type: none"> Accounting staff have available up to date Government policy and procedures on Accounts maintenance and other related matters; and they know how to use them. | <ul style="list-style-type: none"> Government policy and procedures relating to Accounts are not available with the Accounts Personnel. | Strong / Moderate / Weak | |
| Auditee Policies and Procedures | <ul style="list-style-type: none"> The Auditee has documented its own policies and procedures. They are well understood by concerned Accounting personnel. | <ul style="list-style-type: none"> Auditee policies and procedures do not exist. | Strong / Moderate / Weak | |
| <p>Note:</p> <ol style="list-style-type: none"> Auditors shall develop more lists of aspects based on scope of work of the Auditee for detail assessment. Auditors shall review the aspects and find out the status of internal control. Result of Internal Controls Assessment shall be given as mentioned below: <ol style="list-style-type: none"> Wherever, the controls are in place, assessment result shall be mentioned as “Strong” Wherever, the controls are partially in place, assessment result shall be mentioned as “Moderate” Wherever, the controls are not at all in place/exist, assessment result shall be mentioned as “Weak” Based on results he/she shall provide necessary recommendations for improvement of the particular internal controls. | | | | |

Annexure – 5: Checklist for Verification of Receipts

| S. No. | What to verify | Observations (Yes/No) | Recommendations |
|--------|--|-----------------------|-----------------|
| 1 | Drawls from Treasury are made as per Bill register and Book of drawl and taken into Cash book. | | |
| 2 | Government Drafts and Bank Drafts are entered and en-cashed through Incoming Bank Draft Register | | |
| 3 | Deposit Challans, which are received from outside agencies/persons - are properly accounted and reconciled with Treasury account | | |
| 4 | Receipts towards sale proceeds are properly accounted and credited into treasury | | |
| 5 | Receipts towards bank interest are properly accounted | | |
| 6 | Recoupment of advances in cash are properly accounted | | |
| 7 | Receipts books are serially numbered and stocked | | |
| 8 | Printed official receipts are issued for all the receipts | | |
| 9 | Issues of receipt books and the return of the used books are properly recorded | | |
| 10 | Collections are accounted regularly | | |
| 11 | Receipts are accounted properly under the appropriate head of accounts | | |
| 12 | Departmental receipts are deposited promptly into Treasury as per TR 6 of OTC Volume 1 | | |
| 13 | Departmental receipts are not used for departmental expenditure | | |
| 14 | Delays or omissions noticed in the levy / collections / taxes etc. if any | | |

| | | | |
|------|--|--|--|
| 15 | Any revenue losses noticed | | |
| 16 | Any discrepancy exist between books of accounts maintained by the department and treasury accounts | | |
| 17 | Proper assessment of Government revenue receivables whether done | | |
| Note | Auditor may add more items to the checklist based on Departmental scope of work. | | |

Annexure – 6: Checklist for Verification of Payments

| S. No. | What to verify | Observations (Yes/No) | Recommendations |
|--------|--|-----------------------|-----------------|
| 1 | All payments are made through Cash Book and regular maintenance of Cash Book. | | |
| 2 | Payments are made with an authorization. | | |
| 3 | Payments are made within the approved budget. | | |
| 4 | Payments are made based on the adequate supporting documents. | | |
| 5 | Printed receipts or Acknowledgement of payee obtained for the payments. | | |
| 6 | Tax deducted at source, wherever applicable as per the provisions of the Income Tax Act, 1961. | | |
| 7 | Payments exceeding ₹. 2,000/- are made through Cheque/Demand Draft | | |
| 8 | Payments exceeding ₹. 5,000/- are affixed with Re.1/- revenue stamp. | | |
| 9 | Payments are made in shape of Cheque or Demand Draft only to the party from whom goods/service are received | | |
| 10 | Payments are made to the party in accordance with the terms and conditions of the contract in respect of procurement of goods/services. | | |
| 11 | Payments are made towards Salaries / Consultancy fee / Contract / Honorarium only in shape of account payee cheque / demand draft | | |
| 12 | Payments are made towards Salaries / Consultancy fee / Contract / Honorarium only in shape of account payee cheque / demand draft even if it is below ₹. 2,000/- | | |
| 13 | In case of purchase vouchers, stock entry certificates are furnished on the vouchers | | |

