



UTTARAKHAND FINANCIAL ATTEST AUDIT MANUAL-2021 VOLUME-I

Finance Department

Government of Uttarakhand

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Preface

The Government of Uttarakhand (GoUK) has passed separate legislation, namely ‘The Uttarakhand Audit Act, 2012’ which provides provisions and regulations for audit of all Government Departments, Public Corporations, Government Companies, Institutions, Statutory Authorities, Panchayati Raj Institutions, Urban Local Bodies and Government Committees in the State.

Financial Attest Audit’ of Urban Local Bodies and Rural Local Bodies is entrusted under the Technical Guidance and Support (TGS) of C&AG of India by the Government of Uttarakhand. The objective of conducting a Financial Attest Audit is to express an opinion on Financial Statements of the ULBs & RLBs.

Financial Attest Audit (Certification Audit) was introduced by the Government of Uttarakhand in 2018. With this Manual, the concepts of Audit Risk, Audit Sampling, Materiality, Issuance of Financial Attest Audit Reports are being reinforced and the prime focus is on making the audit procedures uniform. This manual has been prepared by following International Standards of Supreme Audit Institutions (ISSAI) as prescribed by International Organisation of Supreme Audit Institutions (INTOSAI) to the extent applicable in the context of the State of Uttarakhand.

The content of this manual has been divided into two volumes. The first volume covers the complete audit life cycle. It has eleven Chapters which deal with an introduction, brief organisation structure of ULBs and RLBs, functioning of the Finance Department, Directorate of Audit, audit planning, audit execution methodology, audit reporting, monitoring, issuance of Financial Attest Audit Report to ULBs and RLBs, follow up and quality assurance framework etc. The second volume covers standardised Forms and Formats and audit checklists to be used in conducting Financial Attest Audits of ULBs and RLBs in the State.

This manual exhibits the principles, policies and procedures that govern the Financial Attest Audit practice for Urban Local Bodies and Rural Local Bodies in the State of Uttarakhand. The manual provides a standard set of guidelines and a code of ethics for conducting Financial Attest Audit including management of related audit functions such as planning, execution, reporting, documentation, and quality assurance. This manual

would assist audit team in discharging their roles and responsibilities in conducting the Financial Attest Audit and providing expression of opinion on the Financial Statements of ULBs and RLBs.

The Manual is expected to be followed by all auditors in conducting Financial Attest Audit which will lead to the standardized and uniform application of the audit procedures to bring efficiencies in the process.

I am grateful for the support given by Hon'ble Chief Minister & Finance Minister Shri Pushkar Singh Dhami. I would like to place on record the excellent guidance provided by the Chief Secretary Shri S. S. Sandhu-IAS, MS Manisha Panwar (Additional Secretary Finance) and would like to express my sincere thanks to Ms. Sowjanya-IAS (Former Secretary, Finance, and project Director), Shri S Murugesan-IAS (Former Director Audit), Shri Surendra Narayan Pande-IAS (Director, Audit), Dr. V Shanmugam-IAS (Former Director, Audit), Dr. Ahmed Iqbal-IAS (Deputy Project Director), Shri J. C. Joshi (Director CTRFA), Shri Khajan Chandra Pandey (Joint Secretary Finance Audit Cell), Shri Vipin Bihari Lal (Deputy Director Audit), Shri Sobhan Singh Naglyal (Deputy Director, Audit), Shri Ramesh Mishra (Senior Audit Officer, Directorate of Audit), Shri Rajat Mehra (Audit Officer, Audit Cell), consultants and all other Officers of the Directorate of Audit who contributed extensively in the development of this manual. The comments and suggestions provided by the World Bank Team have been pivotal in improving the quality and practicality of this Manual.

Finally, this Manual, being the first of its kind for the State. I would be appreciative of suggestions to bring about further improvements if any, and also to bring to our notice any error, inaccuracy, or omission to be incorporated in the next edition.

Date: 06 December 2021
Place: Dehradun

Amit Singh Negi
Secretary, Finance and Project Director
Government of Uttarakhand

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1. सचिव, श्री राज्यपाल, उत्तराखण्ड।
2. सचिव, मारो मुख्यमंत्री जी, उत्तराखण्ड शासन।
3. स्टाफ आफिसर, मुख्य सचिव, उत्तराखण्ड शासन।
4. उप निदेशक, वित्त सेवायें विभाग, वित्त मंत्रालय, भारत सरकार, नई दिल्ली।
5. समस्त अपर मुख्य सचिव/प्रमुख सचिव/सचिव/सचिव (प्रभारी), उत्तराखण्ड शासन।
6. मण्डलायुक्त गढवाल मण्डल, पौड़ी /कुमार्यू मण्डल, नैनीताल।
7. समस्त जिलाधिकारी, उत्तराखण्ड।
8. महानिदेशक, सूचना एवं लोक सम्पर्क निदेशालय, उत्तराखण्ड, देहरादून।
9. निदेशक, यू०के०पी०एफ०एम०एस०, उत्तराखण्ड देहरादून।
10. निदेशक, लेखा परीक्षा ऑडिट, निदेशालय, उत्तराखण्ड देहरादून।
11. निदेशक, एन०आई०सी०, सचिवालय परिसर, देहरादून।
12. संयुक्त सचिव, वित्त ऑडिट प्रकोष्ठ, सचिवालय परिसर, देहरादून।
13. अपर निदेशक, राजकीय मुद्रणालय, रुडकी, उत्तराखण्ड को इस अनुरोध के साथ प्रेषित कि कृपया अधिसूचना को असाधारण गजट, विधायी परिशिष्ट भाग-4 में मुद्रित कराकर, इसकी 200 प्रतियां वित्त अनुभाग-6, उत्तराखण्ड शासन को यथाशीघ्र उपलब्ध कराने का कष्ट करें।
14. प्रभारी मीडिया सेंटर, उत्तराखण्ड सचिवालय।
15. गार्ड फाईल।

आज्ञा से,
Deekah
(दीपक कुमार)
अनु सचिव।

उत्तराखण्ड शासन

वित्त अनुभाग-६

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राज्यपाल, उत्तराखण्ड लेखा परीक्षा अधिनियम, 2012 (उत्तराखण्ड अधिनियम संख्या ०२ वर्ष 2012) की धारा 20 की प्रदत्त शक्तियों का प्रयोग करते हुए अंतर्राष्ट्रीय संगठन सुप्रीम ऑडिट इंस्टीट्यूट (INTOSAI) के द्वारा समय-समय पर निर्धारित सिद्धांतों, मानकों के स्तर के अनुरूप वित्तीय साक्षांकन लेखा परीक्षा वित्तीय साक्षांकन लेखा परीक्षा नियम संग्रह को प्रख्यापित किया जाने की सहर्ष स्वीकृति प्रदान करते हैं।

उत्तराखण्ड वित्तीय साक्षांकन लेखापरीक्षा नियम संग्रह, 2021

(वित्तीय साक्षांकन लेखापरीक्षा के सिद्धांत, मानक, वित्तीय साक्षांकन के विभिन्न चरण, मनीकृत प्रारूप एवं जांच सूचियाँ)

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| संक्षिप्त नाम, विस्तार और प्रारंभ | <p>1 (1) इन लेखा परीक्षा नियमों का संक्षिप्त नाम उत्तराखण्ड वित्तीय साक्षांकन लेखा परीक्षा नियमसंग्रह, 2021 है।</p> <p>(2) इसके अंतर्गत दो खंड-। एवं खंड-॥ हैं एवं शहरी एवं ग्रामीण निकायों की लेखा परीक्षा हेतु जांच सूची सम्मिलित है, यह लेखा परीक्षा नियम संग्रह उन समस्त ऑडिटी होंगे जो कि आधिसूचना संख्या—495/XXVII/2012 दिनांकित—२६ नवंबर, 2012 से उत्तराखण्ड लेखा परीक्षा अधिनियम, 2012— धारा ४(१) के क्रम से आधिसूचित किए गए हैं। ऑडिटी के अंतर्गत समस्त शहरी निकायों— नगर निगमों, नगर पालिका परिषदों, नगर पंचायतें एवं ग्रामीण निकायों के अंतर्गत जिला पंचायतें, क्षेत्र/ब्लॉक पंचायतें, ग्राम पंचायतें सम्मिलित हैं।</p> <p>(3) उत्तराखण्ड वित्तीय साक्षांकन लेखा परीक्षा नियमसंग्रह, 2021 का आधार अंतर्राष्ट्रीय मानकों लेखा परीक्षा संस्थान (आईएसएसएआई) के मानक एवं सिद्धांत हैं, जिनको अंतर्राष्ट्रीय सर्वोच्च लेखा परीक्षा संस्थान (इंटोसाई) द्वारा प्रख्यापित किया गया है। इन मानकों और सिद्धांतों को इस सीमा तक अपनाया गया है कि वह उत्तराखण्ड राज्य द्वारा निर्गत नियमों और शासनादेशों के अनुरूप हैं।</p> <p>(4) वित्त विभाग के निर्देशानुसार निदेशालय, लेखा परीक्षा, उत्तराखण्ड एवं ऑडिट प्रकोष्ठ द्वारा वित्तीय साक्षांकन लेखा परीक्षा संबंधित समस्त कार्य किए जाएंगे।</p> <p>(5) निदेशालय लेखा परीक्षा, उत्तराखण्ड का मुख्य दायित्व लेखा परीक्षा नियम संग्रहों को क्रियान्वित किया जाना होगा। इसके लिए निदेशालय द्वारा वार्षिक लेखा परीक्षा कार्यक्रम, लेखा परीक्षा हेतु मानव संसाधन का आंकलन, लेखा परीक्षा दलों की दक्षता के अनुसार निर्धारण, लेखा परीक्षा क्रियान्वयन, लेखा परीक्षा प्रालेखन एवं रिपोर्टिंग, लेखा</p> |
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परीक्षा की गुणवत्ता अभिवृद्धि एवं अनुश्रवण के कार्यवाही की जाएगी।

(6) ऑडिट प्रकोष्ठ, ऑडिट मैनुअल के निरन्तर उन्नयन हेतु तकनीकी परामर्शक की भूमिका निभाते हुए लेखा परीक्षा के मानकों/सिद्धांतों/पद्धतियों में आवधिक परिवर्तन होने पर अपनी संस्तुति प्रदान करेगा, ऑडिट में नवीन पद्धतियों को चरणबद्ध रूप से आईटी सोल्युशंस एवं कम्प्यूटर एडेड ऑडिट टेक्निक्स (CATT) को स्थापित करेगा।

(7) कार्यक्षेत्र में लेखा परीक्षा दलों द्वारा आचार संहिता, स्वतंत्रा, गोपनीयता एवं सत्यनिष्ठा के सिद्धांतों का पालन किया जाएगा एवं लेखा परीक्षा के नियम संग्रहों का अनुपालन करते हुए लेखा परीक्षा के कार्यों को संपादित किया जाएगा। लेखा परीक्षा दलों या अन्य अधिकारियों जिनके द्वारा वित्तीय साक्षांकन लेखा परीक्षा किसी भी प्रकार से सम्पादित की जायेगी उनके द्वारा वार्षिक रूप से लेखा परीक्षा कार्यक्रम प्रारम्भ किये जाने से पूर्व नैतिकता एवं स्वतंत्रता की आचार संहिता पर हस्ताक्षर किये जायेंगे।

(8) यह लेखा परीक्षा नियम संग्रह अधिसूचना के राजपत्र में प्रकाशन की तिथि से प्रवृत्त होगा।

भारत के नियंत्रक—महालेखा परीक्षक के तकनीकी, मार्गदर्शन, सहायता के उपबंध

2 (1) उत्तराखण्ड राज्य सरकार के पत्र संख्या 427/वीए एनआईडी (13वां एफसी)/2013 दिनांक 19.03.2013, के द्वारा भारत के नियंत्रक—महालेखापरीक्षक के तकनीकी मार्गदर्शन और सहायता के उपबंधों को अंगीकृत किया है। 13वें वित्त आयोग की अनुसंशा के अनुसार भारत के नियंत्रक—महालेखापरीक्षक के मार्गदर्शन में राज्य सरकार द्वारा नियुक्त बाह्य लेखा परीक्षकों की तकनीकी एवं व्यावसायिक अभिवृद्धि किये जाते हुये, स्थानीय निकायों की लेखा परीक्षा सुदृढ़ किए जाना सम्मिलित है। तकनीकी मार्गदर्शन और सहायता के उपबंधो अनुसार शहरी एवं ग्रामीण निकायों की लेखा परीक्षा के लिये निदेशक लेखा परीक्षा, प्राथमिक सांविधिक लेखापरीक्षक हैं।

(2) अतः उत्तराखण्ड सरकार ने उत्तराखण्ड लेखा परीक्षा अधिनियम 2012 की धारा 20 के अंतर्गत एवं 427/वीए एनआईडी (13वां एफसी)/2013 दिनांक 19.03.2013 के द्वारा भारत के नियंत्रक—महालेखापरीक्षक के तकनीकी मार्गदर्शन सहायता उपबंधो के अनुसार उत्तराखण्ड वित्तीय साक्षांकन लेखा परीक्षा नियमसंग्रह, 2021 प्रद्यापित किए जाने का निर्णय लिया है, जिसके द्वारा शहरी और ग्रामीण निकायों के वित्तीय विवरणों की लेखा परीक्षा सम्पादित की जाएगी। लेखा परीक्षा नियम संग्रह शहरी और ग्रामीण निकायों के वित्तीय विवरण की लेखा परीक्षा के लिए मार्गदर्शक सिद्धांत होंगे, जो कि XVth वित्त आयोग के अंतर्गत अनटाइड अनुदान जारी होने के लिए अनिवार्य शर्त है।

सार्वजनिक क्षेत्र की लेखापरीक्षा के मौलिकसिद्धांत (ISSAI -100) एवं वित्तीय लेखापरीक्षा के

3 (1) ISSAI 100 – सार्वजनिक क्षेत्र के लेखापरीक्षा के मौलिक सिद्धांत स्थापित करते हैं, जो सभी सार्वजनिक क्षेत्र के लेखापरीक्षा कार्यों पर लागू होते हैं। ISSAI 200 वित्तीय विवरणों की लेखा परीक्षा के विशिष्ट संदर्भ के साथ ISSAI 100 के मूलभूत सिद्धांतों का परिपूरक है। उपरोक्त दोनों सिद्धांत, संयुक्त संसूचित रूप से INTOSAI के व्यवसायिक घोषणाओं के सम्पूर्ण संकलन को आधार बनाते हैं।

(2) सार्वजनिक क्षेत्र के लेखा परीक्षा के सामान्य सिद्धांत ISSAI 100 में और वित्तीय

**मौलिक
सिद्धान्त
(ISSAI-200)
मानकों के
परस्परिक
आद्वाय**

विवरणों के लेखापरीक्षा में नैतिकता, गुणवत्ता नियंत्रण और लेखापरीक्षाओं समस्त उत्तरदायितत्वों पर मानकों में निर्धारित किए गए हैं। इसके मौलिक सिद्धान्त निम्नलिखित है :-

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| लेखापरीक्षा के सिद्धान्त | ISSAI-100 | का ISSAI 100 के मूलभूत संक्षिप्तविवरण |
| सिद्धांत 1 स्वतंत्रा | नैतिकता एवं स्वतंत्रा | लेखा परीक्षकों द्वारा अपेक्षित है की नैतिकता एवं स्वतंत्र अनुरूप कार्य करना चाहिए |
| सिद्धांत 2 कुशाग्रता यथोचित सजगता संशयात्मकता | व्यावसायिक सम्पूर्ण अंकेक्षण अवधि में व्यावसायिक संशयात्मकता, पेशेवर निर्णय और यथोचित सजगता द्वारा यथोचित व्यावसायिक आचरण बनाए रखना चाहिए | लेखापरीक्षकों को ISSAI-200 ISSAI-2200 सम्पूर्ण अंकेक्षण अवधि में व्यावसायिक संशयात्मकता, पेशेवर निर्णय और यथोचित सजगता द्वारा यथोचित व्यावसायिक आचरण बनाए रखना चाहिए |
| सिद्धांत 3 गुणवत्ता नियंत्रण | गुणवत्ता नियंत्रण | लेखा परीक्षकों द्वारा ISSAI-140, ISSAI-200, ISSAI-2220 के अनुरूप गुणवत्ता नियंत्रण अनुसार लेखा परीक्षा संपादित की जानी चाहिए |
| सिद्धांत 4 दल प्रबंधन से एवं कुशलता | लेखा परीक्षा लेखा परीक्षकों कौशल से आवश्यक रूप से युक्त होने चाहिए या प्राप्त किया जाना चाहिए | लेखा परीक्षकों द्वारा ISSAI-2220 दल प्रबंधन से एवं कुशलता युक्त होने चाहिए या प्राप्त किया जाना चाहिए |
| सिद्धांत 5 जोखिम | लेखा परीक्षा जोखिम | लेखा परीक्षकों द्वारा ISSAI-200, ISSAI-2315 लेखापरीक्षा के समय परिस्थितियों का प्रबन्धन इस प्रकार से |

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| | | करना चाहिए कि लेखा परीक्षा रिपोर्ट में समस्त लेखा परीक्षा जोखिम दृष्टिगत हो सकें। |
| सिद्धांत 6 | महत्व | सम्पूर्ण लेखा परीक्षा ISSAI-200, ISSAI-2320 कार्यों कि अवधि के अंतर्गत महत्व का निर्धारण किया जाना चाहिए |
| सिद्धांत 7 | दस्तावेजीकरण | लेखा परीक्षकों, द्वारा ISSAI-200, ISSAI 2230, लेखा परीक्षा all other relevant ISSAI दस्तावेजीकरण का पर्याप्त विवरण प्रस्तुत करना चाहिए जिससे किए गए कार्यों, प्राप्त साक्ष्य और प्राप्त निष्कर्षों की स्पष्ट सूचनाए उपलब्ध की जाए |
| सिद्धांत 8 | रिपोर्टिंग एवं अनुवर्ती कार्यवाही | लेखा परीक्षक द्वारा ISSAI-200, लेखापरीक्षित वित्तीय ISSAI-2700, विवरणों पर राय के ISSAI-2701,ISSAI-2705 सहित लिखित रिपोर्ट ISSAI 2706,ISSAI-2720 प्रस्तुत की जाएगी। संबन्धित असंशोधित या संशोधित राय वित्तीय विवरणों के अनुसार लेखा परीक्षक द्वारा प्रदान की जायेगी। लेखा परीक्षक द्वारा संशोधित राय दिये जाने पर संबन्धित राय का आधार भी प्रस्तुत किया जायेगा जो कि संशोधित, अनर्ह अस्वीकारीयकरण की श्रेणियों में राय का |

आधार प्रदान किया
 जायेगा।
 सिद्धांत संप्रबण
 9 लेखा परीक्षकों द्वारा ISSAI 200, ISSAI
 लेखा परीक्षा प्रक्रिया 2240, ISSAI-2701,
 के समय प्रभावी ISSAI-2705, ISSAI
 संप्रबण स्थापित करना 2706
 चाहिए

**वित्तीय
साक्षांकन
लेखापरीक्षा
का अर्थ एवं
मुख्य उद्देश्य**

4. (1) किसी भी इकाई के वित्तीय रिपोर्टिंग रूपरेखा के अनुरूप वित्तीय स्थिति, परिणाम, विवरणों और संसाधनों के उपयोग का स्वतंत्र मूल्यांकन है, जिसके परिणाम स्वरूप तर्कसंगत आश्वासन की राय प्रदान की जा सकती है।
- (2) वित्तीय साक्षांकन का उद्देश्य और फोकस यह निर्धारित करना है कि वित्तीय विवरणों यथोचित रूप से प्रस्तुत किए गए हैं, सभी प्रकार से पूर्ण हैं, पर्याप्त प्रकटीकरण के साथ प्रस्तुत किए गए हैं और सामान्य रूप से प्रयोज्य वित्तीय रिपोर्टिंग रूपरेखा के अनुरूप हैं। राय की अभिव्यक्ति द्वारा यह भी स्पष्ट किया जायेगा कि वित्तीय विवरण त्रुटि एवं कूटरचना के कारण महत्वपूर्ण अर्थार्थ विवरण से मुक्त हैं।
- (3) वित्तीय साक्षांकन लेखा परीक्षा के द्वारा वित्तीय विवरणों पर लेखा परीक्षा राय प्रदान के अतिरिक्त लेखा परीक्षा अन्य उद्देश्य निम्नलिखित हैं:-
- क. वित्तीय विवरणों की जांच एवं मूल्यांकन और इसके द्वारा राय एवं की अभिव्यक्ति राय का आधार।
 - ख. वित्तीय लेनदेनों एवं प्रणालियों की लेखापरीक्षा जिसमें लागू संविधियों एवं विनियमों के अनुपालन का मूल्यांकन भी सम्मिलित होगा, जिसके द्वारा जो लेखाकरण अभिलेखों की यथार्थता एवं संपूर्णता का आश्वासन प्रदान करता है।
 - ग. आंतरिक नियंत्रणों की लेखा परीक्षा जो कि परिसंपत्तियों एवं संसाधनों की सुरक्षा में सहायता लेखाकरण अभिलेखों कि यथार्थता एवं संपूर्णता का आश्वासन प्राप्त किया जा सकता है।
 - घ. तर्कसंगत आश्वासन प्राप्त करने के लिए समग्र रूप से वित्तीय विवरणों धोखाधड़ी या त्रुटि के कारण महत्वपूर्ण मिथ्या विवरण से विमुक्त है।
 - ड. रिपोर्ट के माध्यम द्वारा लेखापरीक्षक राय के आधार को प्रस्तुत करने में सक्षम होता है कि क्या वित्तीय विवरण समस्त महत्वपूर्ण स्वरूपों में, प्रचिलित वित्तीय रिपोर्टिंग रूपरेखा के अनुसार तैयार किए गए हैं तथा
 - च. लेखापरीक्षित इकाई के प्रबंधन को वित्तीय साक्षांकन लेखा परीक्षा के परिणाम निष्कर्ष के बारे में संसूचित किया जायेगा।

