

CHAPTER 31

AUDIT REPORT

INTRODUCTION

31.1 This chapter discusses the format and content of the Audit Report to be submitted in relation to Urban Local Bodies (ULBs).

31.2 This chapter briefly describes the following:

- Audit report on financial statements
- Periodicity of Reports
- Supplementary / test audit conducted by CAG
- Other audits of ULBs.

31.3 The report of the Auditor as specified in this manual can be construed as certificate unless the State Government has any specific requirement.

AUDIT REPORT ON FINANCIAL STATEMENTS

31.4 The Municipal accounts as contained in the financial statements including the accounts of special funds, if any, and the balance sheet shall be examined and audited by Director Local Fund Audit or his equivalent authority or an Auditor appointed by the State Government.

31.5 The Auditor so appointed shall upon completion of audit of the accounts, issue a report on the financial statements of the ULB.

31.6 The Auditor's Report on the Balance Sheet, Income and Expenditure Statement, Receipts and Payments Statement, and Cash Flow Statement shall be addressed to the Authority (as required by the relevant Act), of the ULB, with a copy being forwarded to the Municipal Commissioner/Executive Officer/Secretary.

31.7 The Report of the Auditor shall state:

- a. whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;
- b. whether, in his opinion, proper books of account as required by Authority (as required by the relevant Act), the Accounts Manual, the Rules and any other stipulations have been kept by the ULB so far as it appears from his examination of those books;
- c. whether the ULB's Balance Sheet, Income and Expenditure Statement,

Receipts and Payments statement and Cash Flow statement dealt with by the report are in agreement with the books of accounts;

- d. whether appropriate internal controls have been adhered to;
- e. whether all the payments have been made in accordance with the law;
- f. whether any deficiency or loss appears to have been caused by the gross negligence or misconduct of any person (if yes, the amount of loss should be quantified);
- g. whether any sum received for and on behalf of the ULB which ought to have been brought into account of the ULB by any person has been so brought; and
- h. whether any material impropriety or irregularity, other than those mentioned above, has been observed by him during the course of audit of accounts.

31.8 Where any of the matters referred to in para. 31.7 are answered adversely or with a qualification, the auditor's report shall state the reason for the same and with further explanation and inclusion of statistical impact if possible.

ANNEXURE TO THE REPORT OF THE MUNICIPAL AUDITOR

31.9 Besides the above Audit Report, the Auditor shall comment in respect of the following matters in the Annexure to the Audit Report:

1. Whether all the expenditure incurred by the ULB are authorised by appropriate provision in the sanctioned budget, whether made originally or subsequently?
2. Whether all sums due to and received by the ULB have been brought to account within the prescribed time limits?
3. Whether all transactions (incomes, expenditures, assets and liabilities) are correctly classified?
4. Whether in respect of all bills for charges on account of all works and other expenditure, proper certificates have been furnished in support of them and that no deviation has been made from the sanctioned plans and the estimates without the sanction of the competent authority?
5. Whether the amounts received as specific grants have been utilised for the purposes as stated in the grant sanction order?
6. Whether the Special Funds, have been created as per the provision of relevant statutes and whether the Special Funds have been utilised for the purposes for which created?
7. Whether the ULB is maintaining proper records showing full

particulars, including quantitative details and situation of fixed assets; whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account?

8. Whether physical verification has been conducted by the ULB at reasonable intervals in respect of stores?
9. Whether the procedures of physical verification of stores followed by the ULB are reasonable and adequate? If not, the inadequacies in such procedures should be reported;
10. Whether any material discrepancies have been noticed on physical verification of stores as compared to book records, and if so, whether the same have been properly dealt with in the books of account?
11. Whether the valuation of stores is in accordance with the accounting principles laid down in the Accounts Manual? Whether the basis of valuation of stores is same as in the preceding year? If there is any deviation in the basis of valuation, the effect of such deviation, if material, should be reported;
12. Whether the parties to whom the loans, or advances in the nature of loans, have been given by the ULB are repaying the principal amounts as stipulated and are also regular in payment of the interest and if not, whether reasonable steps have been taken by the ULB for recovery of the principal and interest?
13. Whether there exists an adequate internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other assets?
14. Whether proper procedures are in place to identify any unserviceable or damaged stores and whether provision for the loss in this respect, if any, has been made in the accounts?
15. Whether the ULB is regular in depositing Provident Fund dues and Profession Tax deducted with the appropriate authorities and if not, the extent of arrears;
16. Whether the ULB is regular in depositing tax deducted at source (income tax and works contract tax) and other statutory dues, and if not, the nature and cause of such delay and the amount not deposited;
17. Whether any personal expenses have been charged to revenue account; if so, the details thereof.

31.10 The Report of the Auditor shall also specifically report on any other matter which the Government, ULB and/or the Authority (as required by the relevant Act), may have specifically required to be covered as a part of the Audit.

PERIODICAL AUDIT REPORT/CERTIFICATE

31.11 At the end of each period, the Auditor may furnish a certificate on the quarterly coverage to the Municipal Commissioner/Executive Officer/Secretary. The suggested format of the certificate can be as follows:

“Certified that the accounts from ----- to ----- have been audited by me and found correct with the exception of the following items:” *(The exceptions shall be explained in detail).*

31.12 While furnishing periodical certificate/report, the Auditor shall at least verify the following:

1. Whether the postings for the entries in the books of original entry have been correctly made in the respective ledger accounts;
2. Whether all the books of accounts and supplementary registers that are prescribed in the Accounts Manual / other applicable regulations have been properly maintained by the ULB;
3. Whether the Quarterly Financial Statements have been compiled on the basis of the actual entries in the books of accounts;
4. Whether the period-end and reconciliation procedures prescribed have been carried out.
5. Whether the Bank Reconciliation statements have been prepared and are appropriate.
6. Whether all grants from Government have been accounted at gross value with proper entries to various accounts

SUPPLEMENTARY/TEST AUDIT

31.13 The H.P. Government may request the CAG H.P. to provide technical guidance and supervision to the State Govt. Audit Agency to make the Auditing more effective and meaningful and for the purpose it may conduct test audit of the ULBs.

AUDIT BY EXTERNAL AGENCIES

31.14 Besides, the above audit, the accounts of specific loan funds, grants, etc., would continue to be audited by auditors of agencies which have given grants, loans, etc., in the same manner as is currently happening.

ADDITIONAL AUDIT

31.15 In addition to the audit by the Auditor, the Government/ULB may additionally get the accounts of the ULBs audited under the following circumstances:

- Internal Audit
- Concurrent Audit
- Special Audit (investigative or audit in depth)
- Special Audits ordered by the State Government;

31.16 The state government can also define the guidelines under which these Audits are to be undertaken. It is recommended that Internal Audit can be undertaken whenever the revenue collections are greater than Rs.50 Lakhs and concurrent audit can be undertaken when the revenue collections are greater than Rs.1 crore.

31.17 These Special audits may be required to ensure that the accounts and financial statements of the ULBs have been prepared in accordance with provisions of the Accounts Manual and other relevant provisions of laws in force or for the objectives under which the audits have been ordered by the State Governments.