| | | | |
|------|--|--|--|
| 14 | Payment of advances are written in red ink the right hand side of inner column of Cash Book | | |
| 15 | Payment against adjustment of advances are properly reflected in the Cash Book | | |
| 16 | Amounts of salary drawn by staff are in accordance with the relevant entitlement rules and orders. | | |
| 17 | In case of salaries, necessary deductions have been made in accordance with the relevant rules and orders | | |
| 18 | Salaries paid have been properly recorded in the salary acquaintance register, if applicable | | |
| 19 | The payments of salary are duly acknowledged by the payee staff, if applicable. | | |
| 20 | Increments on salary are paid as per the rules and orders, if applicable. | | |
| 21 | The recovery schedule are prepared and tallied with the recoveries made before submission of the monthly pay bill to the Treasury for payment. | | |
| 22 | Recoveries made from Bills are transmitted to proper quarters regularly | | |
| 23 | Income Tax returns filed | | |
| 24 | Closing cash balance of the month reconciled with the Bank figures | | |
| 25 | No Idle parking of money after drawl | | |
| 26 | Adjustments of vouchers against advances done regularly | | |
| Note | Auditor may add more items to the checklist based on Departmental scope of work. | | |

Annexure – 7: Checklist for Verification of Cash and Bank

| S. No. | What to verify | Observations (Yes/No) | Recommendations |
|--------|---|-----------------------|-----------------|
| 1 | Authorized person handles cash. | | |
| 2 | Security Deposit furnished by the Cashier for handling cash. | | |
| 3 | The dates and amounts of receipts are tallied with relevant documents (Example: bank pass book, grant letters, in case of bank receipts deposit forms or bank statement). | | |
| 4 | All receipts and payments have been duly and promptly recorded in the books of accounts. | | |
| 5 | All pages of the cash book are duly authenticated by cashier and Head of the entity. | | |
| 6 | The cash book is maintained cleanly without any alterations, corrections or modifications. | | |
| 7 | In case of corrections in Cash Book, the Head of Office has authorized such corrections. | | |
| 8 | Bank reconciliation statements are prepared monthly and certified by the Head of Office. | | |
| 9 | Reconciliation of deposits are prepared regularly and verified by the authorized officer. | | |
| 10 | The cash, cheques books and money receipt books are kept in lock and key. | | |
| 11 | Check whether the knowledge of safe combinations restricted?, did combinations changed often? (especially when turnover occurs) | | |
| Note | Auditor may add more items to the checklist based on Departmental scope of work. | | |

Annexure – 8: Checklist for Verification of Stores

| S. No. | What to verify | Observations (Yes/No) | Recommendations |
|--------|---|-----------------------|-----------------|
| 1 | The accounts of receipt of stocks, whether purchased or obtained otherwise, issues and balances are correctly drawn and maintained in the stock registers. | | |
| 2 | The quantity of stock in hand does not exceed the prescribed maximum limit. | | |
| 3 | Measures are taken to survey and consider the disposal of unserviceable and obsolete stores as per the prescribed rules. | | |
| 4 | Due procedure is followed for disposal of assets/ materials (write off/ offset price valuation methods, asset disposal approvals, fixing of minimum price, procedure of advertisement to seek buyers and evidence in respect of receipt of net sale value and record on register to that effect). | | |
| 5 | Guidelines prescribed by the Government on disposal of different kind of stocks are adhered by the auditee. | | |
| 6 | Store management and verification procedures are aligned with the provisions of OGFR, OPWD code and other guidelines prescribed by Government of Odisha. | | |
| 7 | Articles are counted and physically verified by the auditee once in a year. | | |
| 8 | A certificate for verification of stores is recorded in stock register. | | |
| 9 | System of stock verification is adequate and all discrepancies noticed are brought to account immediately. | | |
| 10 | Shortages and Damages are reported to the competent authority. | | |
| Note | Auditor may add more items to the checklist based on Departmental scope of work. | | |