वित्तीय
साक्षायांकन
लेखापरीक्षा से
संबंधित
महत्वपूर्ण
पारिभाषिक

5. (क) महत्व

सूचना का महत्व वित्तीय विवरणों के आधार पर प्राप्त सूचनाओं में अशुद्धि या मिथ्या विवरण होने के कारण उपयोगकर्ताओं के आर्थिक निर्णयों को प्रभावित कर सकते हैं। महत्व मद की व्यापकता या त्रुटियों की विनिश्चिता विशेषकर अशुद्धि या मिथ्या विवरण पर निर्भर करती है। इस प्रकार, महत्व प्राथमिक गुणात्मक विशेषता जो सूचना के उपयोगी होने के लिए स्थान पर सीमा या निर्दिष्ट संकेत प्रदान करती है।

लेखा परीक्षक को परिणात्मक (राशि के अनुसार) और जब गुणात्मक (स्वरूप द्वारा) शर्तों में प्रासंगिक हो, दोनों में महत्व की अवधारणा को प्रयोग एवं लेखापरीक्षा की कार्ययोजना लेखापरीक्षा सम्पादन, निष्कर्षों का मूल्यांकन करना और परिणामों पर रिपोर्टिंग करना।

(ख) वित्तीय रिपोर्टिंग रूपरेखा

- वित्तीय रिपोर्टिंग रूपरेखा ऑडिट इकाई के वित्तीय विवरणों में प्रदर्शित होने वाली सभी महत्वपूर्ण मदों के अभिगणना, मान्यकरण, प्रस्तुतीकरण और प्रकटीकरण को निर्धारित करने के लिए मापदंडों के सहमूहिकरण को अवधारित करता है। वित्तीय रिपोर्टिंग रूपरेखा, वित्तीय साक्षायांकन लेखा परीक्षा के लिए अनिवार्य उपबंध है। वित्तीय साक्षायांकन लेखा परीक्षा संपादित करने के लिए उचित प्रस्तुतीकरण रूपरेखा को इस नियम संग्रह में अंतर्निहित किया गया है।
- वित्तीय विवरण वित्तीय रूपरेखा के अनुसार तैयार किया जाना आवश्यक है, लेखापरीक्षा में दो प्रकार की रूपरेखा होती है
 - उचित प्रस्तुतीकरण रूपरेखा एवं
 - अनुपालन रूपरेखा

(ग) उचित प्रस्तुतीकरण रूपरेखा

उचित प्रस्तुतीकरण रूपरेखा वित्तीय रिपोर्टिंग रूपरेखा से संबंधित है जिससे रूपरेखा की आवश्यकताओं के साथ अनुपालन किया जा सके –

- स्पष्ट रूप से या परोक्ष रूप से सुनिश्चित करता है कि वित्तीय विवरणों का उचित प्रस्तुतीकरण प्राप्त करने के लिए रूपरेखा द्वारा विशेष रूप से अपेक्षित के अतिरिक्त प्रकटीकरण के लिए प्रबंधन हेतु अनिवार्य हो सकता है या।
- स्पष्ट रूप से प्रदर्शित करता है कि वित्तीय विवरणों के उचित प्रस्तुतीकरण प्राप्त करने के लिए रूपरेखा कि अवश्यकता से अलग होने के लिए प्रबंधन हेतु आवश्यक हो सकता है। इस प्रकार से अंत्यन्त दुर्लभ परिस्थितियों में विचलन की आवश्यकता होना अपेक्षित है।

(घ) अभिकथन-

यह प्रबंध के वित्तीय विवरणों के माध्यम से उपयोगिताकर्ता को सूचित करता है कि वे इकाई की आर्थिक वास्तविकताओं के विषय में मूलभूत संदेश देते हैं। जो स्पष्ट रूप से वित्तीय विवरण में नहीं कहा गया हो, परंतु व उसमें निहित है। तुलन पत्र के अंतर्गत पूर्णता, मूल्यांकन, अस्तित्व, सवामित्व प्रकटीकरण, एवं आय व्ययक या प्राप्ति एवं भुगतान लेखों के अंतर्गत पूर्णता, घटित, मूल्यांकन, प्रकटीकरण, नियमित मार्गदर्शक सिद्धान्त हैं।

(ड) अयथार्थ

जो प्रतिवेदित वित्तीय विवरणों में विभिन्न धनराशि, श्रेणीकरण, प्रस्तुतीकरण, प्रकटीकरण एवं प्रयोज्य मदों एवं प्रचलित वित्तीय रिपोर्टिंग रूपरेखा के अनुरूप विभिन्न धनराशि, श्रेणीकरण, प्रस्तुतीकरण, प्रकटीकरण विभिन्न मदों के मध्य में अंतर को अयथार्थ वित्तीय विवरण कहा जाता है। अयथार्थ वित्तीय विवरण त्रुटि या कूटरचना के कारण हो सकता है।

(च) महत्त्वपूर्ण अयथार्थ विवरण जोखिम-

महत्त्वपूर्ण अयथार्थ विवरण जोखिम में दो घटक होते हैं, जिन्हें अभिकथन स्तर पर निम्नानुसार वर्णित किया गया है :-

अंतर्निहित जोखिम—एक लेखा का शेष की अतिसंवेदनशीलता अथवा अंतरण श्रेणी का गलत विवरण जिससे वास्तविक व्यक्तिगत, एवम् अन्य शेषों एवं श्रेणी में गलत विवरण को समेतिक करते समय ऐसा माना जा सकता है कि कोई भी आंतरिक नियंत्रण नहीं थे।

नियंत्रण जोखिम एक लेखा का शेष जो गलत विवरण अर्थात् एक खाता शेष एवं अंतरण के प्रकार से हो सकता जो व्यक्तिगत रूप से महत्त्वपूर्ण हो सकता है अथवा अन्य शेषों एवं श्रेणियों गलत विवरण को समेतिक करते समय जिसे पता न लगाया गया हो अथवा लेखाकरण एवं आंतरिक नियंत्रण द्वारा उस समय उसमें सुधार नहीं किया गया।

(छ) तर्कसंगत आश्वासन-

उसका अर्थ उच्च है, लेकिन पूर्ण आश्वासन नहीं है जो कि वित्तीय विवरणों को अशुद्धता से मुक्त करता है।

(ज) राय-

वित्तीय लेखा परीक्षा के परिणाम के रूप में वित्तीय विवरणों का सेट जिस पर लेखा परीक्षक द्वारा लिखित निष्कर्ष प्रदान करते हैं।

(झ) अंसंशोधित राय —

लेखा परीक्षक द्वारा निष्कर्ष प्रदान किया जाता है कि वित्तीय विवरण समस्त महत्त्वपूर्ण स्वरूपों में लागू वित्तीय रिपोर्टिंग रूपरेखा के अनुरूप प्रस्तुत किए गए हैं।

(ञ) संशोधितराय के प्रकार

i. सर्वात राय— लेखा परीक्षक यह राय प्रदान की जाती है कि, अशुद्ध विवरण हेतु पर्याप्त और उपयुक्त लेखापरीक्षा साक्ष्य प्राप्त करने में असमर्थ है, व्यक्तिगत से या समग्र रूप से हों, या हो सकते हैं, महत्त्वपूर्ण किन्तु व्यापक नहीं हैं,

ii. प्रतिकूल राय— जब अंकेक्षक द्वारा यह राय प्रदान की जाती है कि पर्याप्त और उपयुक्त लेखा परीक्षा साक्ष्य प्राप्त करने के उपरांत यह निष्कर्ष प्रस्तुत करता है कि अशुद्ध विवरण, व्यक्तिगत रूप से या समेकित रूप में, वित्तीय विवरणों के लिए महत्त्वपूर्ण एवं व्यापक दोनों हैं।

iii. राय का अस्वीकारीयकरण— अंकेक्षक एक राय का अस्वीकारियकरण करेगा जब अंकेक्षक पर्याप्त उपयुक्त अंकेक्षण साक्ष्य प्राप्त करने में असमर्थ हो, जिस पर राय को आधार बनाया जा सके, और अंकेक्षक यह निष्कर्ष प्रदान करता है कि अङ्गात अशुद्ध विवरण पर संभाव्य प्रतिप्रभाव, यदि कोई हो, महत्त्वपूर्ण और व्यापक दोनों हो सकते हैं

शहरी निकायों
का वित्तीय
रिपोर्टिंग
रूपरेखा

6. वित्तीय विवरणों की तैयारी और प्रस्तुति के लिए शहरी निकायों द्वारा उपयोग किए जाने वाले वित्तीय रिपोर्टिंग रूपरेखा से संबंधित प्रमुख अवधारणाएं निम्नलिखित हैं—
- लागू लेखा नियम/नीति/नियम संग्रह—उत्तराखण्ड नगर निकाय लेखा नियम संग्रह (UMAM), 2021 (समय—समय पर यथा संशोधित)
 - प्रयोज्यता—समस्त नगर निगम, नगर पालिका परिषद और नगर पंचायत
 - लेखांकन की पद्धति—प्रोटोकॉल आधारित दोहरी प्रविष्टि लेखा प्रणाली
 - अवधि जिसके लिए वित्तीय विवरण तैयार किया जाना है—प्रत्येक वित्तीय वर्ष 1 अप्रैल से प्रारम्भ होकर 31 मार्च को समाप्त होता है या जैसा कि उत्तराखण्ड सरकार द्वारा निर्देशित है।
 - वित्तीय विवरणों के घटक
- वार्षिक वित्तीय विवरणों द्वारा लेखापरीक्षा संपादित की जाएगी
- ✓ तुलन पत्र (बैलेंस शीट)
 - ✓ आय और व्यय लेखा
 - ✓ नकद प्रवाह विवरण
 - ✓ लेखों के लिए टिप्पणियाँ (महत्वपूर्ण लेखा नीतियों और प्रकटीकरण सहित)
- लेखों का संयोजन—यूएलबी मैन्युअल रूप से लेखों या कतिपय स्टैंडअलोन अकाउंटिंग सॉफ्टवेयर का उपयोग करके खातों की पुस्तकों का रखरखाव कर रहे हैं।
- वित्तीय विवरणों पर हस्ताक्षर
- वित्तीय विवरणों पर यूएलबी के निम्नवत् अधिकृत प्रतिनिधि द्वारा हस्ताक्षर किए जाएंगे—
- ✓ नगर निगम : आयुक्त
 - ✓ नगर पालिका परिषद : कार्यकारी अधिकारी
 - ✓ नगर पंचायत : कार्यकारी अधिकारी
7. वित्तीय विवरणों की तैयारी और प्रस्तुति के लिए पंचायती राज संस्थाओं द्वारा उपयोग किए जाने वाले वित्तीय रिपोर्टिंग रूपरेखा से संबंधित प्रमुख अवधारणाएं निम्नलिखित हैं—
- लागू लेखा नियम/नीतियां—भारत के नियंत्रक—महालेखापरीक्षक द्वारा निर्धारित आठ सरलीकृत प्रारूप
 - प्रयोज्यता—जिला पंचायत, क्षेत्र पंचायत और ग्राम पंचायत
 - लेखांकन की पद्धति—नकद आधार लेखांकन
 - अवधि जिसके लिए वित्तीय विवरण तैयार किया—प्रत्येक वित्तीय वर्ष 31 मार्च को समाप्त होता है या जैसा कि उत्तराखण्ड सरकार द्वारा निर्देशित किया जायेगा।
 - वित्तीय विवरणों के घटक — वार्षिक प्राप्तियां और भुगतान लेखा हैं
 - सरलीकृत प्रारूप के अनुसार अन्य लेखे एवं रिजस्टर—आर.एल.बी. द्वारा सात प्रारूपों तैयार किए जायेंगे यह वित्तीय विवरणों का भाग नहीं होंगे, लेकिन इन्हें अवैधिक रिपोर्ट के और इनका उपयोग लेखापरीक्षा के लिए सहायक अभिलेखों के रूप में किया

जा सकता है।

- ✓ प्रारूप II— समेकित सार रजिस्टर
- ✓ प्रारूप III— मासिक समाधान विवरण
- ✓ प्रारूप IV— प्राप्ति और भुगतान का रजिस्टर
- ✓ प्रारूप V— अचल संपत्ति का रजिस्टर
- ✓ प्रारूप VI— चल संपत्ति का रजिस्टर
- ✓ प्रारूप VII— इन्वेंटरी स्टॉक रजिस्टर
- ✓ प्रारूप VIII— मांग संग्रह और शेष राशि का रजिस्टर
- लेखे का संयोजन— ई-ग्रामस्वराज के अंतर्गत आर.एल.बी. द्वारा ऑनलाइन प्रविष्टि की जाएगी
- वित्तीय विवरणों पर हस्ताक्षर— वित्तीय विवरणों पर निम्नवत् उपयुक्त प्राधिकारी द्वारा हस्ताक्षर किए जाएंगे :

 - ✓ जिला पंचायत : अपर मुख्य कार्याधिकारी
 - ✓ क्षेत्र पंचायत : खंड विकास अधिकारी,
 - ✓ ग्राम पंचायत : ग्राम पंचायत, सचिव

| विभिन्न प्रकार 8 की लेखापरीक्षा रिपोर्ट एवं प्रारूप | लेखापरीक्षा रिपोर्ट का नाम | रिपोर्ट की विशेषताएँ | रिपोर्ट का प्रारूप |
|--|---|----------------------|-----------------------|
| | (क) स्वतंत्र वित्तीय विवरणों पर लेखापरीक्षा स्वतंत्र लेखापरीक्षक लेखापरीक्षक राय प्रदान करना। समस्त शहरी रिपोर्ट की रिपोर्ट में रिपोर्ट एवं ग्रामीण निकायों के लिए निम्नलिखित शीर्षक निर्गत की जाएगी जहां वित्तीय समिलित होंगे – साक्षांकन लेखा परीक्षा की जाती है। | रिपोर्ट की विशेषताएँ | रिपोर्ट का प्रारूप |

विवरणों के संबंध में
लेखा परीक्षकों का
उत्तरदायितव्य

8. कानूनी, नियामक और
अन्य आवश्यकताओं पर
रिपोर्ट (उपयुक्त होने
की परिस्थिति में
प्रतिवेदित किया
जायेगा)
9. लेखापरीक्षकों का नाम,
पता और हस्ताक्षर
दिनांक सहित
10. स्वतंत्र
लेखापरीक्षकों की
रिपोर्ट का परिशिष्ट
(उपयुक्त होने की
परिस्थिति में प्रतिवेदित
किया जायेगा)

(ख) प्रबंधन पत्र सामान्य रूप से लेखा प्रबंधन पत्र में एक परीक्षक के विवेक पर वित्तीय सत्यापन लेखा परीक्षा रिपोर्ट के सम्बलित होगा और साथ जारी किया जायेगा।

प्रबंधन पत्र में एक कार्यकारी सारांश सत्यापन लेखा परीक्षा रिपोर्ट के सम्बलित होगा और आडिटी प्रमुख को संबोधित किया जाएगा प्रबंधन पत्र की विषय वस्तु निम्नवत हैः—

- (1) कार्यकारी सारांश
- (2) उत्तम संचालन:
वित्तीय लेखा परीक्षा में
दृष्टिगत उत्तम संचालनों
कार्यों को प्रमुखता से
प्रस्तुत किया जायेगा
- (3) आधारभूत मुख्य
विश्लेषण, प्रकरण और
संस्तुतिया
- (4) लेखापरीक्षा
टिप्पणियों का सम्पूर्ण
विवरण

(ग) विस्तृत विस्तृत लेखा परीक्षा का आधार
लेखा परीक्षा औचित्य, नियमिता, धन (1) सामान्य सूचनाये
(2) उद्देश्य कार्यक्षेत्र एवं
लेखा परीक्षा के मापदण्ड

रिपोर्ट

उपादेयता लेखा की लेखा परीक्षा है। इसके अन्तर्गत समाविष्ट करते हुये आधारित औचित्य, नियमितता, निष्पादन एवं अनुपालन लेखा परीक्षा सिद्धांतों पर आधारित होगा, इनटोसाई मानक ISSAI-100 सार्वजनिक क्षेत्र की लेखापरीक्षा के मूलभूत सिद्धांत, ISSAI-200 वित्तीय लेखापरीक्षा के मूलभूत सिद्धांत ISSAI-300 निष्पादन लेखा परीक्षा के मूलभूत सिद्धांत ISSAI- 400 अनुपालन लेखा परीक्षा के सिद्धांत यह समस्त सिद्धान्त विस्तृत लेखा परीक्षा के मार्गदर्शक सिद्धान्त होंगे जिसके द्वारा लेखा परीक्षा के मापदण्ड निर्धारित किये जायेंगे। इसके अतिरिक्त निम्नवत् मानकों को भी लेखा परीक्षा के लिये आधार लिया जायेगा—

1. वित्तीय लेखा परीक्षा ISSAI- 2000-2999
2. निष्पादन लेखा परीक्षा ISSAI- 3000- 3999
3. अनुपालन लेखा परीक्षा ISSAI- 4000-4999

वित्त विभाग द्वारा उपरोक्त मानकों एवं सिद्धांतों के अंतर्गत शहरी एवं ग्रामीण निकायों के लिये विस्तृत लेखा परीक्षा हेतु पृथक से लेखा परीक्षा नियम संग्रह प्रख्यापित किया जाएगा।

विस्तृत लेखा परीक्षा निम्नलिखित परिस्थितियों में किए जाने का निर्णय लिया जाएगा —

उदाहरणार्थ सम्बन्धित शहरी निकायों में गबन की लेखा परीक्षा, सम्बन्धित जिलों या सम्बन्धित ग्रामीण या शहरी निकायों में योजना की लेखा परीक्षा इत्यादि। मापदण्ड के अन्तर्गत यह समाविष्ट किया जायेगा कि किस प्रकार की लेखा परीक्षा सम्पादित की जानी है। नियमितता अनुपालन एवं निष्पादन इत्यादि।

- (3) लेखा परीक्षा टिप्पणियों का सम्पूर्ण विवरण
- (4) लेखा परीक्षा के उद्देश्यों कार्यक्षेत्रों के आधार पर निष्कर्ष
- (5) विगत वर्षों की लेखा परीक्षा प्रास्थिति एवं ऑडिटी द्वारा दिये गये उत्तर
- (6) संस्कृतियां

1. वित्तीय साक्षांकन लेखा परीक्षा से लेखा परीक्षा निष्कर्ष महत्वपूर्ण/असामान्य /व्यापक हैं और इन निष्कर्षों के कारण और प्रभाव की पहचान करने के लिए विस्तृत लेखा परीक्षा प्रक्रियाओं की आवश्यकता है (आपवादिक प्रतिबंधात्मक हैं/ लेखा परीक्षा रिपोर्ट द्वारा प्रतिकूल या राय का अस्वीकारण अभिव्यक्त किया गया है),
2. लेखापरीक्षा के दौरान धोखाधड़ी या गंभीर अनियमितताओं के दृष्टांत का प्रकटीकरण हुआ है
3. सचिव, वित्त के स्वनिर्णय पर विशेष लेखा परीक्षा या निदेशक, लेखा परीक्षा (उदाहरण के लिए अपने स्वविवेक पर प्रत्येक वर्ष निदेशक लेखा परीक्षा द्वारा विस्तृत लेखापरीक्षा के लिए किए जानेवाले ग्रामीण एवं शहरी निकायों
4. शहरी विकास, पंचायती राज, ग्राम्य विकास के प्रशासनिक विभागों या सम्बन्धित विभागाध्यक्षों के अनुरोध पर विशिष्ट इकाईयों या विशिष्ट योजनाओं या अधिष्ठान इत्यादि विषयों पर लेखा परीक्षा का सचिव, वित्त द्वारा सम्पादित कराई जा सकती है।

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| <p>(इन्टोसाई) INTOSAI द्वारा सावर्जनिक लेखापरीक्षा एवं वित्तीय लेखापरीक्षा के सिद्धांतों एवं महत्वपूर्ण मानकों की सूचीबद्धिकरण</p> | <p>9 सिद्धांत एवं मानक संख्या</p> <p>ISSAI 20</p> | <p>सर्वांजनिक लेखापरीक्षा सिद्धांत (ISSAI- 100), वित्तीय लेखापरीक्षा सिद्धांत (ISSAI-200) एवं INTOSAI-वित्तीय लेखापरीक्षा मानकों (ISSAI-2000 – ISSAI 2999)</p> <p>पारदर्शिता और जवाबदेही के सिद्धांत</p> | <p>संक्षिप्त विवरण</p> <p>1. विधिक रूपरेखा के अंतर्गत कर्तव्यों को उपबंधित करना जिसके जवाबदेही और पारदर्शिता सुनिश्चित की जा सके। 2. लेखा परीक्षा मानकों, प्रक्रियाओं और विधियों को अंगीकृत करना जो वस्तुनिष्ठ और पारदर्शी हों 3. सभी स्तरों के कार्मिकों के लिए सत्यनिष्ठा और नैतिकता के उच्च मानकों को लागू करना 4. यह सुनिश्चित करना कि कार्यों को आउटसोर्स करते समय जवाबदेही और पारदर्शिता सिद्धांतों से समझौता नहीं किया जाएगा 5. संचालित कार्यों का प्रबंधन पर मितव्यता, दक्षतापूर्वक, प्रभावीपूर्ण एवं कानूनों और विनियमों के अनरूप और इन विषयों के अनुसार रिपोर्टों को तैयार करना 6. यथासमय लेखापरीक्षा परिणामों को संसूचित किया जाना 7. बहाय और स्वतंत्र परामर्श का उपयोग कार्यों की गुणवत्ता और विश्वसनीयता के उन्नयन हेतु किया जाएगा</p> <p>उसके अंतर्गत पाँच मूलभूत सिद्धांत हैं— अखंडता, स्वतंत्रता और निष्क्रिता योग्यता व्यावसायिक व्यवहार गोपनीयता और पारदर्शिता इस रूपरेखा के अंतर्गत किए गए समस्त लेखा परीक्षा कार्यों, अर्थात्</p> |
| | <p>ISSAI 130</p> | आचार संहिता | |
| | <p>ISSAI 140</p> | गुणवत्ता नियंत्रण | |