Annexure – 9: Sample Template for Review of UCs Position

| Government of India | | | | | | | |
|----------------------|--|--|--|--|----------------------------|------------------------------|---------|
| Name of the Scheme | Opening Balance of unutilized grants (₹) | Grants received during the period of audit (₹) | Grants utilized/UC issued during the period of audit (₹) | Closing Balance/UC pending for issue (₹) | Due date for UC submission | Actual Date of UC submission | Remarks |
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| Government of Odisha | | | | | | | |
| Name of the Scheme | Opening Balance of unutilized grants (₹) | Grants received during the period of audit (₹) | Grants utilized/UC issued during the period of audit (₹) | Closing Balance/UC pending for issue (₹) | Due date for UC submission | Actual Date of UC submission | Remarks |
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| Other Agencies | | | | | | | |
| Name of the Scheme | Opening Balance of unutilized grants (₹) | Grants received during the period of audit (₹) | Grants utilized/UC issued during the period of audit (₹) | Closing Balance/UC pending for issue (₹) | Due date for UC submission | Actual Date of UC submission | Remarks |
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |

Annexure - 10: Format of Internal Audit Report (IAR)

| PART I – GENERAL INFORMATION | |
|---|---|
| Name of the department | : |
| Name and address of the Auditee | : |
| Name of the head of office of the Auditee at the time of audit: | |
| Audit Period | : |
| Audit Starting date and Completion date | : |
| Name/Names of Head of Offices during the period of audit | : |
| Name of incumbent in-charge of accounts | : |
| Name(s) of the Auditor(s)/Audit Team | : |
| Name of the Reviewing Officer | : |

| PART II – PENDING POSITION OF PREVIOUS AUDIT COMPLIANCE | | | | | | | | |
|---|--|--|-------------|--|-------------|--|-------------|--|
| A1: AG AUDIT | | | | | | | | |
| No. of Reports pending for compliance (Pending Position of Previous Audit Reports as per the previous audit report) | No. of Paras involved pending for compliance | No. of ARs/ Paras added during the period of audit | | No. of ARs/ Paras settled during the period of audit | | No. of ARs/Paras outstanding at the end of the period of audit | | No. of IRs/Paras where first replies have not been submitted |
| | | Audit Reports | Audit Paras | Audit Reports | Audit Paras | Audit Reports | Audit Paras | |
| | | | | | | | | |
| | | | | | | | | |
| A2: INTERNAL AUDIT & EFFICIENCY AUDIT | | | | | | | | |
| No. of Reports pending for compliance (Pending Position of Previous Audit Reports as per the previous audit report) | No. of Paras involved pending for compliance | No. of ARs/ Paras added during the period of audit | | No. of ARs/ Paras settled during the period of audit | | No. of ARs/Paras outstanding at the end of the period of audit | | No. of IRs/Paras where first replies have not been submitted |
| | | Audit Reports | Audit Paras | Audit Reports | Audit Paras | Audit Reports | Audit Paras | |
| | | | | | | | | |
| | | | | | | | | |

| B. PERSISTENT IRREGULARITIES | | | | |
|--|--|--|---------------------------------|----------------------------------|
| Observation in previous audit reports | Reference Numbers of IRs /Paras | Recommendations of audit for Compliance | Status of the Compliance | Reason for non Compliance |
| 1. | | | | |
| 2 | | | | |
| 3 | | | | |

PART III – SCOPE OF AUDIT

1. Physical Verification of Cash, Bank, Stock and Others: (A template to be Annexed as Part III(1). The format is given in Annexure -12 of this Manual).
2. List of records verified during Audit (List to be Annexed as Part III(2))
3. Scope of Audit Conducted: (Describe below)