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| | | वित्तीय लेखा परीक्षा, अनुपालन लेखा परीक्षा, निष्पादन लेखा परीक्षा और किए गए किसी भी अन्य कार्य के लिए गुणवत्ता नियंत्रण की प्रणाली पर लागू करने अभिप्राय है। |
| ISSAI 100 | सार्वजनिक क्षेत्र की लेखापरीक्षा के मूलभूत सिद्धांत | समस्त सार्वजनिक क्षेत्र के लेखापरीक्षाओं में लागू की जाने वाली आवश्यक अवधारणाओं, घटकों और सिद्धांतों को निर्धारित करता है। यह लेखापरीक्षा से संबंधित विभिन्न प्रकार एवं सामान्य सिद्धांतों के घटकों और ऑडिट प्रक्रिया के विभिन्न चरणों से संबंधित सिद्धांतों को निर्धारित करता है। |
| ISSAI 200 | वित्तीय लेखापरीक्षा के मूलभूत सिद्धांत | वित्तीय लेखापरीक्षा के सिद्धांतों में वित्तीय लेखा परीक्षा की समस्त गतिविधियां समाविष्ट होंगी |
| ISSAI 2220 | वित्तीय विवरणों की लेखापरीक्षा के लिए गुणवत्ता नियंत्रण ऑडिट प्रक्रिया का दस्तावेजीकरण एवं लेखा परीक्षा साक्षों को प्राप्त किया जाना। | लेखा परीक्षा प्रारम्भ से पूर्व कि गतिविधियां |
| ISSAI- 2230 | वित्तीय विवरणों की लेखा परीक्षा में धोखाधड़ी से संबंधित लेखा परीक्षक के उत्तरदायित्व | लेखा परीक्षा सम्पादन एवं संचालन, लेखापरीक्षा अभिकथन |
| ISSAI 2240 | वित्तीय विवरणों की लेखा परीक्षा से सम्बंधित लेखा परीक्षक के उत्तरदायित्व | लेखा परीक्षा कार्ययोजना एवं जोखिम आकलन |
| ISSAI 2250 | वित्तीय विवरणों की लेखा परीक्षा से सम्बंधित अधिनियमों तथा विनियमों के अनुसार | लेखा परीक्षा कार्ययोजना एवं जोखिम आकलन |
| ISSAI 2300 | वित्तीय विवरणों की लेखा परीक्षा की योजना सत्त्व के ज्ञान एवम् परिस्थितियाँ के माध्यम से महत्त्वपूर्ण अयथार्थ विवरण के जोखिमों का अभिज्ञान एवम् आकलन | लेखा परीक्षा कार्ययोजना एवं जोखिम |
| ISSAI 2315 | लेखा परीक्षा कार्ययोजना और सम्पादन मे महत्व | लेखापरीक्षा के समय समस्त दृष्टिगत अशुद्ध विवरण का सम्पूर्ण प्रलेखन |
| ISSAI 2320 | महत्व की गणना लेखा परीक्षा कार्ययोजना, सम्पादन एवं संचालन की अवधि में किया जाना | कार्ययोजना, सम्पादन एवं संचालन की अवधि में किया जाना |

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| ISSAI 2330 | लेखा परीक्षकों का मूल्यांकन किए गए जोखिमों पर प्रतिक्रिया | लेखापरीक्षा कार्ययोजना—सत्त्व का ज्ञान, जोखिम मूल्यांकन, लेखापरीक्षा के समय दृष्टिगत अशुद्ध विवरणों का सम्पूर्ण प्रलेखन |
| ISSAI 2450 | लेखा परीक्षा की अवधि में दृष्टिगत अयथार्थ विवरण का मूल्यांकन | सुसंगत कार्य पद्धतियों प्रत्येक महत्वपूर्ण श्रेणियों संव्यवहारों, लेखा शेष, प्रकटन निरपेक्ष निर्धारित जोखिम महत्वपूर्ण अयथार्थ विवरण |
| ISSAI 2500 | लेखा परीक्षा साक्ष्य | लेखा परीक्षा सम्पादन एवं संचालन, लेखापरीक्षा अभिकथन |
| ISSAI 2505 | बहाय पुष्टिकरण | लेखा परीक्षा सम्पादन एवं संचालन, लेखापरीक्षा अभिकथन |
| ISSAI 2520 | विश्लेषणात्मक प्रक्रिया | लेखा परीक्षा सम्पादन एवं संचालन, लेखापरीक्षा अभिकथन |
| ISSAI 2530 | लेखा परीक्षा नमूनाकरण | परीक्षण की सीमा का अवधारणा (प्रतिदर्श परिणाम) |
| ISSAI 2540 | लेखा परीक्षा लेखाकरण अनुमान के अन्तर्गत उचित लेखांकन अनुमान, और संबंधित प्रकटीकरण | लेखा परीक्षा सम्पादन एवं संचालन, लेखापरीक्षा अभिकथन |
| ISSAI 2580 | लिखित अभिवेदन | लेखा परीक्षा प्रक्रियों का दस्तावेजीकरण इस प्रकार से किया जाना कि पर्याप्त उपयुक्त लेखा परीक्षा साक्ष्य प्राप्त किया जा सके और जिसके आधार पर लेखा परीक्षक राय प्रदान करेगा। लेखा परीक्षा के संचालन के दृष्टिगत गए गलत विवरणों का सम्पूर्ण अभिलेखित किया जाना |
| ISSAI 2700 | वित्तीय विवरणों पर राय बनाना प्रदान करना एवं प्रतिवेदित करना | लेखा परीक्षा साक्ष्य के मूल्यांकन के आधार पर निष्कर्ष अंकित करना की समग्र रूप से वित्तीय विवरण लागू वित्तीय रिपोर्टिंग रूपरेखा के अनुसार प्रस्तुत किए गए हैं जिस पर राय की गयी है। राय को स्पष्ट रूप से लिखित रिपोर्ट में व्यक्त किया जाना चाहिए, इसके अतिरिक्त राय के आधार कि व्याख्या भी सम्मिलित होनी चाहिए। |

ISSAI
2701

मुख्य लेखा परीक्षा विषयों का स्वतंत्र लेखा परीक्षा रिपोर्ट के द्वारा संसूचना

ISSAI
2705

स्वतंत्र लेखा परीक्षकों की रिपोर्ट में राय में संशोधन

ISSAI
2706

स्वतंत्र लेखा परीक्षकों की रिपोर्ट में विषयों की अवधारणा पर अनुच्छेद एवं अन्य विषयों से संबंधित अनुच्छेद

ISSAI
2720

लेखा परीक्षक वित्तीय विवरण में अन्य सूचनाओं प्रालेखों से संबंधित लेखा परीक्षकों के उत्तरदायित्व

मुख्य लेखा परीक्षा विषयों की पहचान करना और यह निष्कर्ष अंकित करना कि समग्र रूप से वित्तीय विवरण लागू वित्तीय रिपोर्टिंग रूपरेखा के अनुसार प्रस्तुत किए गए हैं जिस पर राय आधारित है। राय को स्पष्ट रूप से लिखित रिपोर्ट में व्यक्त किया जाना चाहिए, इसके अतिरिक्त राय की आधार कि व्याख्या भी सम्मिलित होनी चाहिए।

लेखा परीक्षा साक्ष्य के मूल्यांकन के आधार पर निष्कर्ष अंकित करना कि समग्र रूप से वित्तीय विवरण लागू वित्तीय रिपोर्टिंग रूपरेखा के अनुसार प्रस्तुत किए गए हैं जिस पर राय आधारित है। राय को स्पष्ट रूप से लिखित रिपोर्ट में व्यक्त किया जाना चाहिए, इसके अतिरिक्त राय की आधार कि व्याख्या भी सम्मिलित होनी चाहिए।

विषयों की अवधारणा पर अनुच्छेद वित्तीय विवरणों में अभिव्यक्ति या सूचना को संदर्भित करता है, उदाहरणार्थी लंबित अभियोग वित्तीय विवरणों पर संभावित महत्वपूर्ण प्रभाव प्रदर्शित कर सकते हैं। अन्य विषयों से संबंधित अनुच्छेद ऐसे विषयों को संप्रेषित संसूचित करने का अवसर प्रदान करते हैं जो वित्तीय विवरणों में प्रस्तुत या प्रकट नहीं किया गया है एवं जो उपयोगकर्ताओं को लेखापरीक्षा रिपोर्ट द्वारा प्रस्तुत किया जाने चाहिए या लेखापरीक्षक की उत्तरदायित्व के अंतर्गत हैं।

लेखा परीक्षा साक्ष्य के मूल्यांकन के आधार पर निष्कर्ष अंकित करना कि समग्र रूप से वित्तीय विवरण लागू वित्तीय रिपोर्टिंग रूपरेखा के अनुसार प्रस्तुत किए गए हैं जिस पर राय की गयी है। राय को स्पष्ट रूप से लिखित रिपोर्ट में व्यक्त किया जाना चाहिए, इसके अतिरिक्त राय के आधार कि व्याख्या भी सम्मिलित होनी चाहिए।

(अमित सिंह नेगी)
सचिव

16

In pursuance of the provision of Clause (3) of Article 348 of the Constitution of India, the Governor is pleased to order the publication of the following English translation of notification no. A-584/XXVII (6)/1466/Three/2021, Dehradun, dated 06-12-2021 for general information:

**Government of Uttarakhand,
Finance Section-06
No. A-584 /XXVII (6)/1466/Three/2021
Dehradun, Date : 06, December, 2021
Notification**

In exercise of the powers conferred by Section 20 of the Uttarakhand Audit Act, 2012 (Uttarakhand Act Number 02 of 2012), as per the Principles and Standards laid down by International Supreme Audit Institution (INTOSAI) from time to time to the extent on Financial Attest audit Governor is pleased to allow to promulgate the Uttarakhand Financial Attest Audit, Manual namely

**The Uttarakhand Financial Attest Audit Manual, 2021
(Financial Audit Standard, Principles, Financial Attest Audit its Steps
Standardized Formats and Checklists)**

- | | |
|---|---|
| Short Title, extent 1 and Commencement | <p>(1) This manual may be called the Uttarakhand Financial Attest Audit Manual, 2021.</p> <p>(2). This audit manual has two volumes-volume - I and volume -II and a checklist for the Audit of Urban and Rural Local Bodies. These apply to all such auditees notified under the Gazette Notification No. 495/XXVII/2012 dated 26th November 2012, as per the provision of Section -4(1) of the Uttrakhand Audit Act 2012. Auditee, includes all Urban Local Bodies, i.e., Municipal Corporations, Nagar Palikas, Nagar Panchayats and Rural Local Bodies i.e., Zilla Panchayats, Block/Kshetra Panchayats, Gram Panchayats.</p> <p>(3) Uttarakhand Financial Attest Audit Manual, 2021 is based on the standards and principles prepared by International Standards of Auditing Institutions (ISSAI) and issued by International Apex Audit Institutions (INTOSAI); the standards and principles have been adopted to the extent that they are consistent with the rules and Government Orders issued by the Government of Uttarakhand.</p> <p>(4) Under the overall guidance of the Finance Department, the Directorate of Audit and Audit Cell, shall carry out all the work related to the Financial Attest audit under Uttarakhand Financial Attest Audit Manual, 2021.</p> <p>(5) The main goal of the Directorate of Audit is the implementation of the audit manuals. In this regard Directorate shall prepare an annual audit plan,</p> |
|---|---|

assess human resources strength for audit, allocation to audit parties as per their skills sets, Audit implementation, audit documentation and reporting, quality enhancement and monitoring of audit shall be carried out.

(6) The Audit Cell shall carry out the technical, advisory role for recommendations and suggestions on Audit manuals, recommendation on updating of auditing standards/ principles/ methodologies, phase-wise introduction of new avenues and in Audit, setting up of IT Solutions, Computer Aided Audit Techniques (CATTs).

(7) The audit teams in the field during audit shall follow Principles of Code of Conduct, Independence, Confidentiality, and Integrity shall be followed by audit works shall be carried out in compliance with the audit manuals. The audit parties or any officers involved in Financial Attest Audit have to annually sign the Declaration of Code of Ethics and Independence for the commencement of such audit.

(8) This Audit Manual shall come in force from the date of publication of notification in the Official Gazette.

**Provision of
Technical
Guidance and
Support by
Comptroller
and Auditor
General of
India**

2

(1) As per the Letter of Government of Uttrakhand No. 427/VA. Nid (13th FC)/2013 dated 19.03.2013, have adopted the provisions of Technical Guidance Support (TGS), as laid down by Comptroller and Auditor General of India. The 13th FC recommendations included strengthening audits for local bodies by enhancing the technical and professional competence of external auditors of State Government, under the guidance of Comptroller and Auditor General of India. The Director of Audit is a Primary Statutory Auditor for the audit of Urban and Rural Local bodies as per provisions of Technical Guidance and Support (TGS) for the State.

(2) Now, the State Government of Uttarakhand, has decided to issue a Financial Attest Audit manual under Section 20 of the Uttrakhand Audit Act 2012 and as per the Technical Guidance Support (TGS) provisions of Comptroller and Auditor General of India, for conducting audits of financial statements of all Urban and Rural Local Bodies. The manual shall provide guiding principles to audit the financial statements of Urban Local Bodies and Rural Local bodies, which is a mandatory condition for the release of untied grants under the XVth Finance Commission.

**Fundamental
principles of Public
Sector Audit –
ISSAI-100 and
Financial Audit**

3

(1) ISSAI 100 establishes the fundamental principle which applies to all public sector audit engagements. ISSAI 200 in a specific context for Financial Audit complements the fundamental principles of ISSAI-100. Together they both principles in combined manner as mentioned above constitutes the basis for INTOSAI's complete set of professional

(ISSAI-200) and their mutual relationship

pronouncements.

(2) The general principles of public sector auditing are set out in ISSAI 100 and standards on ethics, quality control, and overall responsibilities of an auditor for audit of financial statements. The following are the fundamental principles as mentioned below:

**Principle of Brief explanation ISSAI-100 fundamental Principle
Auditing as per ISSAI 100 and their relationship in terms of
Financial Audit Standards
(ISSAI-200) and principles of
Financial Audit from 2200-2999**

| | | |
|---|--|-------------------------------------|
| Principle 1 Ethics and Independence | Auditors should comply with relevant ethical requirements and be independent. | ISSAI-130, ISSAI 200 |
| Principle 2 Professional Judgement, Due Care, and Scepticism | Auditors should maintain appropriate professional behavior by applying professional skepticism, professional judgment, and due care throughout the audit period. | ISSAI-200, ISSAI-2200 |
| Principle 3 Quality Control | Auditors should perform the audit in accordance with professional standards on quality control | ISSAI-140, ISSAI-200. ISSAI-2220 |
| Principle 4 Audit team management and skills | Auditors should compulsorily possess or have access to the necessary skills | ISSAI-2220 |
| Principle 5 Audit Risk | Auditors should manage the risks in audit report in the circumstances | ISSAI-200, ISSAI-2315 |

| | |
|--|---|
| Financial Attest Audit and Objectives | Principle 6 Materiality Auditors should consider materiality throughout the audit process ISSAI-200, ISSAI-2320 |
| | Principle 7 Documentati on Auditors should prepare audit documentation in sufficient detail to provide a clear understanding of work performed, evidence obtained, and conclusions reached ISSAI-200, ISSAI 2230, all other relevant ISSAI |
| | Principle 8 Reporting and follow up The auditor should prepare a report in a written format with an opinion on the audited financial statement. The Opinion may be unmodified or modified. In case of modified opinion basis of opinion shall be included as Adverse, Disclaimer of Opinion ISSAI-200, ISSAI-2700,ISSAI-2701,ISSAI-2705, ISSAI 2706,ISSAI-2720 |
| | Principle 9 Communication Auditors should establish effective communication throughout the audit process ISSAI 200, ISSAI 2240 ISSAI-2701,ISSAI-2705, ISSAI 2706 |
| | 4 (a) An independent assessment, resulting in a reasonable assurance opinion, of whether an entity's reported financial condition, results, statement and use of resources are presented fairly as per the financial reporting framework. (b) The objective and focus are to determine whether the financial statements are properly prepared, complete in all respects, are presented with adequate disclosures, and are per the applicable financial reporting and regulatory framework. The expression of an opinion is whether the financial information is free from material misstatement due to error or fraud. |

(c) The other objectives of Financial Attest Audit other than the opinion on financial statement audit are mentioned below -

1. Examination and Evaluation of financial statements and provide opinion and expression of Opinion
2. Audit of financial transactions and systems, including assessment of compliance with applicable statutes and regulations, which assures accuracy and completeness of accounting records
3. Audit of internal controls that helps in the protection of assets and resources that assure accuracy and completeness of accounting records
4. To obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatements due to fraud or error.
5. Thereby enabling the auditor to express an opinion through a report on whether Financial Statements are prepared, in all material respects, as per applicable financial reporting framework; and
6. To communicate the result of the Financial Attest Audit to the management of the audited unit

**Major Terminologies 5
in Financial Attest
Audit Manual**

a. Materiality

Information is material if its omission or misstatement could influence the economic decisions of users made based on the financial statements. Materiality depends on the item's size or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than a primary qualitative characteristic that information must have if it is useful.

The auditor should apply the concept of materiality, both in quantitative (by amount) and when relevant in qualitative (by nature) terms, when planning and performing the audit, evaluating the findings, and reporting on the results

b. Financial reporting framework

(i) Financial Reporting Framework refers to the set of criteria to determine the measurement, recognition, presentation, and disclosure of all material items appearing in the Financial Statements of the audit unit. An acceptable financial reporting framework is a precondition for the Financial Attest Audit. Fair Representation Framework has been included in the manual for Financial Attest Audit.

(ii) Financial statements are required to be prepared according to the financial framework, there are two types of the framework in the audit—The fair presentation framework and the compliance framework.

c. Fair Presentation Framework

Fair presentation framework is used to refer to a Financial Reporting Framework that requires compliance with the requirements of the framework

(1) acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to

provide disclosures beyond those specifically required by the framework; or that

- (2) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances

(D) Assertion

By, Assertion, management through the financial statements conveys a fundamental message about the economic realities of the entity to the user. That is not explicitly stated in the financial statements, but they are implied. Under balance sheet the following are assertions :- completeness, valuation, existence, ownership, disclosure and in income-expenditure or receipt and payment accounts the following are assertions- Completion, occurrence, valuation, disclosure, regularity is guiding principles.

(E) Misstatement

A difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be as per the applicable financial reporting framework. Misstatements can arise from error or fraud.

(F) Risk of material misstatement

The risk of material misstatement consists of two components, described as follows at the assertion level:

Inherent risk – The susceptibility of an assertion about a class of transactions account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

Control risk – The risk that a misstatement that could occur in an assertion about a class of transactions, account balance, or disclosure and that could be material, either individually or when aggregated with other misstatements, shall not be prevented or detected and corrected, on a timely basis by the entity's internal control

(G) Opinion

The auditor's written conclusions on a set of financial statements resulting from a financial audit.

(H) Reasonable Assurance

It means high but absolute assurance that the financial statements are free from material misstatements.

(I) Unmodified Opinion

If the auditor reports that the financial statements have been prepared, in all material respects, as per the applicable financial reporting framework

(J) Types of Modified Opinion:

- I. **Qualified opinion** – when the auditor concludes that, or is unable to obtain

sufficient and appropriate audit evidence about, misstatements, whether individually or in the aggregate are, or could be, material but not pervasive;

II. Adverse opinion – The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements

III . Disclaimer of Opinion – The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

| | | | | | | | | | | | | | | |
|---|---|--|---|--|--|--|---|--|---|--|----------------------------|--|--|---|
| Financial Reporting Framework of ULBs | <p>6 The vital concepts related to the Financial Reporting Framework used by the Urban Local Bodies for the preparation and presentation of the Financial Statements are as follows</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 30%; vertical-align: top;"> Applicable Accounting Rules/Policies/ Manual Applicability </td><td style="width: 70%; vertical-align: top;"> Uttarakhand Municipal Accounting Manual (UMAM) 2021 (as amended from time to time) Nagar Nigam, Nagar Palika Parishad and Nagar Panchayat </td></tr> <tr> <td> Method of Accounting to be followed </td><td> Accrual Based Double Entry Accounting System </td></tr> <tr> <td> Period for which Financial Statements to be prepared </td><td> Each financial year starting from April 1 and ending on March 31st or as directed by the Government of Uttarakhand </td></tr> <tr> <td> Components of Financial Statements </td><td> The Financial Statements comprises of <ul style="list-style-type: none"> • Balance sheet • Income and Expenditure Account • Cash Flow Statement • Notes to Accounts (including Significant Accounting Policies and Disclosure) </td></tr> <tr> <td> Mode of preparation </td><td> ULBs maintain books of accounts in manual form, or some cases using standalone accounting software </td></tr> <tr> <td> The signing of the Financial Statements </td><td> The Financial Statements shall be signed by the authorized representative of Nagar Nigam: Commissioner Nagar Palika: Executive Officer Nagar Panchayat: Executive Officer </td></tr> </table> | | Applicable Accounting Rules/Policies/ Manual Applicability | Uttarakhand Municipal Accounting Manual (UMAM) 2021 (as amended from time to time) Nagar Nigam, Nagar Palika Parishad and Nagar Panchayat | Method of Accounting to be followed | Accrual Based Double Entry Accounting System | Period for which Financial Statements to be prepared | Each financial year starting from April 1 and ending on March 31 st or as directed by the Government of Uttarakhand | Components of Financial Statements | The Financial Statements comprises of <ul style="list-style-type: none"> • Balance sheet • Income and Expenditure Account • Cash Flow Statement • Notes to Accounts (including Significant Accounting Policies and Disclosure) | Mode of preparation | ULBs maintain books of accounts in manual form, or some cases using standalone accounting software | The signing of the Financial Statements | The Financial Statements shall be signed by the authorized representative of Nagar Nigam: Commissioner Nagar Palika: Executive Officer Nagar Panchayat: Executive Officer |
| Applicable Accounting Rules/Policies/ Manual Applicability | Uttarakhand Municipal Accounting Manual (UMAM) 2021 (as amended from time to time) Nagar Nigam, Nagar Palika Parishad and Nagar Panchayat | | | | | | | | | | | | | |
| Method of Accounting to be followed | Accrual Based Double Entry Accounting System | | | | | | | | | | | | | |
| Period for which Financial Statements to be prepared | Each financial year starting from April 1 and ending on March 31 st or as directed by the Government of Uttarakhand | | | | | | | | | | | | | |
| Components of Financial Statements | The Financial Statements comprises of <ul style="list-style-type: none"> • Balance sheet • Income and Expenditure Account • Cash Flow Statement • Notes to Accounts (including Significant Accounting Policies and Disclosure) | | | | | | | | | | | | | |
| Mode of preparation | ULBs maintain books of accounts in manual form, or some cases using standalone accounting software | | | | | | | | | | | | | |
| The signing of the Financial Statements | The Financial Statements shall be signed by the authorized representative of Nagar Nigam: Commissioner Nagar Palika: Executive Officer Nagar Panchayat: Executive Officer | | | | | | | | | | | | | |

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|---|--|---|--|
| Financial Reporting Framework of RLBs | The vital concepts related to the Financial Reporting Framework used by the Rural Local Bodies for the preparation and presentation of the 7 Financial Statements are as follows | | |
| Applicable Accounting Rules/ Policies/ Manual | | Eight Simplified, Formats for Panchayati Raj institutions by Comptroller and Auditor General of India | |
| Applicability | | Zilla Panchayat, Kshetara Panchayat and Gram Panchayat | |
| Method of Accounting to be Followed | | Cash Basis of Accounting | |
| Period for which Financial Statements to be prepared | | Each financial year ending on March 31 st or as directed by the Government of Uttarakhand | |
| Components of Financial Statements | | The Financial Statements would comprise of format I – Annual Receipts and Payments Account | |
| Other Formats as Per Simplified, Formats of Account for RLBs | | Apart from the above format, the following seven formats are also to be prepared by the RLBs; however, this would not form part of the Financial Statements but could be considered subsidiary reports and used for audit. Format II – Consolidated Abstract Register Format III–Monthly Reconciliation Statements Format IV – Register of Receivable and Payments Format V – Register of Immovable Assets Format VI –Register of Movable Assets Format VII – Inventory Stock Register Format VIII – Register of Demand Collection and Balance | |

| | | Mode of preparation | Preparation of accounts by RLBs through e-Gram Swaraj online medium | | | | |
|--|---|--|---|---------------------------|------------------------|--|---|
| | | The signing of the Financial Statements | <p>The appropriate authority shall sign the Financial Statements are -:</p> <p>Zilla Panchayat: Mukhiya Karyadhikari, Kshetra Panchayat: Block Development Officer, Gram Panchayat: Panchayat, Secretary</p> | | | | |
| Types of Audit report | S. N o | Name of Audit Report | <table border="1"> <thead> <tr> <th>Features of report</th> <th>Report headings</th> </tr> </thead> <tbody> <tr> <td>To provide an audit opinion on the Financial Statements. <i>Report.</i> This report shall be issued for all ULBs and RLBs where Financial Attest Audit is undertaken.</td> <td> <p>Independent Auditor's Report would include the following headings:</p> <ul style="list-style-type: none"> 1- Title of the Report 2- Addressee 3- Auditors' Opinion 4- The basis for Opinion 5- The emphasis of matter (to be reported wherever applicable) 6- Responsibilities of Management of (insert name of the ULBs/ RLBs) for the Financial Statements 7- Auditors' Responsibilities for the Audited Financial Statements 8- Report on Legal, Regulatory and Other Requirements (to be reported wherever applicable) 9- Name, Address and Signature of Auditors along with the date 10- Appendix to the Independent Auditors Report (to be reported wherever applicable) </td></tr> </tbody> </table> | Features of report | Report headings | To provide an audit opinion on the Financial Statements. <i>Report.</i> This report shall be issued for all ULBs and RLBs where Financial Attest Audit is undertaken. | <p>Independent Auditor's Report would include the following headings:</p> <ul style="list-style-type: none"> 1- Title of the Report 2- Addressee 3- Auditors' Opinion 4- The basis for Opinion 5- The emphasis of matter (to be reported wherever applicable) 6- Responsibilities of Management of (insert name of the ULBs/ RLBs) for the Financial Statements 7- Auditors' Responsibilities for the Audited Financial Statements 8- Report on Legal, Regulatory and Other Requirements (to be reported wherever applicable) 9- Name, Address and Signature of Auditors along with the date 10- Appendix to the Independent Auditors Report (to be reported wherever applicable) |
| Features of report | Report headings | | | | | | |
| To provide an audit opinion on the Financial Statements. <i>Report.</i> This report shall be issued for all ULBs and RLBs where Financial Attest Audit is undertaken. | <p>Independent Auditor's Report would include the following headings:</p> <ul style="list-style-type: none"> 1- Title of the Report 2- Addressee 3- Auditors' Opinion 4- The basis for Opinion 5- The emphasis of matter (to be reported wherever applicable) 6- Responsibilities of Management of (insert name of the ULBs/ RLBs) for the Financial Statements 7- Auditors' Responsibilities for the Audited Financial Statements 8- Report on Legal, Regulatory and Other Requirements (to be reported wherever applicable) 9- Name, Address and Signature of Auditors along with the date 10- Appendix to the Independent Auditors Report (to be reported wherever applicable) | | | | | | |

| | | |
|----------------------------|--|---|
| b Management Letter | The Management Letter is generally issued along with the Financial Attest Audit report at the auditor's discretion | The Management Letter shall include an Executive Summary and shall be addressed to the Head of the Auditee. The content of the Management Letter is provided as below -. |
| c Detailed Audit | A detailed audit shall be based on the proprietary, regularity, Value of money, which is in totality shall be a detailed audit regarding Compliance, Regularity, Propriety, Performance Audit. INTOSAI Standards-100 for Fundamentals of Public Sector Audit, ISSAI-200 Principle of Financial Audit, ISSAI -300 i.e., Principle of performance Audits and ISSAI-400 principle for Compliance Audit shall the guiding principles as per the Subject Matter. In addition to this base shall be taken for Audit 1. Financial Audit- ISSAI 2000- 2999 2. Performance Audit-ISSAI 3000- 3999 3. Compliance Audit -ISSAI-4000- 4999 The Finance Department shall issue a manual for a detailed Audit of ULB and RLB as per the above-mentioned standards and principles. A detailed audit may be conducted in | The content of the detailed audit report has been provided below. 1. General Information 2. Objectives, areas and Criteria for the audit for e.g., Instance of Audit Fraud in any ULB or Procurement Process or Audit any Scheme over a particular district or certain number of ULBs or RLBs etc. the Criteria shall include the type of audit whether regularity, |

one following Condition -

1. Audit findings from Financial Attest Audit are significant/material/pervasive, and there is a need to apply detailed audit procedures to identify the cause and effect of these findings (there are significant qualifications/audit report is adverse or disclaimer);
2. instances of fraud or serious irregularities have been noticed during the audit.
3. At the discretion of the Secretary Finance as special Audit or Director, Audit (e.g., the Director of Audit at its discretion may select a sample of ULBs/RLBs to be undertaken for detailed audit every year.
4. Special request from Urban Development/ Panchayati Raj/ Rural Development Administrative Departments or Head of Departments of these Finance, Secretary to conduct a detailed audit for specific

compliance or Performance

3. Complete details of Audit Observations in each area separately
4. Conclusion or Opinion on basis of audit Criteria and objectives
5. Compliance of previous audit Observation and answers given by auditee
6. Recommendations

List of principle and important Standards laid down by INTOSAI for Public Sector Audit and Financial Audit

| 9 | ISSAI NUMBER | Name of ISSAI Standards | Brief description |
|---|--------------|--------------------------------|---|
| | ISSAI-10 | Principles of Transparency and | <p>Principles of transparency and accountability are the following:</p> <ol style="list-style-type: none"> 1. Duties under a legal framework that provides for accountability and transparency 2. Adopt audit standards, processes and methods that are objective and transparent 3. Apply high standards of integrity and ethics for staff of all levels 4. Ensure accountability and transparency |

| | | |
|----------------------|---|---|
| | | <p>principles are not compromised when outsourcing activities</p> <p>5. Manage their operations economically, efficiently, effectively and in accordance with laws and regulations and reports on these matters</p> <p>6. Communicate timely and widely on activities and audit results</p> <p>7. Use of external and independent advice to enhance the quality and credibility of their work</p> |
| ISSAI 130 | Code of Ethics | <p>The five fundamental principles are -</p> <ul style="list-style-type: none"> • Integrity, • Independence and Objectivity; • Competence; • Professional behaviour, • Confidentiality and transparency. |
| ISSAI 140 | Quality Controls | <p>This framework is designed to apply to the system of quality control for all the work carried out, i.e., financial audits, Compliance audits, Performance audits and any other work carried out</p> |
| ISSAI 100 | Fundamental Principles of Public Sector Auditing | <p>Provides the essential concepts, elements and principles that apply to all public sector audits. It sets out the types and elements of the general principles related to an audit and the principles related to the different phases of the audit process.</p> |
| ISSAI 200 | Fundamental Principles of Financial Auditing | <p>Principles of Financial Audit includes all the activities for Financial Audit</p> |
| ISSAI | Quality Control for an | Pre-engagement activities |

| | | |
|-----------------------|---|--|
| 2220 | Audit of Financial Statements | |
| ISSAI 2230 | Documentation of the Audit Procedures Performed and Audit Evidence Obtained | Audit execution and audit evidence collection |
| ISSAI 2240 | The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements | Planning and risk assessment |
| ISSAI 2250 | Consideration of Laws and Regulations in an Audit of Financial Statements | Planning of Financial Audit |
| ISSAI 2300 | Planning of an Audit of Financial Statements | Planning of Financial Audit |
| ISSAI 2315 | Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment | Planning and risk assessment , full record of misstatements identified during the audit; |
| ISSA 2320 | Materiality in Planning and Performing an Audit | Calculation of materiality for Planning and execution or during conducting the audit |
| ISSAI 2330 | Auditors Response to Assessed Risks | Planning of audit, i.e., understanding the entity, risk assessment, full record of misstatements identified during the audit; |
| ISSAI 2450 | Evaluation of Misstatement Identified during the Audit | Relevant procedures for each material class of transactions, account balance and disclosure, irrespective of the assessed risks of material misstatement |
| ISSAI 2500 | Audit Evidence | Relevant procedures for each material class of transactions, account balance and disclosure, irrespective of the assessed risks of material misstatement |
| ISSAI 2505 | External Confirmations | Audit Assertion |

| | | |
|------------------------|---|--|
| ISSA 2520 | Analytical procedure | Planning and execution or while conducting audit, Audit Assertion |
| ISSA 2530 | Audit Sampling | Determining the extent of testing (sample sizes) |
| ISSAI- 2540 | Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures | Execution or during audit, Audit Assertion |
| ISSAI 2580 | Written Representations | Documenting audit procedures in such a way as to obtain sufficient appropriate audit evidence and thus draw conclusions on which to base the auditor's Opinion Keeping a full record of misstatements identified during the audit |
| ISSAI 2700 | Forming an Opinion and Reporting on Financial Statements | Opinion based on an evaluation of conclusions drawn from the audit evidence obtained as to whether the financial statements as a whole have been prepared as per the applicable financial reporting framework. The Opinion should be expressed clearly in a written report that also describes the Opinion and Basis of opinion |
| ISSAI 2701 | Communication of Key Audit Matters in the Independent Auditor's Report | Identifying key audit matters and concluding on whether sufficient audit work has been done for all components. |
| ISSAI 2705 | Modifications to the Opinion in the Independent Auditors Report | Opinion based on an evaluation of conclusions drawn from the audit evidence obtained as to whether the financial statements as a whole have been prepared as per the applicable financial reporting framework. The Opinion should be expressed clearly in a written report that also describes the Opinion and Basis of opinion for the Opinion. |
| ISSAI 2706 | The emphasis of Matter Paragraphs and | The emphasis of matter paragraphs refers to a statement or information |

| | | |
|---------------|--|--|
| | Other Matter Paragraphs in the Independent Auditors Report | in the financial statements, e.g., pending litigation with a possible significant impact on the financial statements. Other matter paragraphs allow communicating a matter that is not presented or disclosed in the financial statements and is relevant to the users' understanding of the audit, the auditor's responsibilities, or the auditor's report. |
| ISSAI 2720 | Auditors Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements | Opinion based on an evaluation of the conclusions drawn from the audit evidence obtained, as to whether the financial statements as a whole have been prepared as per the applicable financial reporting framework. The Opinion should be expressed clearly in a written report that also describes the basis for the Opinion. |

(Amit Singh Negi)
Secretary

Abbreviations

List of abbreviations used in this Financial Attest Audit Manual is provided below.

| Abbreviation | Full Form |
|---------------------|--|
| AR | Audit Risk |
| ARC | Audit Review Committee |
| CAAT | Computer Assisted Audit Techniques |
| C&AG | Comptroller & Auditor General of India |
| CFC | Central Finance Commission |
| COTABD | Class of Transactions, Account Balances and Disclosures |
| CR | Control Risk |
| DoA | Directorate of Audit |
| DR | Detection Risk |
| FC | Finance Commission |
| FRF | Financial Reporting Framework |
| GAAP | Generally Accepted Accounting Principles |
| GoUK | Government of Uttarakhand |
| GP | Gram Panchayat |
| HMM | Half Margin Memo |
| HO | Head Office |
| HoA | Head of the Auditee |
| IAASB | International Auditing and Assurance Standards Board |
| IFAC | International Federation of Accountants |
| IFMS | Integrated Financial Management System |
| INTOSAI | International Organization of Supreme Audit Institutions |
| IR | Inherent Risk |
| ISA | International Standard on Auditing |
| ISSAI | International Standard for Supreme Audit Institution |
| KP | Kshettara Panchayat |
| OAMS | Online Audit Management System |

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| | |
|------|---|
| PRI | Panchayati Raj Institution also known as Rural local Bodies |
| PSC | Professional Standard Committee |
| RBA | Risk Based Audit |
| RLBs | Rural Local Bodies |
| SAIs | Supreme Audit Institutions |
| UC | Utilisation Certificate |
| ULBs | Urban Local Bodies |
| UMAM | Uttarakhand Municipal Accounting Manual, 2021 |
| ZP | Zilla Panchayat |

Glossary

The definitions of the various terms used in this Manual are given below:

1. **Act** refers to The Uttarakhand Audit Act, 2012.
2. **Accounting policies** are the specific principles and procedures implemented by an organisation that are used to prepare its Financial Statements. These include any accounting methods, measurement systems, and procedures for presenting and disclosures.
3. **Administrative Department** means concerned Administrative Department of Government of Uttarakhand.
4. **Audit** includes Financial Attest Audit i.e., audit of the Financial Statements of Urban Local Bodies and Rural Local Bodies in the state of Uttarakhand.
5. **Auditee** means the auditable units of Urban and Rural Local Bodies whose audit is conducted.
6. **Auditor** means and includes Director and all other officers appointed under Section 3 of The Uttarakhand Audit Act, 2012 for their assistance including the person appointed through outsourcing from any eligible Firm, Company or Institution and Society,
7. **Audit Cell:** Audit Cell setup at the Secretariat under the Finance Department, Government of Uttarakhand.
8. **Audit Team** means the team of audit personnel assigned by the Directorate of Audit to conduct the Financial Attest Audit of Urban and Rural Local Bodies.
9. **Audit Plan** is a process of deciding in advance what is to be done, who is to do it, how it is to be done and when it is to be done by the team of audit in order to have efficient and effective completion of Financial Attest Audit work.
10. **Audit Programme** is a detailed action plan of the audit work that includes necessary audit checks and procedures to be performed by the auditor during the conduct of Financial Attest Audit of ULBs and RLBs.
11. **Audit Sampling** is the use of an audit procedure on selection of the items within an account balance or class of transactions.
12. **Half Margin Memo** is a memo or letter issued by the auditor during the course of the audit to elicit information from the auditee on any other matter considered necessary to form an audit opinion.
13. **Chief Secretary** means Chief Secretary to the Government of Uttarakhand.

14. **Competent Authority** means the authority that has been authorized to perform the function or provide approval as per the Act, rules, procedures, Government Order, Transaction of Business Rules.
15. **Computer Assisted Audit Techniques (CAAT)** refers to software tools used by the auditor for data analysis to enhance the audit practices.
16. **Director** means the Director, Audit (with Local Funds Audit, Panchayat Audit) appointed under Section 3 of the Uttarakhand Audit Act, 2012 and inter alia includes such officer on whom powers of the Director are conferred upon under sub-section (4) of section 3.
17. **Drawing and Disbursing Officer (DDO)** refers to a Departmental officer, entrusted with the responsibility of drawing and disbursing funds of the Government. Administrative Departments/Heads of the Departments declare Gazetted Officers under their Administrative Control as Drawing and Disbursing Officer in respect of specific establishments.
18. **Financial Year** means the period beginning on April 1st and ending on March 31st
19. **Financial Statements** are reports prepared by an organisation's management to present the financial performance and position at a point of time in accordance with the applicable financial reporting framework. A general-purpose set of Financial Statements usually includes a balance sheet, income statements (income & expenditure, receipt & payment account, statement of cash flows, notes to account or any other relevant statements or documents of financial data prepared from accounting records:
20. **Financial Reporting Framework** is defined as set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the Financial Statements and would be UMAM 2021 for Urban Local Bodies (ULBs) and Simplified Format of Accounts for Rural Local Bodies (RLBs) as applicable from time to time.
21. **Head of the Office** means the senior-most gazetted officer of the office.
22. **Head of Department** means an authority declared so by the State Government.
23. **International Standards of Supreme Audit Institutions (ISSAI)** are the framework of professional standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI) for public sector audits.
24. **International Organization of Supreme Audit Institutions (INTOSAI)** is a worldwide affiliation of governmental entities. INTOSAI operates as an umbrella organization for the external government audit community. It is a non-governmental organization with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations.

25. **Internal Control** refers to the procedures or policies adopted by the management to safeguard assets, promote accountability, increase efficiency, and prevent fraudulent behaviour.
26. **Local Bodies** are institutions of the local self-governance, which look after the administration of an area or small community such as villages, towns, or cities. Local bodies constituted for local planning, development and administration in the rural areas are referred as Rural Local Bodies (Panchayats) and the local bodies, which are constituted for local planning, development and administration in the urban areas are referred as Urban Local Bodies (Municipalities).
27. **Online Audit Management System (OAMS)** is a web application developed by the National Informatics Centre for Directorate of Audit, Government of Uttarakhand. It has distinct audit and compliance modules to digitalize the entire audit life cycle starting from audit planning, execution, reporting, follow-up, compliance, and monitoring.
28. **Panchayati Raj Institution (PRI)** is a system of rural local self-government in India. Local Self-Government is the management of local affairs by such local bodies who have been elected by the local people.
29. **State Government** means Government of Uttarakhand.
30. **UMAM** means Uttarakhand Municipal Accounting Manual 2021 issued by GoUK, and as amended from time to time.
31. **Any other terms** which is not been defined either in the Uttarakhand Audit Act, 2012 or in this audit manual will be referred from its source document.