PART IV – OBSERVATIONS AND RECOMMENDATIONS

| A. INTERNAL CONTROLS REVIEW | | | |
|---|--------------------|----------------------------------|--|
| <ul style="list-style-type: none"> • A template to be annexed as Part IV (A). • Template format is given in Annexure – 4 of this manual | | | |
| B. MAJOR IRREGULARITIES | | | |
| SL No. | Observation | Effect/Impact/Consequence | Reference Numbers of documents/Annexure numbers of documentary evidence |
| 1 | | | |
| 2 | | | |
| 3 | | | |

| C. OTHER IRREGULARITIES | | | |
|--------------------------------|--------------------------|----------------------------------|--|
| SL No. | Observation | Effect/Impact/Consequence | Reference Numbers of documents/Annexure numbers of documentary evidence |
| 2 | Verification of Receipts | | |
| 2.1 | | | |
| 2.2 | | | |
| 3 | Verification of Payments | | |
| 3.1 | | | |

| | | | |
|------|---------------------------------|--|--|
| 3.2 | | | |
| 4 | Verification of Contingencies | | |
| 4.1 | | | |
| 4.2 | | | |
| 5 | Verification of Grants- in Aid | | |
| 5.1 | | | |
| 5.2 | | | |
| 6 | Verification of Public Works | | |
| 6.1 | | | |
| 7 | Verification of Stores | | |
| 7.1 | | | |
| 7.2 | | | |
| 8 | Verification of Procurements | | |
| 8.1 | | | |
| 8.2 | | | |
| 9 | Verification of Reconciliations | | |
| 9.1 | | | |
| 9.2 | | | |
| 10 | Utilization Certificate Review | | |
| 10.1 | | | |
| 10.2 | | | |
| 11 | Budget and Actuals Review | | |
| 11.1 | | | |
| 11.2 | | | |
| 12 | Contracts | | |
| 12.1 | | | |
| 12.2 | | | |
| 13 | Systems Review | | |
| 13.1 | | | |
| 13.2 | | | |
| 14 | Any Other Reviews | | |
| 14.1 | | | |
| 14.2 | | | |

| D. RECOMMENDATIONS | | | |
|---------------------------|--------------------|-----------------------|--|
| SL No. | Observation | Recommendation | Reference Numbers of documents/Annexure numbers of documentary evidence |
| | | | |
| | | | |

PART V – RESULT OF AUDIT

| Para No. | Amount held under objection | Amount suggested for recovery | Amount identified as misappropriation | Amount recovered during audit |
|-----------------|------------------------------------|--------------------------------------|--|--------------------------------------|
| | | | | |
| | | | | |

PART VI – ANNEXURES

Annex -1 (checklist for verification of receipts)

Annex – 2 (checklist for verification of payments)

Annex -...(if any other, please specify)

Note: Please strike out which is not attached

GLOSSARY

| Word/Term/Phrase | Meaning |
|-------------------------|----------------|
| | |

DATE:

PLACE:

SIGNATURE OF THE AUDITOR

Annexure – 11: Format of Monthly Progress Report (MPR)

NAME OF THE DEPARTMENT:.....

MONTH:.....

A. STATUS OF AUDIT REPORTS AND PARAS

| No. of A/Rs pending for settlement at the beginning of the month | No. of paras pending for settlement at the beginning of month | No. of A/Rs added during the month | No. of paras added during the month | No. of A/Rs settled during month | No. of paras settled during month | Outstanding A/Rs pending for settlement at the end of the month | Outstanding Paras pending for settlement at the end of the month | No. of Paras waiting for submission of 1st reply out of the total pendency (out of the column 8) |
|--|---|------------------------------------|-------------------------------------|----------------------------------|-----------------------------------|---|--|--|
| 1 | 2 | 3 | 4 | 5 | 6 | $7=(1+3)-5$ | $8=(2+4)-6$ | 9 |
| | | | | | | | | |

B. STATUS OF AMOUNT HELD UNDER OBJECTION

| Total Amount pending as "Held under objection" at the beginning of the month | Amount held under objection as per Paras added during the month | Paras settled during the month involving amount held under objection | Total Amount pending as "Held under objection" at the end of the month |
|--|---|--|--|
| 1 | 2 | 3 | $4= (1+2)-3$ |
| | | | |