Structure of the Manual

The Financial Attest Audit Manual has been divided into two volumes. The first volume covers an introduction to the manual, basic concepts relating to Financial Attest Audit and Financial Statements including the entire audit life cycle of Financial Attest Audit. While the second volume covers standardised Forms, Formats, and audit checklists to be used in conducting Financial Attest Audit of ULBs and RLBs in the State.

| Volume-I | |
|---|---|
| Heading of Chapter | Content of the Chapter |
| Chapter 1: About the Manual | Includes an Overview of the Manual, Applicability of the Manual, user of the Manual including function and Roles of the Finance Department, DoA and Audit Cell and audit mandates. |
| Chapter 2: Background of Urban Local Bodies and Rural Local Bodies | Contains an overview about Urban Local Bodies and Rural Local Bodies in the State including a brief about the Organisation Structure. |
| Chapter 3: Basic Principles and Concept in Auditing | Comprises types of Public Sector Audit, Purpose and Objective of Financial Attest Audit, Applicability of the Auditing Standards, Code of Ethics and Independence for the audit staffs, Audit Materiality, Risk Model, Audit Sampling and Audit Evidence. |
| Chapter 4: Audit Life Cycle | Explains the complete Audit Lifecycle e.g. Audit Planning and Preparation, Audit Execution, Audit reporting, Audit Follow Up, Audit Monitoring and Quality Assurance and Introduction to OAMS and CAAT. |
| Chapter 5: Audit Planning and Preparation | Consist of steps to be followed for Annual Audit Planning, Audit Preparation for Individual Audit including Financial Reporting Framework of ULBs and RLBs. |

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|---|---|
| Chapter 6: Audit Execution | Includes steps that are to be followed in Execution of Financial Attest Audit including Documentation and Audit Working Papers. |
| Chapter 7: Audit Reporting and Documentation | Includes steps to be followed for Preparation of Financial Attest Audit Report including Review and Approval Process |
| Chapter 8: Audit Monitoring, Follow-Up, and Compliance | Includes steps to be followed for Audit Monitoring, Follow Up and Compliance of Audit Paras. |
| Chapter 9: Quality Assurance | Includes steps to be followed for Quality Assurance Improvement Program (QAIP) in conducting Financial Attest Audit. |
| Chapter 10: Using the Work of Other Auditors/Internal Auditors and Experts | Includes situations where work of Other Auditor/ Internal Auditor and Expert can be used. |
| Chapter 11: Appointment of Chartered Accountant Firms | Include the Roles and Responsibilities of a Chartered Accountant Firms for conducting Financial Attest Audit |
| Volume-II | |
| Chapter 12: Forms, Format and Audit Checklist | Includes various Forms, Formats and Detailed Audit Checklist to be used while conducting Financial Attest Audit. |

Table 1: Structure of the Manual

Chapter 1: About the Manual

1.1 Purpose

1. This manual will guide users to conduct Financial Attest Audit and covers the entire audit life cycle by providing clarity on how to issue a Financial Attest Audit Report for ULBs and RLBs. This Manual is a compilation of policies, procedures and guidelines that governs the Financial Attest Audit practice and process of ULBs and RLBs in the state of Uttarakhand. The said Manual is expected to be followed by all the audit parties involved in conducting the Financial Attest Audit which will lead to the standardized application of the audit procedures to bring efficiencies and uniformity in the audit process.
2. The manual has been designed to meet the following important objectives:
 - ▶ To serve as a guide for the auditors of the Directorate of Audit.
 - ▶ To assist the auditors in performing their roles and responsibilities during the conduct of Financial Attest Audit of Financial Statements efficiently.
 - ▶ To provide guidelines for the auditors in applying audit techniques.
 - ▶ To exercise professional judgment in framing the expression of opinion and issuing Auditors Report on the Financial Statements of ULBs and RLBs.

1.2 Applicability of this Manual and It's Users

3. This manual is applicable for conducting the Financial Attest Audit of the following entities:
 - a. Urban Local Bodies (Nagar Nigam, Nagar Palika Parishad and Nagar Panchayat)
 - b. Rural Local Bodies (Zilla Panchayat, Kshettara Panchayat and Gram Panchayat)
4. The users of this manual will be the staff and the Officials of Finance Department, Directorate of Audit, Audit Cell and any CA firms or Societies appointed by the Directorate of Audit for carrying out the Financial Attest Audit of ULBs and RLBs in pursuance of the provisions of the Uttarakhand Audit Act, 2012.

1.3 An overview of the Institutional Arrangement of Audit in the State

5. The Preamble of Uttarakhand Audit Act, 2012, states about the regulation of audit of all government machineries, public corporation, government companies, institutions, statutory authorities, Panchayati raj institutions, municipalities, urban local bodies, governmental committees in the State. Further, sub-section (1) of section 3 of the Uttarakhand Audit Act, 2012 states “an organisational structure shall be constituted for performing the Audit work.” An overview of the institutional arrangement of audits in the State is provided below.

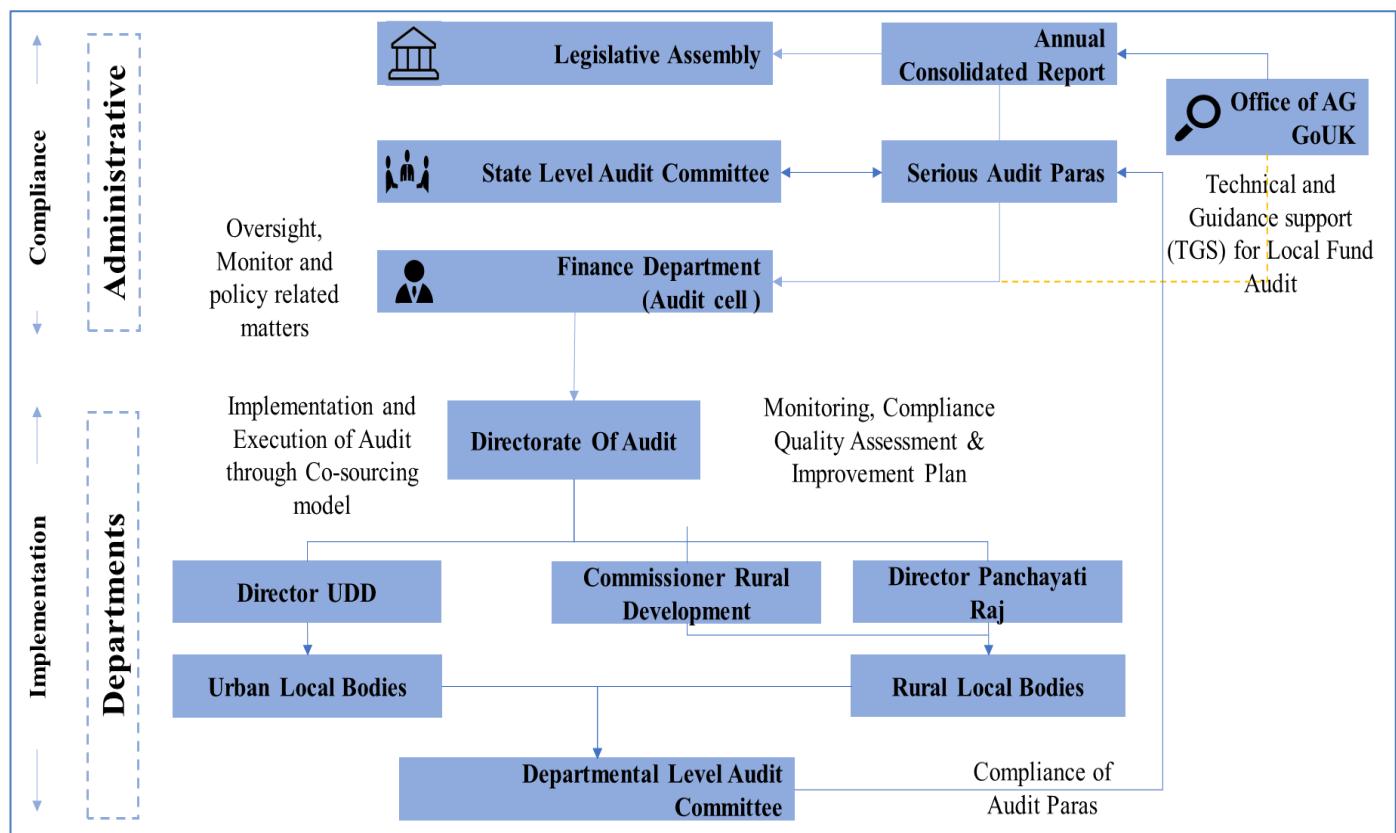


Figure 1: Institutional arrangement for audit in the State

1.3.1 Finance Department

6. **The Finance Department** means Finance Department of Government of Uttarakhand. The Finance Department's mission is to uphold and promote public accountability, optimum utilisation of public funds and resources, transparency and accountability of Government and maintain financial discipline in the State. The Finance Department to meet the aforesaid goals and for smooth implementation of

all the provisions of the Uttarakhand Audit Act,2012 is entrusted with the following roles and responsibilities:

- a. Update of Financial Attest Audit manual on a periodical basis.
- b. Adoption of new auditing standards issued by INTOSAI.
- c. Issue Government orders and Notifications as may be necessary for conducting Financial Attest Audit smoothly from time to time.
- d. Review progress of the Financial Attest Audit work submitted by Director, Audit through ‘Quarterly Progress and Performance Report’.
- e. Review status of compliance and follow up of Financial Attest Audit report submitted by the Director, Audit on a quarterly basis.
- f. Issue of guidelines and government order for the outsourcing of Financial Attest Audit work as per Section 3(6) of Uttarakhand Audit Act, 2012.
- g. Review of serious audit paras to be placed before the State Level Audit Committee.
- h. Review and finalise “Annual Consolidated Audit Report” to be placed before the State Legislature.
- i. Coordinate from time to time with office of the AG (Audit), Uttarakhand for Technical and Guidance Support for Local Fund Audit.
- j. Notify the audit fee to be charged from the ULBs and RLBs for conducting Financial Attest Audit under Section 4 (4) of the Uttarakhand Act, 2012.

1.3.2 Directorate of Audit

7. The Directorate of Audit is constituted under Section 3 of the Uttarakhand Audit Act, 2012 to perform audit functions across the State.
8. The Directorate of audit is headed by the Director, Audit and day-to-day audit functions are handled by the officers of the Directorate of Audit. The power, duties and responsibility of the Director, Audit and other officials of the Directorate of Audit is provided below.

1.3.2.1 Director, Audit

9. The power, duties and responsibility of the Director, Audit for carrying out the Financial Attest Audit has been provided below.

- a. Issue functional directions, and guidance to the officials of the department for conducting the Financial Attest Audit function.
- b. Approve annual and quarterly audit plan prepared by the officers authorised by the Director, Audit for conducting Financial Attest Audit.
- c. Review risk profiling parameters for prioritisation of which audit unit to be audited first.
- d. Review and decide Audit Materiality threshold for conducting Financial Attest Audit based on the past audit experience.
- e. Ensure compliance with all the procedures outlined in this Financial Attest Audit Manual including code of ethics and auditing standards.
- f. Recommend to the concerned Administrative Department and Head of Department of the auditee to take disciplinary action against the person who willfully neglects or refuses to provide any requisition of records under Section 7 of the Uttarakhand Audit Act, 2012 as per the applicable service rules.
- g. Implement complete audit process starting from preparation of Financial Attest Audit plan, allocation of audit team for execution of Financial Attest Audit and timely issuance of Financial Attest Audit Report to the auditee.
- h. Review, Sign and issue of Financial Attest Audit report to the auditee submitted by the officers authorised by Director, Audit.
- i. Follow-up, monitoring and compliance of audit paras reported in the Financial Attest Audit Report forward the same to Finance Department on a quarterly basis.
- j. Prepare and submit key audit paras related to irregularities like misappropriation of Government money, defalcation, and fraud etc. to the Finance Department and concerned Administrative Department to be placed before State Level Audit Committee.
- k. Prepare and Submit Annual Consolidated Audit Report to the Finance Department to be laid before State Legislature.
- l. Prepare and plan the Quality Assurance Improvement Program (QAIP) of the audit team.

1.3.2.2 Supervising Officer¹

¹ Not below the rank of Deputy Director, Audit and in case of Gram Panchayat not below the rank of Assistant Director.

10. Director, Audit in order to supervise,² monitoring and review of Financial Attest Audit work carried by the audit team, may authorise any officials for this purpose. The officer so authorised by the Director; Audit hereinafter shall be referred “Supervising Officer”. The key functions of the Supervising Officer are as under:
- a. Supervise and guide the audit team by the visiting auditee.
 - b. Ensure smooth execution of annual and quarterly audit plan.
 - c. Review whether the audit team has obtained sufficient and appropriate audit evidence to provide expression of opinion on the financial statements of the auditee.
 - d. Review, approve and put forward Financial Attest Audit Report to the appropriate authority as provided in clause 7.2.3.9 for review and sign on the Financial Attest Audit Report.
 - e. Sign and submit annual independence as per clause 3.4.1 “Code of Ethics” under Chapter 3.
 - f. In case of any fraud, embezzlement or misappropriation where the audit team has proposed any further inspection or verification, exercise the following steps:
 - Analyse and evaluate audit evidence obtained by the audit team by applying professional Skepticism.
 - Intimate to Directorate, Audit and conduct the field visit if evaluation of documents and audit evidence indicates such misappropriation etc.
 - Initiate joint inspection with the auditee (except where auditee is involved) to substantiate the misappropriate etc.
 - Upload all the working papers on OAMS jointly signed by the audit team, auditee and all other officers who were present during inspection/ verification immediately after completion of the inspection.
 - Provide direction to the audit team to perform additional audit procedure.
 - g. Prepare and submit “Quarterly Progress and Performance Report” to Director, Audit.

1.3.2.3 Audit Teams

11. Audit team comprises two to three members, including the team leader. The key roles and responsibilities of the audit team are as under:
-

² To work as Supervising Officer.

- a. Perform duties as specified under Section 6 (4) of the Uttarakhand Audit Act, 2012.
- b. Sign and submit annual independence as per clause 3.4.1 “Code of Ethics” under Chapter 3.
- c. Conduct Financial Attest Audit of ULBs and RLBs with the use of OAMS or any other audit management software as per the direction issued by the Finance Department.
- d. Conduct Financial Attest Audit in accordance with the guidelines provided in this audit manual and any Government Order, Notification etc. issued by the Finance Department from time to time for carrying out the Financial Attest Audit of the ULBs/ RLBs.
- e. Issue Half Margin Memo to the auditee for the record, reply, explanation through OAMS or any other audit management software in use as per the direction issued by the Finance Department.
- f. Inform to supervising officer regarding non-compliance of audit requisition by the auditee.
- g. Conversion of Half Margin Memo into audit para and prepare the Financial Attest Audit Report in accordance with the guidelines specified in this audit manual.
- h. Upload all working papers and evidence on OMAS or any other audit management software in use as per the direction issued by the Finance Department.
- i. Obtain and upload a Written Management Representation letter from the auditee.
- j. Inspect stores/ inventory of completed works/ ongoing works with the help of an expert if, required by issuing HMM one day advance and upload all working papers on OAMS jointly signed by the audit team, auditee and all other officers who were present during the inspection/ verification immediately on completion of such inspection and verification.
- k. Report to the Supervising Officer in case of any fraud ,embezzlement or misappropriation is found during the course of Financial Attest Audit and perform additional audit procedures as per the direction of the Supervising Officer.

1.3.3 Audit Cell

- 12. Audit Cell is set up at Secretariat under the Finance Department, Government of Uttarakhand.
- 11. Audit Cell is comprised officers as decided by the State Government from time to time. Audit Cell, as per the directions of Additional Chief Secretary/ Principal, Secretary/Secretary, Finance will assist in carrying out the duties and responsibilities as mentioned in **clause 1.3.1 above**.
- 12. The Audit Cell will carry out any such other functions as directed by Additional Chief Secretary/ Principal, Secretary/Secretary, Finance.

1.4 Audit Mandate and Applicable Acts, Rules and Regulations

13. As per Article 243(J) and 243(Z) of the Constitution, the State Legislature may, by law, make provisions with respect to maintenance of accounts by Local Bodies, i.e. Panchayats and Municipalities and auditing of such accounts. Therefore, the Government of Uttarakhand (GoUK) has promulgated a separate legislation, namely the ‘Uttarakhand Audit Act. 2012’, governing inter alia the audits of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) in the State. The Act provides for constitution of an organization structure for conducting audit functions in State by the State Government.

- a. **Audit of Accounts of Panchayats**-Article 243J. *The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats and the auditing of such accounts.*
- b. **Audit of Accounts of Municipalities**-Article 243Z. *The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the auditing of such accounts.*

14. The guidelines provided in this manual are governed by various Acts, Rules and Regulations issued by Government of Uttarakhand from time to time. The list applicable Acts, Rules and Regulations is provided below:

1. Uttarakhand Audit Act, 2012
2. Uttar Pradesh Nagar Nigam Act 1959 (as in force and as amended in Uttarakhand)
3. Uttar Pradesh Nagar Palika Act 1916 (as in force and as amended in Uttarakhand)
4. The Uttarakhand Municipal Accounting Manual (UMAM) 2021 (as amended from time to time)
5. The UP Panchayati Raj Act, 2016 (as in force and as amended in 2019)
6. Advertisement Rules, 2015
7. Simplified format for Accounts of PRIs, 2009

1.5 Update of Financial Attest Audit Manuals

The Financial Attest Audit Manual shall be updated by the Finance Department at least once in every three years.

Chapter 2: Background of Urban Local Bodies and Rural Local Bodies

2.1 Background of ULBs and RLBs

15. The 73rd and 74th Constitutional amendment (1992) gave Constitutional status to the Panchayati Raj Institutions (PRIIs) (hereinafter referred to as “RLBs”) and the Urban Local Bodies (hereinafter referred to as “ULBs”) by changing the structure of governance permanently and by giving Panchayats/Municipal Bodies a distinct developmental orientation. These amendments were inserted in Part IX (Article 243 to 243O) and Part IX-A (Article 243 P to 243 ZG) of the Constitution, which relate to the Panchayats and Municipalities respectively.
16. The system envisaged a uniform structure, regular elections, adequate flow of funds through Finance Commissions (FCs), etc. for the Panchayats/Municipalities so as to ensure a more participative governance structure in the country. The Amendment contained provisions for devolution of powers and responsibilities to the Panchayats/Municipalities for the preparation of economic development plans, for dispensation of social justice, as well as for implementation of plans and programmes related to 29 subjects listed in the schedule XI of the Constitution to Panchayats³ and 18 subjects in Schedule XII of the Constitution to Municipalities⁴. These changes intend to convey:

³Following are the items as per Eleventh Schedule of the Constitution of India to Panchayats : 1.Agriculture including agricultural expansion,2. Land improvement, implementation of land reforms, land consolidation and soil conservation, Animal Husbandry, Dairying and poultry,4. Fisheries Industry, 5. Minor irrigation, water management and watershed development, 6. Social forestry and farm forestry, 7. Small scale industries in which food processing industry is involved, 8.Minor forest produce, 9. Safe water for drinking, 10. Khadi, village and cottage industries, 11. Rural housing, 12. Fuel and fodder, 13. Rural electrification, including distribution of electricity, 14. Road, culverts, bridges, ferries, waterways and other means of communication, 15. Education including primary and secondary schools, 16. Non-conventional sources of energy, 17. Technical training and vocational education, 18. Adult and non-formal education, 19. Public distribution system, 20. Maintenance of community assets, 21. Welfare of the weaker sections of the in particular of the schedule caste and schedule tribes, 22. Social welfare, including welfare of the handicapped and mentally retarded, 23. Family welfare, 24. Women and child development, 25. Markets and Fairs, 26. Health and sanitation including hospitals, primary health centres and dispensaries, 27. Cultural activities, 28. Libraries, 29. Poverty Alleviation Programmes

⁴Following are the items as per Twelfth Schedule of the Constitution to Municipalities: Urban 1. Planning including town planning, 2. Regulation of land use and construction of buildings. 3. Planning for economic and social development. 4. Roads and bridges. 5. Water supply for domestic, industrial and commercial purposes. 6. Public health, sanitation conservancy and solid waste management, 7. Fire services. 8. Urban forestry, protection of the environment and promotion of ecological aspects. 9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded. 10. Slum improvement and upgradation, 11. Urban poverty alleviation. 12. Provision of urban amenities and facilities such as parks, gardens, playgrounds,13. Promotion of cultural, educational and aesthetic aspects,14. Burials and

- ▶ PRIs and ULBs became institutions of self-governance.
- ▶ There would be institutions of planning for economic growth of their respective jurisdictional territories.
- ▶ These institutions would be the main agents for implementing State and Central schemes.

2.2 Organization Structure of Urban Local Bodies

17. Based on the population/ income from own sources of revenue, Urban Local Bodies in Uttarakhand are divided into various categories in Nagar Nigam, Nagar Palika Parishad and Nagar Panchayat. The categories as per State's Gazette Notification No. 756/IV(1)/2015-01(32)/2014 dated June 12, 2015 are provided below table:

| Type of ULBS | Nagar Nigam | Nagar Palika Parishad | Nagar Panchayat |
|-------------------|--|--|--|
| Governing Acts | Uttar Pradesh Nagar Nigam Act 1959 (as in force and as amended in Uttarakhand) | Uttar Pradesh Nagar Palika Act 1916 (as in force and as amended in Uttarakhand) | |
| Category 1 | Nagar Nigam with population more than 5 lakh | Nagar Palika Parishad whose own revenue is more than or equal to Rs.1 crore and Nagar Palika with District headquarter whose own revenue is more than or equal to Rs.50 lakhs | Nagar Panchayat whose population is more than 10,000 |
| Category 2 | Nagar Nigam with population between 2 to 5 lakhs | Nagar Palika Parishad whose own revenue is more than or equal to Rs. 50 lakhs and all rest district Nagar Palika or Nagar Palika whose population is more than 50,000 | Nagar Panchayat whose population is less than 10,000 |

burial grounds, cremations, cremation grounds and electric crematoriums, 15. Cattle ponds; prevention of cruelty to animals, 16. Vital statistics including registration of births and deaths, 17. Public amenities including street lighting, parking lots, bus stops and public conveniences, 18. Regulation of slaughterhouses and tanneries.

| Type of ULBS | Nagar Nigam | Nagar Palika Parishad | Nagar Panchayat |
|--------------|--|-----------------------------|-----------------|
| Category 3 | Nagar Nigam with population less than 2 lakh | Other Nagar Palika Parishad | - |

Table 2: Overview of ULBs

2.3 Organisation Structure of Rural Local Bodies



Figure 2: Organization Structure of ULBs

18. The Uttarakhand Panchayat Raj Act, 2016 envisaged following three tier panchayats of elected bodies for local self- government i.e. (1) Gram Panchayat (2) Kshettara Panchayat and (3) Zilla Panchayat

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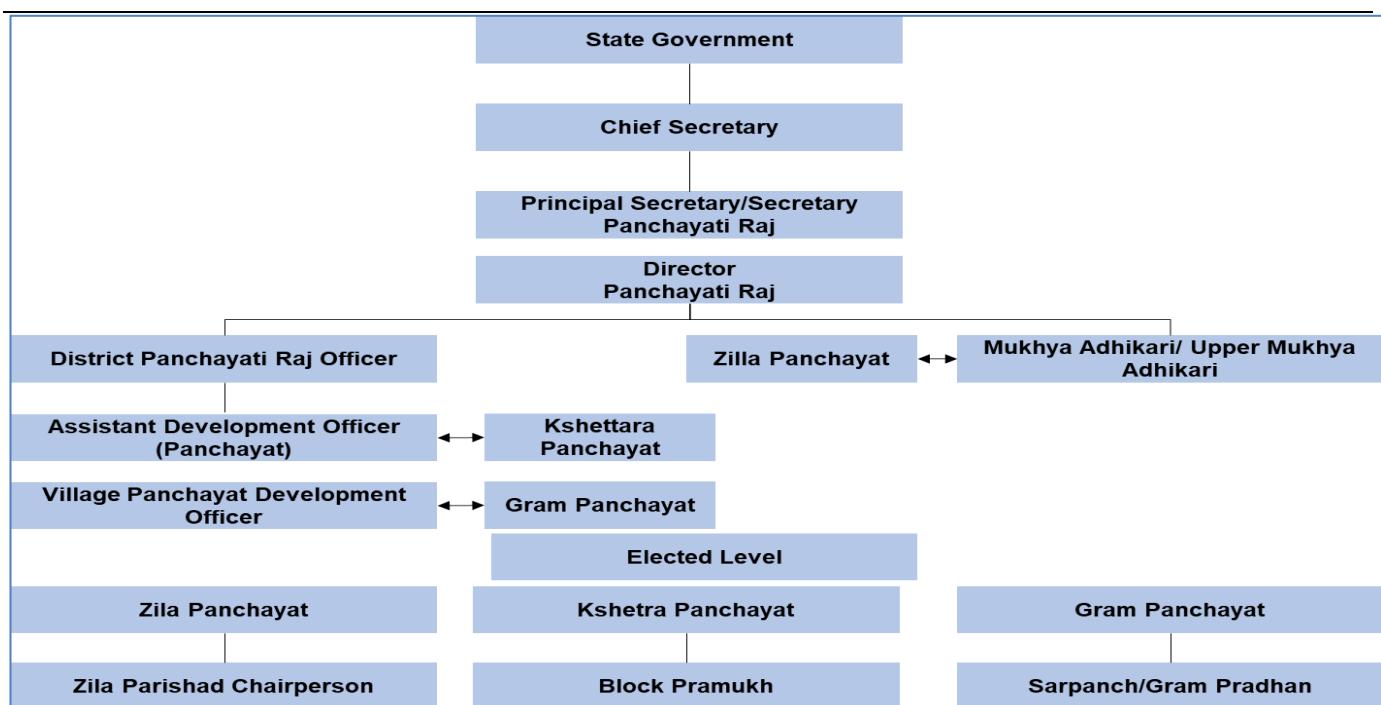


Figure 3: Organization Structure of RLBs

Chapter 3: Basic Principles and Concepts in Auditing

19. This Chapter covers the following key areas:



Figure 4: Basic Principles and Concepts in Auditing

3.1 Types of Public Sector Audit

Para 22 of the ISSAI 100, Fundamental Principles of Public-Sector Auditing categorize audits into three types namely:

A. Financial Audit focuses on determining whether the Financial Statements are properly prepared and presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the Financial Statements are free from material misstatement whether due to fraud or error.

B. Compliance Audit focuses on whether the activities of an audit entity, its financial transactions and information materially comply with the applicable laws, rules & regulations and various orders & instructions issued by the competent authority from time to time.

C. Performance Audit focuses on the extent to which an activity and programme or an organisation operates economically, efficiently, and effectively and whether there is a scope for improvement. The objective of the performance audit is to evaluate actual performance against a pre-defined set of outputs, outcomes, and criteria along with providing key recommendations for improvement.

3.2 Purpose and Objective of the Financial Attest Audit

The **International Standards of Supreme Audit Institutions(ISSAI) 200** explains the overall objective of an auditor in conducting an audit of Financial Statements which is:

- To obtain **reasonable assurance** whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling an auditor to express an opinion on whether the Financial Statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- To **report on the Financial Statements**, and communicate as required by the ISSAIs, in accordance with the auditor's findings.

20. The primary objective of Financial Attest Audit is to provide an '**expression of opinion**' on the "**true and fair view**" of the Financial Statements. The purpose of Financial Attest Audit is to ascertain whether financial statements prepared by the ULBs and RLBs are free from material misstatements and depicts a true and fair view of the state of the affairs and their financial position. The Financial Attest Audit enhances the degree of confidence of intended users on the audited Financial Statements. This is achieved by providing '**expression of opinion**' by the auditor on whether the Financial Statements are prepared, in all material respects, in accordance with the applicable financial reporting framework and the Financial Statements so prepared give '**true and fair view**' of the state of affairs and financial position of the respective ULBs and RLBs. Therefore, while conducting Financial Attest Audit, the auditors shall consider the following:

- ▶ Whether books of accounts and the Financial Statements are in compliance with the applicable laws, rules, regulations, and accounting principles prescribed by the appropriate authorities.
- ▶ Completeness of the books of accounts and financial records maintained by ULBs and RLBs and the Financial Statements.

- ▶ Whether accounting transactions and account balances are appropriately reflected in the Financial Statements.
 - ▶ Reporting of receipts and payments along with their cross verification and reconciliation with the accounts & other records.
 - ▶ Adequacy of disclosures including appropriate and necessary explanations for any transaction or amount which is prima facie unusual.
21. During the Financial Attest Audit, the auditor will analyse the Financial Statements, in order to ascertain whether these statements are prepared in accordance with the prescribed manual, guidelines, accounting standards and procedures and whether sufficient disclosures are made about the various elements reported in the Financial Statements.
22. Accordingly, the overall objective of the Financial Attest Audit are:
- a. To obtain **reasonable assurance** about whether the Financial Statements as a whole are free from material misstatements, due to fraud or error.
 - b. Thereby enabling the auditor to express an opinion through a report on whether the Financial Statements are prepared, in all material respects, in accordance with the applicable financial reporting framework; and
 - c. To communicate the result of the Financial Attest Audit to the management of the auditee unit.
23. **The Concept of Reasonable Assurance and not the Absolute Assurance:** The audit opinion provided by the auditor would always be a ‘**reasonable assurance**’, that the Financial Statements are free from material misstatements caused either due to errors, mistakes, or other irregularities. The framework for audit reporting issued by ISSAI suggests expression of a ‘**reasonable assurance**’ and not ‘**absolute assurance**’ as absolute assurance is rarely attainable due to the following inherent limitations in the work carried out by an auditor:
- ▶ Inherent limitations of internal controls in an entity do not guarantee the completeness or accuracy of accounting records.
 - ▶ The audit evidence collected by the auditors is mostly persuasive and not conclusive.
 - ▶ A lot of professional judgment is used in gathering and evaluating the audit evidence; and
 - ▶ The use of test checking/selective testing.

24. Therefore, it is important for the auditors to follow the concept of “Materiality” which is relevant for the Financial Attest Audit. ***Refer to Section 3.5 of Chapter 3 “Basic Principles and Concept in Auditing” for Audit Materiality.***

3.3 Auditing Standards and Applicability

25. The Auditing Standards provide a framework for the auditing steps and procedures. The Auditing Standards establish the norms which are applicable to all public audit engagements, irrespective of their form or context. The standards incorporate prerequisites for the functioning of Public Audit Institutions, determine the procedures to be applied in audit and constitute the criteria or benchmark against which the quality of audit results is evaluated.
26. This Financial Attest Audit Manual has been prepared based on the principles of International Standards of Supreme Audit Institutions (ISSAIs) issued by International Organization of Supreme Audit Institutions (INTOSAI) to the extent it is made applicable to the State of Uttarakhand. The Finance Department as well as the Directorate of Audit is required to follow these Auditing Standards for conducting Financial Attest Audit of ULBs and RLBs in the State. **The INTOSAI has endorsed the International Standards on Auditing developed by International Auditing and Assurance Standards (IAASB) of International Federation of Accountants (IFAC).**
27. The overview of these standards used for general application in the conduct of Financial Attest Audit of Urban Local Bodies and Rural Local Bodies are as under.

| Number | Name of ISSAIs |
|-------------------|--|
| ISSAI-20 | Principles of Transparency and Accountability |
| ISSAI-130 | Code of Ethics |
| ISSAI-40 | Quality Controls |
| ISSAI-100 | Fundamental Principles of Public Sector Auditing |
| ISSAI-200 | Fundamental Principles of Financial Auditing |
| ISSAI-2220 | Quality Control for an Audit of Financial Statements |

| | |
|-------------------|--|
| ISSAI-2230 | Documentation of the Audit Procedures Performed and Audit Evidence Obtained |
| ISSAI-2300 | Planning of an Audit of Financial Statements |
| ISSAI-2320 | Materiality in Planning and Performing and Audit |
| ISSAI-2330 | Auditors Response to Assessed Risks |
| ISSAI-2450 | Evaluation of Misstatement Identified during the Audit |
| ISSAI-2530 | Audit Sampling |
| ISSAI-2500 | Audit Evidence |
| ISSAI-2700 | Forming an Opinion and Reporting on Financial Statements |
| ISSAI-2701 | Communication of Key Audit Matters in the Independent Auditor's Report |
| ISSAI-2705 | Modifications to the Opinion in the Independent Auditors Report |
| ISSAI-2706 | Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditors Report |
| ISSAI-2720 | Auditors Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements |

Table 3: List of ISSAI standards applied in conducting Financial Attest Audit

Refer to Section 12.1.1. of Chapter 12 “Forms, Formats and Audit Check List, Volume II” for List of Relevant ISSAI Standards.

3.4 Code of Ethics and Independence

3.4.1 Code of Ethics

28. A **Code of Ethics:** The code of ethics is designed to prevent internal conflicts of interest and corruption and ensure the transparency and legality of their operations, as well as actively promoting ethical behaviour throughout the organisation. The ethical requirements cover the obligation of the auditors and other staff working in the Directorate of Audit or any other external staff (CA Firm, Society etc.) working on behalf of the Directorate of Audit.

INTOSAI Code of Ethics (ISSAI 130) is based on five fundamental values:

- a. **Integrity:** to act honestly, reliably, in good faith and in the public interest,
- b. **Independence and Objectivity:** to be free from circumstances or influences that compromise, or may be compromising, professional judgment, and to act in an impartial and unbiased manner,
- c. **Competence:** to acquire and maintain knowledge and skills appropriate for the role, and to act in accordance with applicable standards, and with due care,
- d. **Professional Behaviour:** to comply with applicable laws, regulations and conventions, and to avoid any conduct that may discredit the DoA.
- e. **Confidentiality and Transparency:** to appropriately protect information, balancing this with the need for transparency and accountability.

29. Based on the above fundamental principles, the following standards of code of conduct have been set forth for the official of DoA and external staff (CA Firms & Societies etc.) working on behalf of the DoA.
- ▶ The officials and officers should exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities. They shall be mindful of their obligation to maintain the highest standards of competence, morality, and dignity in the execution of their roles and responsibilities. They should not engage in any acts or activities which may cause disrespect to the profession of the audit.
 - ▶ To refrain from doing any activity which conflicts with the interest of the audit department or which would prejudice their ability to carry out their duties and responsibilities objectively.
 - ▶ The officials and officers shall continuously strive for improvement in their skill and in the effectiveness and quality of their services.
 - ▶ The officials and officers shall not accept any gift from an employee, supplier, or business associate of the audit unit, which would impair or be presumed to impair their professional judgment.
 - ▶ The officials and officers shall be careful while using the information acquired during the conduct of their duties. Further, they shall not use confidential information for any personal gain nor in any manner, which would be contrary to law or detrimental to the welfare of the audit unit.

3.4.2 Confidentiality of Audit Information

30. The auditors are required to respect the confidentiality of information acquired from the various audited units. The auditors shall not disclose any official information without obtaining the necessary authorization or using it for personal benefits. Information collected during an audit shall only be used for the purpose for which it was collected and shall not be disclosed, other than for audit purposes. Disclosure of any official information can only be done with prior approval from the competent authority from DoA. Additionally, the auditors as well as the authorized official, must ensure the confidentiality of all files gathered from the auditee whether it is in the office of the Directorate of Audit or on the location of the auditee.
31. It is necessary that all audit findings and conclusions shall be kept confidential until they have been completely substantiated, processed through an authorized clearance procedure, and approved for release by the competent authorities. Improper or premature external disclosure of audit findings can harm the audited entity and may cause embarrassment to the DoA. The principle of confidentiality also dictates that all those working in the DoA must be cautious in discussing official information with friends, relatives, and colleagues outside the DoA.

3.4.3 Independence and Objectivity

As per International Standards of Supreme Audit Institutions(ISSAI) 200 ‘Fundamental Principles for Financial Audit’

“Auditors conducting audits in accordance with the ISSAIs are subject to comply with ethical requirement set out in ISSAI 130 which ensure that the auditor will maintain objectivity and independence throughout the conduct of the audit. It sets out the overall objectives of an audit and explains the nature and scope of an audit designed to enable the auditor to meet those objectives.

32. The GoUK has passed separate legislation, ‘Uttarakhand Audit Act, 2012’ that provide powers to conduct the audit of Local bodies.
33. Independence from the audited entity is indispensable for the audit team. This implies that the audit team should behave in a way that increases or in no way diminish their independence. The auditor

should strive not only to be independent of the audited entity but also be objective in dealing with the issues and topics under review.

34. It is essential that auditors are independent and impartial, not only in fact but also in appearance. Independence of mind and appearance is necessary to enable the auditor to express conclusion without bias, conflict of interest or undue influence of others.
35. Independence **in fact** is a situation where individuals are able to perform activities without being affected by relationships that can influence and compromise professional judgment, allowing them to act with integrity and exercise objectivity and professional Skepticism
36. Independence **in appearance** is the absence of circumstances that would cause a reasonable and informed third party, having knowledge of relevant information, to reasonably doubt the integrity, objectivity or professional skepticism of the auditor(s), or conclude that the information has been compromised.
37. Objectivity is the mental attitude where individuals are able to act in unbiased manner, presenting or assessing things on the basis of facts rather than own feelings and interests, without subordinating judgment to others.
38. It is the duty of the DoA to ensure that necessary policies and procedures have been put in place to safeguard independence, objectivity, and impartiality. To this end, prior to the commencement of an auditing assignment, all members of the audit team including the Supervising Officer should give individual undertaking to this effect. Similarly, all individuals/ firms working for or on behalf of the DoA in carrying out the Financial Attest Audit should also give an undertaking to this effect.

3.4.4 Professional Judgment and Skepticism

39. Professional skepticism means maintaining professional distance, significant alertness and questioning attitude while assessing the sufficiency and appropriateness of audit evidence obtained throughout the audit. It also entails remaining open-minded and receptive to all views and arguments. Professional judgment implies the application of collective knowledge, skills, and experience to the audit process.

40. The audit team should maintain appropriate professional behaviour by applying professional skepticism and professional judgment throughout the audit. The audit team's attitude should be characterised by professional skepticism and professional judgment, which are to be applied while taking decisions about the appropriate course of action or while forming an opinion.

Refer to Section 12.1.2. of Chapter 12 "Forms, Formats and Audit Check List, Volume II" for Declaration Regarding Adherence to the Code of Ethics.

3.5 Audit Materiality

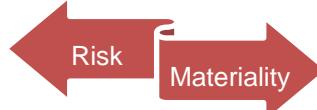
ISSAI 2320 'Materiality' "Information is material, if its misstatement (i.e. omission or erroneous statements) could influence the economic decision of users taken on the basis of the Financial Statements. Materiality depends on the size of the item or error judged in the circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

Auditors should apply the concept of materiality in an appropriate manner when planning and performing the audit. The concept of materiality is to be applied appropriately throughout the audit, especially when:

- Identifying the components to be audited (overall audit planning)
- Determining the nature, time and extent of audit procedure (detailed planning); and
- Evaluating the effect of material misstatements (for reporting)

41. Materiality is an important concept in Financial Attest Audit. A matter can be judged material if knowledge of it would likely to influence the decisions of the intended users. Determining materiality is a matter of professional judgment and depends on the auditor's interpretation of the users' needs. The auditors should consider materiality throughout the audit process. The auditor should apply the concept of materiality, both in **quantitative (by amount)** and when relevant in **qualitative (by nature)** terms, when planning and performing the Financial Attest Audit and evaluating the findings and reporting the results.

42. When planning for the audit, the auditor should decide an overall level of materiality (known as planning **materiality**) for the Financial Statements as a whole, taking into account the level of misstatements, which could influence the decision of the users.
43. The auditor should then reduce that level of materiality when establishing the audit work to be undertaken, in order to reduce to an acceptable level, the risk that the aggregate of undetected and uncorrected misstatements do not exceed overall materiality. This lower materiality level (known as **performance materiality**) should be used to determine the nature, timing and extent of audit procedures to be performed and to assess the results of those procedures.
44. Risk and materiality have inverse relationship, higher the risk lower will be the materiality level and vice-versa.



45. Therefore, planning materiality should be determined separately for Urban Local Bodies and Rural Local Bodies (i.e. for Zilla Panchayat, Kshettara Panchayat and Gram Panchayat) based on the risk associated to the respective audit entity as per the below matrix and this materiality level should be adjusted based on field experience in future years.

| Planning Materiality | Low Risk | | Medium Risk | | High Risk | |
|---------------------------------|-----------------------------|------------------------|-------------------------|------------------------|-----------------------------|------------------------|
| | ULBs and ZPs | KPs and GPs | ULBs and ZPs | KPs and GPs | ULBs and ZPs | KPs and GPs |
| Gross Expenditure | 2% | 5% | 1.5 % | 3% | 0.5% | 2% |

Table 4: Materiality Level based on Risk Category

46. An overview of the materiality has been provided in the below table:

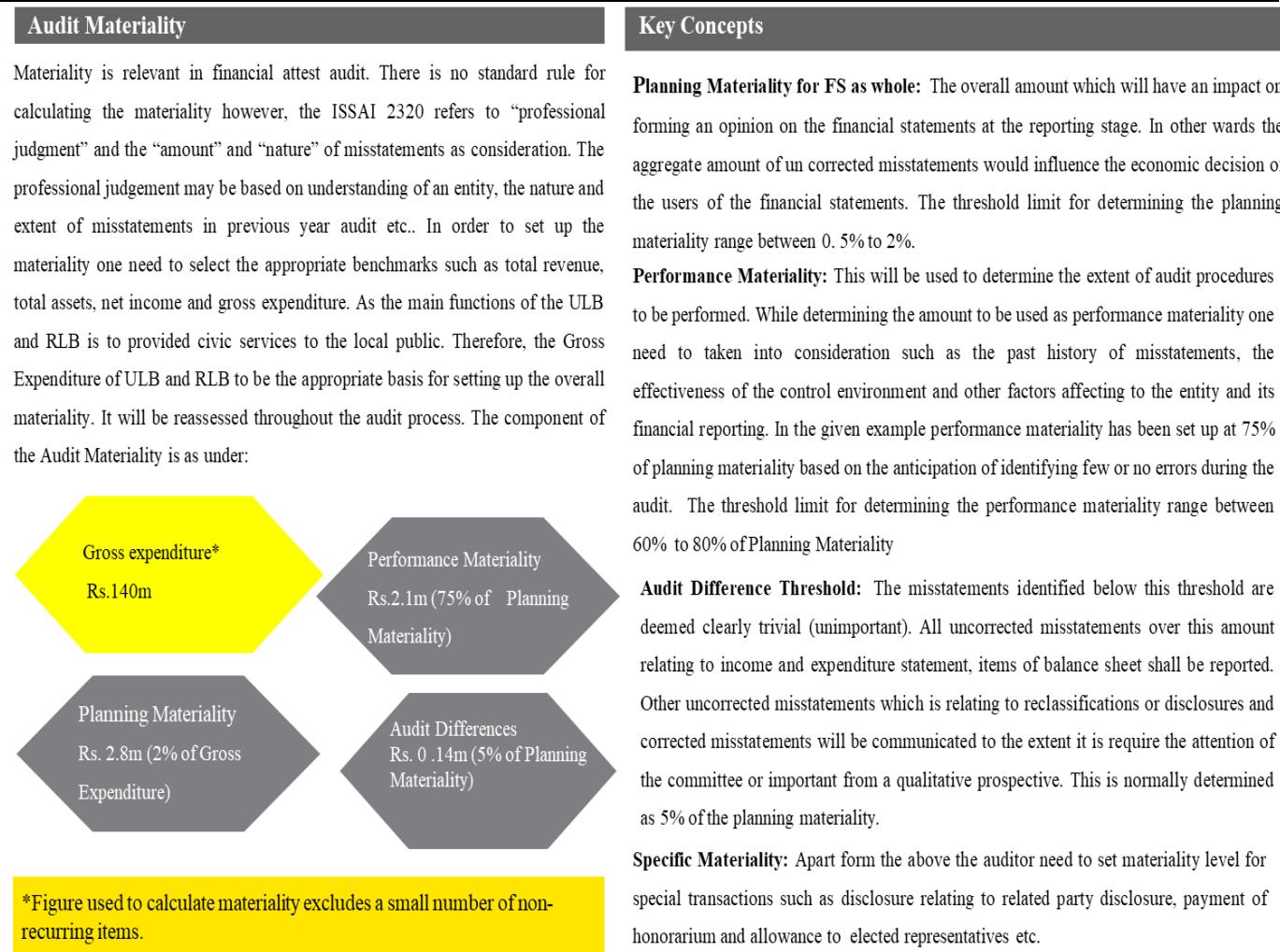


Figure 5: Overview of Materiality

3.5.1 Planning Materiality

A. Materiality for Financial Statements as a Whole:

47. When establishing the overall audit strategy, the auditor is required to determine the materiality to be applied for the Financial Statements as a whole during the Financial Attest Audit. However, there may be items (e.g. class of transactions, account balances or disclosures) where misstatements are less significant in amount, but this could reasonably be expected to influence the economic or non-economic decision of the Financial Statements users. So, if the auditor concludes that such possibility exists, then the auditor should calculate materiality for those particular classes of transactions, account balances or disclosures separately instead of calculating the materiality for the Financial Statements as a whole.