C. STATUS OF AMOUNT SUGGESTED FOR RECOVERY

| Total Amount pending as "Suggested for Recovery" at the beginning of the month | Amount added during the month as "Suggested for Recovery" | Paras settled during the month involving amount suggested for recovery | Total Amount pending as "Suggested for Recovery" at the end of the month |
|--|---|--|--|
| 1 | 2 | 3 | $4= (1+2)-3$ |
| | | | |

D. STATUS OF AMOUNTS OF MISAPPROPRIATION

| Total Amount pending as “Misappropriation Amount” at the beginning of the month | Amount added during the month as Misappropriation | Amount settled during month involving out of Misappropriation amount | Total Amount pending as “Misappropriation Amount” at the end of the month |
|--|--|--|---|
| 1 | 2 | 3 | 4= (1+2)-3 |
| | | | |

E. NO. OF IACRC MEETINGS CONDUCTED DURING THE MONTH FOR SETTLEMENT OF PARAS :.....

DATE:

SIGNATURE OF AAO/ AUDIT OFFICER

Annexure – 12: Format of Physical verification of Cash, Bank and Others

PART III – (1) Physical Verification of Cash, Bank and Others

Cash Balance:

Cash balance as per physical verification on dated.....Amount in ₹.....

Closing cash balance as per cash book on dated.....Amount in ₹.....

Bank Balance:

Number of bank accounts maintained.....(to collect information of all bank accounts maintained)

Bank A/C no.....Opening balance as on dated.....Amount in ₹.....,

(If more than one bank account is maintained provide details below)

Bank A/C no.....Opening balance as on dated.....Amount in ₹.....,

Bank A/C no.....Opening balance as on dated.....Amount in ₹.....,

Number of the bank drafts pending without entry in the cash book:.....and the total amount in ₹.....

Discrepancy (if any) Amount in ₹.....

(The discrepancy figure to be arrived at after verifying updated position of advances, bank balances, receipts / expenditure up to the date of commencement of audit)

Permanent Advance:

Cash balance of permanent advance as per physical verification as on dated.....Amount in ₹.....

Closing balance of permanent advance register as on dated.....Amount in ₹.....

Expenditure out of permanent advance kept in shape of vouchers/advance amount in ₹.....

Discrepancy (if any) Amount in ₹.....

Others

Money receipt number lastly used.....and receipt book number.....

Signature of the AAO/Auditor

Signature of the Officer – in Charge of Cash/Accounts

Date:

Date:

Annexure – 13: Format of Audit Progress Report Register

AUDIT PROGRESS REPORT REGISTER

- i. Name of the Auditor/AAO :.....
- ii. Name of the Auditee :.....
- iii. Number of working days allowed :.....

| Date | Brief Description of the work done | | | | | |
|------|------------------------------------|------------------------------------|---------------------------|---------------------------------|---|---------------------|
| | Number of Vouchers verified | Number of Half Margin Memos Issued | Verification of Cash Book | Verification of Stock Registers | Verification of records and Files (Internal Control Mechanism review) | Any Other work done |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