48. In determining the materiality for Financial statements as a whole, an appropriate benchmark may be used e.g. total receipts or, total expenditure. Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment. The following example illustrates the calculation of materiality for Financial Statements, based on the possible approach.

| Benchmark | Amount (Rs.) | % Used | Materiality (Rs.) |
|---------------------------------------|---------------------|---------------|--------------------------|
| Total Expenditures | 10,00,00,000 | 2% | 20,00,000 |
| Reason for using 2 %: | | | |
| Reason for using the benchmark | | | |

Table 5: Example of Planning Materiality

Note: % used here is just an example. In future, the DoA based on its professional judgment and past experience will determine the benchmark to be used for calculating Planning Materiality for each financial year. The recommended normal sensitivity range for planning material is from 0.5% to 2%.

49. From the above table misstatements higher than Rs.20,00,000 (i.e. more than 2% of the total expenditures) will be considered as material misstatements for the Financial Statements as a whole.

B. Materiality for particular Class of Transactions, Account Balances and Disclosures (COTABD):

50. Auditor has an option to set separate planning materiality for a particular class of transactions, account balances and disclosures if in the auditor's judgment, circumstances, risk assessment and the particular issue demands so, the same principle would apply to calculate materiality for particular COTABD. Here, misstatements of lesser amounts than materiality for the Financial Statements as a whole could reasonably be expected to influence the economic decision of the users in the case of COTABD.

| Benchmark | Amount (Rs.) | % Used | Materiality (Rs.) |
|---------------------------------------|---------------------|---------------|--------------------------|
| Travel Expenses | 1,00,00,000 | 0.5% | 50,000 |
| Procurement Expenses | 5,00,00,000 | 2.0% | 10,00,000 |
| Reason for using given 2 %: | | | |
| Reason for using the benchmark | | | |

Table 6: Example of Planning Materiality

Note: % used in the above table is just an example. In future, the DoA based on their professional judgment and past experience will determine the benchmark to be used for calculating each of the COTABD. In the above example benchmark for travel expenses and procurement expenses have been considered 0.5% and 2% respectively.

51. From the above table, misstatements higher than Rs. 50,000 for travel and Rs. 10,00,000 for procurement will be considered material misstatement in the Financial Statements.
52. When comparing travel expenses and procurement expenses with overall materiality for the Financial Statements as a whole, these expenditures might not be material, but this could still influence the decision of the users of the Financial Statements because of their nature. In other words, some of the items of the Financial Statements can be critical in nature e.g. payment of honorarium to the elected members and related party transactions which require the calculation of separate materiality at the individual transaction level.

3.5.2 Performance Materiality

As per para 11 of ISSAI 2320 “Materiality in Planning and Performing an Audit” issued by INTOSAI, the performance materiality means “The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures to be performed”

53. The determination of performance materiality is not a simple mechanical calculation but involves the exercise of professional judgments. It is affected by the auditor's understanding of audit entity updated during the performance of the risk assessment procedures and the nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period. The auditor needs to determine the performance materiality level for the purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures to be performed. In formulating an audit opinion, the auditor should inter-alia give due regard to the materiality of the matter keeping in view the nature, timing and extent of the issues that may be considered material even if the monetary value is not significant for example.
 - Fraud, intentional unlawful acts or non-compliance.

- ▶ Incorrect or incomplete information to the executive, the auditor or to the legislature (concealment).
 - ▶ Intentional disregard to the executive, authoritative bodies or auditors, and
54. The performance materiality is fixed lower than the planning materiality determine for Financial Statements as a whole. For example, considering the previous example performance materiality has been calculated as under.

| Planning materiality | % Used | Performance Materiality (Rs.) |
|-----------------------------|---------------|--------------------------------------|
| 20,00,000 | 75% | 15,00,000 |

Table 7: Example of Performance Materiality

Note: The recommended normal sensitivity range for performance materiality is 60% to 80% of the planning materiality. The auditors generally use 75% of planning materiality as performance materiality. The limit of performance materiality as calculated above is used to classify head of account balances into significant accounts and non-significant accounts. Accordingly, the head of the account whose closing balance is more than Rs. 15,00,000 will be considered as a significant account and the head of the account whose closing balance is equal to or below Rs. 15,00,000 will be considered as a non-significant account.

55. The same principle is applied while determining the performance materiality for a particular COTABD. This is calculated only if the separate planning materiality is determined for the particular COTABD.

| COTABD | Planning Materiality | % Used | Performance Materiality (Rs.) |
|----------------------------------|-----------------------------|---------------|--------------------------------------|
| Travel | 50,000 | 75% | 37,500 |
| Procurement | 10,00,000 | 75% | 7,50,000 |
| Reason for using given %: | | | |

Table 8: Example of Performance Materiality

Note: The recommended normal sensitivity range for performance materiality is 60% to 80% of the planning materiality. The auditors generally use 75% of planning materiality as performance materiality.

56. Both the planning materiality and performance materiality will be calculated and decided at DoA level for each financial year separately based on their professional judgments and experience

gathered from the previous years' Financial Attest Audit report which shall be approved by the Director, Audit along with the annual audit plan.

57. Concept of Threshold: The concept of threshold is the dividing line between material and immaterial information. In order to establish an appropriate level of audit threshold the auditor normally considers the amount and type of misstatement reported in the Financial Statements. The audit threshold may be stated as a specific percentage of financial items as a whole. The concept of threshold is used by the auditor to determine what is required to be reported and what is not required to be reported when framing an opinion on the Financial Statements.

Illustration on selection of Materiality:

If the audit team is planning for audit of XYZ “Gram Panchayat” and selected that “**Gross Expenditure**” incurred as the base to determine the Planning Materiality (**details of gross expenditure may be taken either from the cash book file maintained in hard copy or from data uploaded on the -Gram Swaraj or other accounting software used by the ULBs or RLBs duly integrated with OAMS**).

Say, Gross Expenditure of Gram Panchayat is = Rs. 10,00,00,000

STEP 1: Calculate Planning Materiality @ 0.5% of the gross expenditure

Hence, the Planning Materiality would be = Rs. 5,00,000 (0.50% of Rs. 10,00,00,000)

STEP 2: Performance Materiality has been set at 50% of the Planning Materiality

Performance Materiality= Rs. 2,50,000 (i.e.50% of Planning Material)

Step 3:Audit Difference Threshold: Rs. 25,000 (i.e. 5% of the planning materiality). The Misstatements identified below this threshold shall be deemed unimportant. Therefore, all uncorrected misstatements over this amount need to be reported. And other uncorrected misstatements which are relating to reclassification or disclosures and corrected misstatements will be communicated to the extent it requires the attention of the management or users of the Financial Statements.

STEP 4:If the total value of uncorrected errors goes beyond Rs. 5,00,000 in aggregate or individually excluding audit difference threshold, then auditor need to provide a qualified opinion or adverse type of opinion by stating the fact about the material misstatements involved in the Financial Statements. And for uncorrected errors related to disclosures etc. together with corrected misstatement shall be reported only if it requires the attention of the users of the Financial Statements only.

STEP 5: The account balances below Rs. 2,50,000 would be audited by selecting 4 to 5 transactions randomly in order to ensure the completeness of checking.

3.6 Risk Model and Materiality

58. **Audit** risk is defined as ‘the risk that the auditor expresses an inappropriate audit opinion when the Financial Statements are materially misstated. Therefore, an audit team must keep the Audit Risk very low, otherwise, the key objective of the Financial Attest Audit would not be achieved. Audit risk cannot be eliminated even if 100% verification is carried out which is practically not feasible.
59. **Materiality and Audit Risk has an inverse relation with each other, if the materiality level gets lower then audit risk is higher and vice versa.** The level of audit risk that an auditor can accept is very crucial and subjective. Normally a level of 95% assurance is considered appropriate which means the audit risk would be 5%. Audit risk is contributed by inherent risk, control risk and detection risk. Generally, the auditor does not have control over inherent risk and control risk. Therefore, the auditor assesses inherent risk and control risk for the possible impact on Financial Attest Audit and manage the detection risk to bring the audit risk to an acceptable level.
60. According to the risk model, the Audit Risk (AR) has three components inherent risk, control risk and detection risk. **Thus, the Audit Risk (AR) = Inherent Risk (IR) x Control Risk (CR) x Detection Risk (DR)**
61. **Inherent Risk (IR)** is the risk that is inherent in any operation and which arises due to the complex nature of operations. Inherent risk is one of the factors along with control risk, that an auditor can only assess the risk of material misstatements associated with a Financial Statements. The following are some of the illustrative factors used for assessing Inherent Risk.
- ▶ **Nature of Transaction:** Cash in hand is by nature riskier and more prone to theft than a large inventory or any other assets of the entity.
 - ▶ **History of Error:** Error reported for a particular type of transaction or group of transactions in the previous three financial years.

- ▶ **The Complexity of Transaction:** Particular type of transaction or class of transactions in which errors are more likely to occur considering the governing conditions and complex nature of calculations.
 - ▶ **The Volume of Transaction:** High volume transactions considering the size and nature of the entity.
 - ▶ **Non-Production/ Non-Preparation of Records for Audit:** History of the audit reveals the non-production/non-preparation of records for audit by the auditee.
62. **Control Risk (CR)** is the risk of material misstatements associated in account balances or class of transactions that could occur and go undetected by the entity's internal control system. In this case, the auditor could only assess whether the controls are designed appropriately and implemented by the entity.
63. **Detection Risk (DR)** is the risk that an auditor's audit procedures will not detect a misstatement, existing in an account balance or class of transactions that could be material, individually or when aggregated. The auditor can manipulate the detection risk by altering the nature, extent and timing of the audit.
64. Accordingly, the risk which audit procedures fail to detect (i.e. Detection Error- DE) is therefore, influenced by the amount of Inherent Risk (IR) and Control Risk (CR).
65. The following illustration gives an understanding of how detection risk and confidence levels can be calculated:

The audit risk model can be expressed as **AR = IR X CR X DR**

Assume that auditor takes 5% audit risk and auditee's control environment presents as under:

- The auditor's judgment caps the IR 60% due to the complexity of the operations. In other words, only 40% assurance is possible in the prevailing circumstances.
- And auditor's, past experience of the internal control system of the entity shows that 40% assurance can be taken due to these in-built controls, which means control risk would be 60%.

-Then, the Detection Risk would be = $0.05 / (0.6 * 0.6) = 14\%$ which means the prevailing environment only gives 86% confidence level to the auditors. Therefore, the auditor's test procedures and sample sizes will have to be planned accordingly.

From the above example, if the auditor's assessment of inherent and control risk is high, the detection risk is set at a lower level to keep the audit risk at an acceptable level. Lower detection risk may be achieved by increasing the sample size for testing. In other words, if the auditor wants to decrease the detection risk then sample size for testing has to be increased. Conversely, where the auditor believes the inherent and control risk of an engagement to be low, detection risk is allowed to be set at a relatively higher level.

The Extent and nature of audit procedures are determined by the level of detection risk required to bring audit risk to an acceptable level. The auditor cannot control the inherent and control risk. They can however balance these risks by determining the suitable detection risk to keep the overall risk in check. Detection risk directly influences the audit strategy e.g. if the auditor requires a low detection risk to counter high control risk, the auditor may rely on control testing and conduct extensive substantive procedures to form a valid opinion.

3.7 Audit Sampling

As per ISSAI 2530 “Audit Sampling” applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample. The following terms have the meanings attributed below:

- (a) Audit sampling** – The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
- (b) Population** – The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions. This individual item in population are known as sampling units.
- (c) Sampling risk** – The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure.
- (d) Statistical sampling** – An approach to sampling that has the following characteristics:

- ▶ Random selection of the sample items; and
- ▶ The use of probability theory to evaluate sample results, including measurement of sampling risk.
- ▶ A sampling approach that does not have characteristics (i) and (ii) is considered non-statistical sampling

66. After determination of the audit materiality the next step is to apply the concept of audit sampling within the account balances or class of transactions (determined as per materiality). It enables the auditor to obtain and evaluate the audit evidence about some characteristics of the selected items to form or assist in framing, a conclusion about the audit population from which sample size is drawn. The determination of sample may be made using either non-statistical method or statistical method which is as under.

A. **Non-Statistical** is a method in which an auditor uses professional judgment to select the sample items and to evaluate results from the sample. In exercising professional judgment, the auditors use their knowledge, skill and experience to diligently perform the gathering of evidence in good faith and with integrity. The exercise of professional judgment allows auditors to obtain reasonable assurance that any material misstatements or significant inaccuracies in data are likely to be detected. In this technique, the auditors use either **directed sample selection or block sample selection or haphazard sample selection**. The following are the statistical sampling techniques for the selection of transactions to be audited.

- i. **Directed Sampling:** Selecting items from the population using some pre-specified criteria (i.e. selecting accounts receivable for confirmation based on amount outstanding).
- ii. **Block Sample Selection:** Selecting items from the population in contiguous groups (blocks) within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample.

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- iii. **Haphazard Sample Selection:** Selecting items from the population without considering known characteristics of the items in the population (i.e. any conscious bias in the selection of population items).

 - B. **Statistical Sampling** is a method for randomly selecting a sample size i.e. in such a way that each population item has a known probability of being included in the sample (based on laws of probability). In this technique, the auditors use either random sampling or systematic sampling or stratified sampling or more complex probability-based sampling methods. The following are the statistical sampling technique for the selection of transactions to be audited.

 - i. **Random Sampling:** Under random sampling, every sample unit of the population has an equal chance of being selected. To conduct this type of sampling, one can use tools like random number generators or other techniques that are based entirely on chance. For example, an auditor wants to select 30% vouchers out of total of 100 vouchers for checking. Vouchers are numbered from 1 to 100 and the auditor randomly select 30 numbers from 1 to 100 and checks the corresponding voucher. This is the most commonly used sampling technique. In random sampling, the auditors can use either random number tables or can use MS Excel to generate numbers for a given population. Under this method, all items in the population have an equal chance of being selected. Following are the steps involved in random sampling:
 - a. **Determine the Population:** The population (i.e. list of transactions) is the entire set of data from which the auditor wishes to obtain a sample for audit to reach a conclusion. The auditor will need to determine that the population from which the sample is drawn is complete, to meet the Financial Attest Audit objective. It could be list of schemes implemented by the auditee or transactions incurred under various processes i.e. Revenue, Establishment Cost, Procurement etc.
 - b. **Ensure Completeness of Data:** In this step, the auditor needs to ensure the inclusion of all the schemes implemented or transactions incurred during the period under audit in the population, on which sampling procedure has to be performed.
 - c. **Drawing the Sample:** After a list of populations has been constructed, various random sampling options are available. Some common ones include selecting any two months

of the year, selecting transactions on the basis of narration, selecting transactions of high value, and selecting transaction of unusual nature.

Systematic Sampling: In systemic selection the number of sampling units in the population are divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50thsampling unit is selected thereafter. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of computerized random number generator or random number tables. When using systematic sampling, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.

- ii. **Stratified Sampling:** Stratified sampling involves dividing the population into subpopulations that may differ in important ways. It allows to draw more precise conclusions by ensuring that every subgroup is properly represented in the sample. Under this technique, populations is divided into subgroups (called strata) based on the relevant characteristic such as months, types, or nature of transaction etc. Based on the overall proportions of the population, one can determine the sample to be selected from each subgroup. After determining the sample to be selected from each subgroup, we can use random or systematic sampling to select samples from each subgroup. The Following are the steps involved in stratified sampling.
 - a. **Creation of Strata:** When performing sample selection (i.e. selection of transactions to be reviewed), the population is often stratified by monetary value. This allows greater audit effort to be directed to the larger value items, as these items may contain the greatest potential misstatement in terms of an overstatement. Similarly, a population may be stratified according to a particular characteristic that indicates a higher risk of misstatement, for example, when testing the allowance for doubtful accounts in the valuation of accounts receivable, balances may be stratified by age.
 - b. **Evaluation of the result of each Strata:** The results of audit procedures applied to a sample of items within a stratum can only be projected to the items that make up that strata. To draw a conclusion on the entire population, the auditor will need to consider the risk of material misstatements in relation to whatever other strata make up the entire

population. For example, 20% of the items in a population may make up 90% of the value of an account balance. The auditor may decide to examine a sample of these items. The auditor evaluates the results of this sample and reaches to a conclusion on the 90% of the value and separately for the remaining 10% (on which a further sample or other means of gathering audit evidence will be used, or which may be considered immaterial).

- c. **Combined evaluation of all the Strata to form a conclusion:** If a class of transactions or account balance has been divided into strata, the misstatement is projected for each stratum separately. Projected misstatement for each stratum is then combined when considering the possible effect of misstatement on the total class of transactions or account balances.

- iii. **Cluster sampling:** Cluster sampling also involves dividing the population into subgroups, but each subgroup should have similar characteristics to the whole sample. Thereafter, instead of sampling individual items from each subgroup, we can randomly select the entire subgroups.

67. Although, each method has its own advantages and disadvantages for smooth conduct of Financial Attest Audit a Random Sampling Technique would be used for extracting the sample transactions to be audited.

Let's understand with an example

If the auditor selected audit of XYZ Nagar Nigam and there are 1,000 transactions that occurred during the period under audit. Now, in this case, if audit team has decided not to check 100% of transactions, then the audit team should use a random sampling technique for extracting sample transactions to be audited. The following are the steps involved in extracting the sample for verification:

Step-1 Determine the Population: The audit team primarily extracts data from external applications linked with the OAMS such as e-GramSwaraj, to decide the population size on which audit sampling will be performed. There might be an instance wherein a certain specific area, the audit team do not wish to apply sampling (e.g. audit team may decide to check expenses incurred on salary due to increment 100%, in such case expenses incurred on salary should be excluded from the overall population).

Step-2 Ensure Completeness of Data: The audit team will perform validation check to ensure about the inclusion of entire sets of data on which sampling is to perform sampling. (for example: in case auditee has taken transactions incurred on procurement from cash book, then the audit team needs to validate the list of transactions of procurement with procurement register, to ensure whether all the transactions incurred during the period under audit have been included in the list or not.

Step 3-Drawing Sample: In this step the audit team will extract the number of items to be audited by considering the following parameters:

- Selection of transactions randomly by selecting any two months of the year,
- Selection of High value transactions (for example: for selection of transactions under procurement/ revenue or any other auditing area based on the tolerable limit determined under the performance materiality (for example Rs. 2,50,000) for selection of transactions. In such case all account balances whose balance is more than 2,50,000 will form part of the sample population.
- Selection of transaction incurred with an inadequate description of expenditure/receipt,
- Selection of transactions incurred with a fixed amount every month (for example: Housekeeping expenses, Rent expenses etc.)
- Selection of transaction where any information is missing (such as, name of the party, date etc.)
- Selection of transaction based on nature of expenditure (for example: under office expenditure, select minimum transactions from recurring expenditure such as, electricity and water charges as these expenses are a necessity of the auditee. On the other hand, select more transactions from non-recurring expenditure i.e. expenses on purchase of office equipment/ material, expenses on major repair and maintenance etc.

68. Following are the key points that need to be considered while selecting sample size for Financial Attest Audit by the audit team.
- a. Unusual nature of transactions should be included in the sample (for example, in a procurement process where generally transactions are ranging between 1 lakh to 5 lakhs but if the auditor finds that there are transactions of very small amount e.g. Rs. 1000/ Rs.5000, these transactions are classified as transactions of unusual nature).
 - b. Transactions of the fixed amount incurred monthly during the entire year should also be enquired further
 - c. The sample transactions selected should be representative of the population.

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- d. The sample size may be increased post discussion with the HoA, if the audit team finds material errors, irregularity, or discrepancies during the course of audit.
 - e. In determining sample size, the audit team presume that there are no errors in the population.

3.8 Audit Evidence

The International Standard on Supreme Audit Institutions (ISSAI) 2500, “Audit Evidence” explains what constitutes audit evidence in an audit of Financial Statements and deals with the auditor’s responsibility to design and perform audit procedures to obtain sufficient &appropriate audit evidence to be able to draw reasonable conclusions to form the auditor’s opinion. This ISSAI is applicable to all the audit evidence obtained during the course of the audit.

For purposes of the ISSAIs:

- Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.
- Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.

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- 69. Audit evidence refers to the data or information used by the auditor to arrive at the audit findings and conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the Financial Statements and other information. The auditors should obtain sufficient and appropriate audit evidence by performing the compliance and substantive audit procedures to assist them in drawing a reasonable conclusion based on which they could provide their opinion on the Financial Statements.
 - a. **Compliance Procedures** (also known the test of controls) are designed to test transactions to obtain reasonable evidence that the internal controls are effective. **Refer clause no. 5.6.5 for further detail.**
 - b. **Substantive procedures** (also known the test of details) are designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the Accounting System. Substantive procedures could be (i) test of details of transactions and balances and (ii) analysis of ratios and trends. **Refer clause no. 5.6.5 for further detail.**

3.8.1 Types of Audit Evidence

70. The audit evidence can be broadly classified based on the source from which it originates, i.e. either external or internal evidence.
- Internal Evidence:** Internal evidence relates to information that the auditors collect from the auditee, while performing their audit steps. It is important for the auditors to properly cross-verify the authenticity and accuracy of evidence when it is collected from the auditee, as such information has a higher risk of being misrepresented.
 - External Evidence:** External evidence relates to information that the auditors collect from outside of the audit unit, while performing their audit steps. Such evidence could be in the form of financial information like invoices from the vendor against goods and material supply, bank balance confirmation etc.