Annexure – 14: Format of Weekly Audit Progress Report

WEEKLY AUDIT PROGRESS REPORT

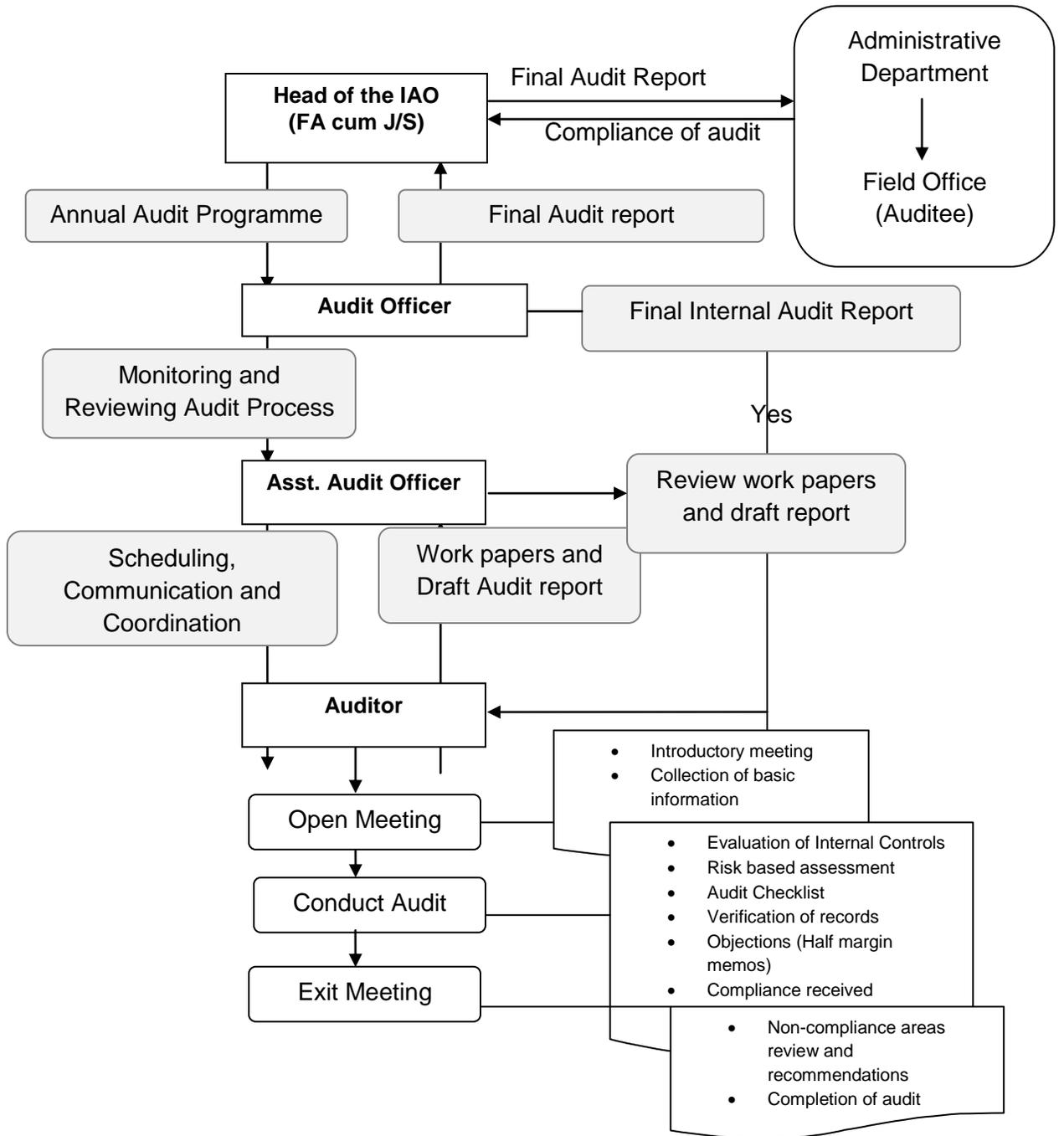
- i. Name of the Auditor/AAO :
- ii. Name of the Auditee :
- iii. Number of working days allowed :
- iv. Period from : To :

| Date | Brief Description of the work done | | | | | |
|------|------------------------------------|------------------------------------|---------------------------|---------------------------------|---|---------------------|
| | Number of Vouchers verified | Number of Half Margin Memos Issued | Verification of Cash Book | Verification of Stock Registers | Verification of records and Files (Internal Control Mechanism review) | Any Other work done |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

Date:

Signature of the Auditor/AAO

Annexure – 15: An Overview of Audit Process



Published by Finance Department, Government of Odisha and issued vide Finance Department Notification No. FIN-CCA-ESTT-0012-2013/7666/F, dated 19.03.2014

Printed in Odisha Government Press Madhupatna, Cuttack - 753010