3.8.2 Nature of Audit Evidence

71. The Auditing Standards require that the auditor should obtain competent, relevant and reasonable evidence to support his judgments and conclusions.
- Competent evidence:** Competent evidence is information that is quantitatively sufficient and appropriate to achieve the auditing results and is qualitatively impartial such as to inspire confidence and reliability.
 - Sufficient evidence:** Sufficient audit evidence will be obtained if the extent of tests (both compliance and substantive tests, as may be relevant) are adequate. Although sufficient evidence primarily means obtaining of reasonable evidence to reach to the conclusion. This should not be too little where a conclusion could not be drawn or too much which involve wastage of time and effort. The question that how much audit evidence is sufficient is a matter of the auditor's professional judgments, guided by the generally accepted auditing principles.
 - Reliable evidence:** Reliable audit evidence is evidence that is impartial. The reliability of audit evidence is dependent upon its nature, source and the method used to obtain it. Sometimes, alternative forms of evidence, sources and methods are available. The following guidelines may be noted regarding their reliability and the audit team should seek to ensure that the most reliable sources and methods are employed within the time and cost constraints imposed upon the audit.
 - Documentary evidence is more reliable than oral evidence.
 - Evidence, of which the auditor has direct personal knowledge, is the most reliable evidence.

- Independent evidence obtained from external sources is more reliable than internal evidence (obtained from the audited entity) if that evidence is truly independent and complete.
 - Visual evidence is highly reliable for confirming the existence of assets, but not their ownership or value.
 - Evidence drawn solely through examining relationships between figures in the account (analytical review) is less reliable evidence.
 - Oral evidence must be considered as the least reliable. Whenever feasible, auditors should attempt to obtain documentary confirmation of oral evidence (e.g. agreed written records of interviews or meetings).
 - The reliability of information generated within the auditee entity is a function of the reliability of internal control systems within the entity.
 - Photocopies are less reliable than the originals. The source of photocopies should be identified by noting the source and, as far as possible, the photocopies should be certified.
- d. **Relevant evidence:** Relevant audit evidence is information that is pertinent to the audit objectives. The auditor's purpose in obtaining substantive evidence is to frame and express an opinion on the Financial Statements. Evidence is relevant only if it can be used for this purpose. The general audit objectives are designed to ensure that the auditor obtains evidence to support all aspects of the opinion he/she is required to give on Financial Statements. To be relevant, the audit evidence must relate to the general audit objectives (also called assertions).
- e. **Reasonable evidence:** Reasonable audit evidence is information which is economical i.e. the cost of gathering such evidence commensurate with the result that the auditor is trying to achieve. Generally, audit evidence is persuasive rather than conclusive and, for this reason, the auditor should seek evidence from different sources or of different nature to support the same audit objective.

3.8.3 Techniques for Collection of Audit Evidence

72. One of the most critical factors of any audit activity is to collect audit evidence in respect of the function/process/ account that is being audited. Given below are some techniques to facilitate the collection of information during audits:
- a) **Interviewing:** Interviewing is an effective way of collecting information in respect of possible important and control deficient areas in the function being audited. The following points need to be kept in mind with respect to interviewing:

- **Fix a prior appointment:** Considering that the auditor shall be meeting with a senior officer of the respective auditee, he/she should fix up an appointment prior to the meeting date and ensure that the officer is able to spare the requisite time for the interview.
- **Adopt a top-down approach:** For the assessment of the control environment, it is necessary that the auditors adopt a top-down approach, meeting with the functional head and going down to the officers engaged in the function under audit at the respective location. This approach leads to better acceptability and wider coverage.
- **Keep the questions simple:** The auditors should ask general questions, which are open-ended in nature like the following:
 - What are some of the key concerns you have in respect of your function?
 - What are the main objectives of the respective ULB and RLB?
 - What are the main bottlenecks to these objectives?
 - What are some improvements that can be made in the ULB's/RLB's functioning?

The above questions encourage the auditee to speak about his function and provide information to the auditor. (It makes the auditee open and speak to the auditor).

- b) **Comparative Analysis:** This involves comparing of data, sometimes from various sources, to identify unusual situations or deviation e.g. comparing total collection as per demand and collection register with the cash book and income reported in the Financial Statements.
- c) **Analytical review:** This involves comparing results such as income, expenses etc., for the same entity from period to period. This can be used in evaluating changes in results that are dependent or affected by other factors. For example, if the number of employees has increased from the last period, the payroll costs should also go up in addition to the normal increase due to pay raise, inflation, etc. or if the number of taxpayers increases in comparison to the previous year then the total collection and demand should also be increased.
- d) **Visual observations:** A tour of the facilities of the entity audited may disclose material weaknesses in the operations. Visual observations also include scanning records and reports for unusual items.
- e) **Photographs:** Photographs are taken to capture something which the audit team has already observed. The photos should be conveying and clear. While taking photographs, the auditor shall inform in writing to auditee that they will be taking photos (need not specify time, date). Photos should be authenticated by the auditee as far as possible to avoid dispute. Date, time, place to be recorded on photos.

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- f) **Physical verification:** The audit team should always, in presence of representatives of the auditee, physically verify the closing balance of cash, items of inventory and fixed assets on a sample basis and the finding of which should be documented and signed by both the parties.
- g) **Other types of collecting evidence**
- Copy of an external but authoritative record
 - Print out of an electronic database/web page
 - Extract from an authentic report/book
 - Result of a survey conducted by audit/ another agency.
 - Analysis of data

Chapter 4: Audit Life Cycle and Online Audit Management System

73. The components of the Audit Life Cycle for Financial Attest Audit of ULB's & RLB's are audit planning, audit execution, audit reporting, audit follow-up, audit monitoring& quality assurance. The activities under various stages of the audit life cycle i.e. from audit planning to audit follow and monitoring shall be conducted through Online Audit Management System (OAMS). The OAMS is a web application being developed by the National Informatics Centre (NIC) for the Directorate of Audit, Government of Uttarakhand. A brief description of each of the above audit phases is given below and detailed steps involved in each of the above phases has been elaborated further in subsequent chapters of this Manual. ***Refer from Chapter 5 to chapter 9 for details.*** The adjacent figures illustrate the important components of the Financial Attest Audit lifecycle.

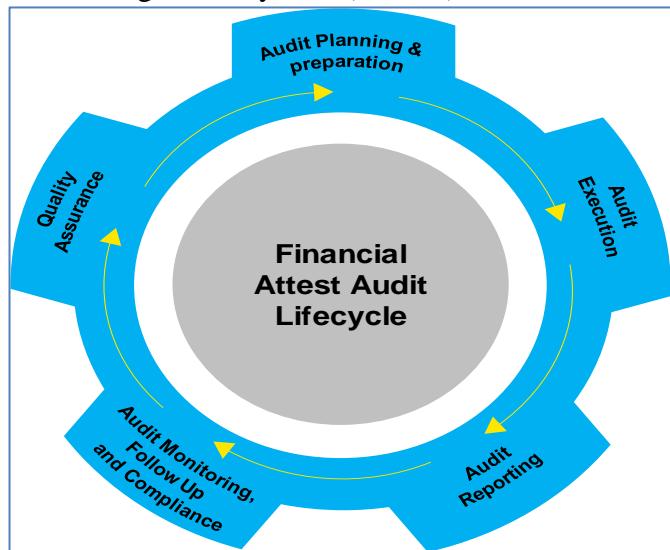


Figure 6: Audit Life Cycle

4.1 Audit Planning and Preparation

74. Planning is an important step to ensure that the engagement is performed in an efficient and effective manner and that audit risk has been reduced to an acceptable level. The Directorate of Audit shall establish an overall audit planning that sets the scope, timing and direction of the audit and guides for the development of the audit plan. The activities involved under this phase are listed below.

- ▶ Prepare Overall Annual Audit Plan.
- ▶ Allocate Audit Team.
- ▶ Allocate Man-days to each Audit Unit.
- ▶ Prepare Annual and Quarterly Audit Calendar.
- ▶ Intimate Audit Plan to Audit Units and Audit Teams.
- ▶ Prepare Audit plan for Individual Audit.

4.2 Audit Execution

75. Under this stage quarterly audit plans will be executed, and observations are noted through the systematic application of the audit procedures. This stage also involves the on-field review of the audit work done to ensure that the conclusions or observations reached are based on facts and necessary documents have been collected and documented to validate these observations. It also explains the nature of evidence to be gathered during the execution of the Financial Attest Audit. The activities involved under this phase are:

- ▶ Conduct Fieldwork.
- ▶ Organize entry conference meeting with auditee in order to develop coordination between the audit team and the auditee and finalisation of the audit program.
- ▶ Revise Audit planning memorandum as required.
- ▶ Distribute work among the team members.
- ▶ Perform audit testing based on the audit sampling and materiality.
- ▶ Perform controls testing procedures.
- ▶ Perform substantive audit procedures and analytical procedures.
- ▶ Derive conclusions by evaluating audit findings and evidence.
- ▶ Issue half margin memo.
- ▶ Exit conference meeting.
- ▶ Review and document working papers on OAMS.

4.3 Audit Reporting

76. This phase covers the conversion of half margin memo to audit para based on the reply submitted by the auditee or in the absence of no reply submitted by the auditee against the half margin memo and then consequently preparation &submission of Auditors Report. The activities covered under this phase are as under:

- ▶ Conversion of half margin memo to audit para based on the reply submitted by the auditee or in case of no reply submitted by the auditee.
- ▶ Preparation of Financial Attest Audit Report which includes the auditor's opinion on the Financial Statements and Detailed Audit Report in the selected cases as mentioned ***in clause no. 7.2.1.***
- ▶ Issuance of Audit Report to auditee after review and approval.

4.4 Audit Monitoring, Follow Up and Compliance

77. It includes audit monitoring and receiving first compliance, sending reminders for not receiving responses in time, procedure for non-compliance, steps to improve compliances of the Financial Attest Audit Report by the Auditee.

4.5 Quality Assurance Framework

78. This chapter includes the responsibility of the Supervising Officer to review and submit the “**Quarterly Progress and Performance Report**” to DoA in order to prepare the annual training calendar. This chapter will also include the minimum number of hours of training is required to be completed by each member of the audit team.

4.6 Overview of Online Audit Management System (OAMS)

79. The Online Audit Management System (OAMS) is a web-based application being developed by the National Informatics Centre (NIC) for the Directorate of Audit, Government of Uttarakhand. The objective of OAMS is to systematize the entire audit life cycle starting from audit planning, execution, reporting, follow-up, compliance, and monitoring through e-management. The current and proposed function of the OAMS is given below.

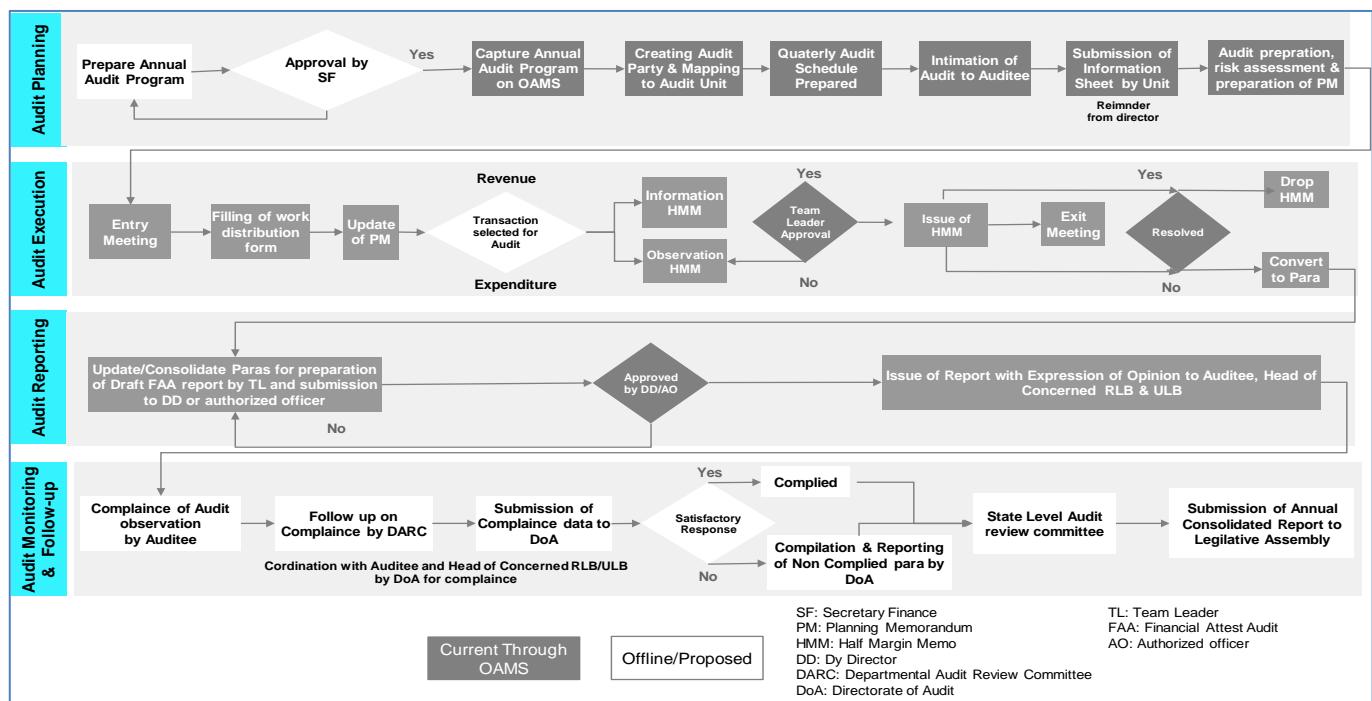


Figure 7: Overview of OAMS

4.7 Computer Assisted Audit Techniques (CAATs)

80. Computer assisted audit techniques (CAATs) is an IT based audit tool that assists the auditors in identifying high-risk audit areas and high-risk transactions where population and sample sizes are very large. CAATs is a generic term used to collectively describe various software-based techniques and tools viz. IDEA, NT-Auditor, MS-Access etc. used for the analysis of electronic data. The use of CAATs enhances the efficiency and effectiveness of audit planning and audit execution process as it enables the auditor to interrogate the entire population of digital data, choose audit samples more scientifically and perform a wide variety of analyses.
81. Auditors use CAATs for performing various types of data analysis which have been described below:
- a. **Generation of Control totals and reconciliation of data** – Using data analysis software the control totals of the population can be recalculated and compared with account balances and summarised figures in the trial balance. Any discrepancy can be investigated further and reconciled. This procedure additionally provides assurance regarding the completeness and integrity of the data obtained from the auditee's computer systems.
 - b. **Duplicate check** – Duplicate check assist in identifying gaps in sequences like cheque / EFT numbers and identify transactions beating duplicate fields
 - c. **Summarisation** – Summarising the transactions for different data fields is used to generate sub-totals which is a useful tool for identifying important sub-classes of transactions for risk assessment purposes. Summarisation is an important tool for audit as it can be used to segregate the entire population of financial transactions into various classes and account balances.
 - d. **Interrogation** – Using the Equation Editor and the functions, the auditor can build simple to complex criteria to interrogate the entire population of transactions like payments, journal entries, user logs etc. in order to identify possible unusual and irregular transactions and misstatements.
 - e. **Stratification** – Stratification of the population value helps to identify the distribution of the monetary value across the various strata. It is an important tool for determining audit strategy for testing and for the selection of high value items for 100% testing
 - f. **Matching and joining databases** – Joining and matching databases enables the auditors to find exceptional items and compare account balances across different accounting periods. Joining files is also useful for combining master files and transaction files.

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- g. **Sampling**—Sampling enables the auditor to extract a representative selection of transactions from the file for audit testing. The various types of sampling supported by CAATs include Systematic, Random, Stratified, Monetary Unit, Attribute

Note: This section will be further updated post completion of pilot audit and types of CAAT tools selected by DoA.

Chapter 5: Audit Planning and Preparation

82. In order to improve the quality of Financial Attest Audit, detailed and well-defined audit planning is essential. In this stage, each audit unit is planned in a manner to ensure that audits are carried out in an efficient and timely manner. The planning establishes and documents the overall audit approach, audit objectives, scope and audit program covering all the audit procedures to be performed.

The **ISSAI 2300 “Planning of an Audit of Financial Statements”** deals with the auditor’s responsibility to plan an audit of Financial Statements. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. An adequate audit planning benefits in several ways:

- Helping the auditor to properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.
- Assisting in the selection of audit team members with appropriate levels of capabilities and competencies to respond to anticipated risks, and the proper assignment of work to them.
- Helping the auditor to devote appropriate attention to important areas of the audit based on the risk assessment.
- Helping the auditor identify and resolve potential problems on a timely basis.
- Facilitating the direction and supervision of audit team members and review of their work.

83. Audit planning is the responsibility of the Director of Audit. Following are the key activities to be undertaken for the preparation of an effective audit plan.

| | |
|--------|--|
| Step 1 | • Prepare Overall Annual Audit Plan |
| Step-2 | • Audit Team formation |
| Step 3 | • Allocate Man-days to each Audit Unit |
| Step 4 | • Prepare Annual and Quarterly Audit Calendar |
| Step 5 | • Intimate Audit Plan to Audit Units and Audit Teams |
| Step 6 | • Prepare Audit Plan for Individual Audit |

Figure 8: Steps involved in Audit Preparation and Planning

5.1 Prepare Overall Annual Audit Plan

84. The Financial Attest Audit of all auditable units of ULBs and RLBs will be done annually irrespective of their size and nature. The Directorate of Audit will establish an overall planning strategy that sets out the scope, timing, and direction for Financial Attest Audit which would guide for the development of the annual audit plan. Therefore, updating of audit universe of ULBs and RLBs on yearly basis is essential in order to prioritize which audit unit to be undertaken for audit on a priority basis, considering the various factors like regulatory requirements, timelines, and available audit team with the DoA. Therefore, it is become essential to prepare an overall annual audit plan and then divide this into a quarterly audit plan for smooth execution of the annual audit plan. This shall be done by following the steps listed below:
- a. The DoA shall prepare the annual audit plan in the first quarter of each audit year on the basis of Financial Statements prepared and submitted by the ULBs and RLBs before 31 May of the year while the audit execution will be carried out from the second quarter onward. For the remaining audit units which have not submitted their Financial Statements within the cut-off date, the annual plan, as well as quarterly audit plan, will be updated latest by 31 December of the year. The annual audit plan will include the following details:
 - ▶ Details of the ULBs and RLBs to be audited (entire universe).
 - ▶ Audit resources available for Financial Attest Audit for the year.
 - ▶ Number of man-days allocated for Financial Attest Audit to each ULB/ RLB.
 - ▶ Total number of resources required for Financial Attest Audit of ULBs/RLBs including the backlog audit carried forward from the previous period if any.
 - b. The annual audit plan shall be reviewed and approved by the Director, Audit
 - c. The approved annual audit plan shall be divided into quarterly audit plans for ease of implementation, follow up and monitoring.
85. Conducting Financial Attest Audit of all ULBs and RLBs simultaneously may not be possible due to a large number of auditable units especially in the case of Gram Panchayat. Therefore, it becomes essential to adopt a mechanism, based on certain predefined parameters called **Risk-Based** approach for selection of audit unit which needs to be audited first and auditable units which need to be audited at a later stage. This risk-based approach would help DoA in selecting high-risk audit units for auditing

on a priority basis while the medium risk and low risk audit units may be audited at a later stage. This exercise will be done annually for all ULBs and RLBs separately in order to identify the auditable units that need to be audited on a priority basis based on the risk profiling done for all auditable units. For categorization of all auditable units into high, medium, and low, the following steps shall be undertaken:

Step 1: Select the parameters based on which risk profiling of audit units is to be done

Step 2: Plotting of data against each of the selected parameters

Step 3: Scoring of auditable units based on the plotted data

Step 4: Assigning of weights against each of the assigned score and calculation of weighted scores for each of the audit unit

Step 5: Calculation of Overall Score

Step 6: Classification auditable units as High, Medium and Low based on the overall score and prioritization audit units to be audited

Figure 9: Steps included in Annual Audit Planning

Note: The above steps will be done annually at DoA level, considering the Financial Statements prepared and submitted by the audit unit.

Step 1: Select the parameters based on which risk profiling of audit units is to be done

86. The risk profiling of all auditable unit of ULBs and RLBs shall be done based on the following financial and non-financial parameters separately.

| Parameters Types | Name of Parameters | Description of Parameters |
|-----------------------------|---|--|
| Financial Parameters | Total expenditure (revenue and capital) | Total expenditure (revenue and capital) incurred by the auditee for the Financial Year to be audited |

| | | |
|---------------------------------|--|--|
| Financial Parameters | Total Revenue | Total Revenue recorded for the Financial Year to be audited |
| Financial Parameters | Values of paras pending for compliance | Total value of pending paras for compliance at end of the immediately preceding Financial Year |
| Non-Financial Parameters | Number of paras pending for compliance | Total Number of paras pending for compliance at end of the immediately preceding Financial Year |
| Non-Financial Parameters | Financial Statements prepared and submitted to DoA for audit | Mandatory parameter for selection of audit units by DoA. |
| Non-Financial Parameters | Number of embezzlement paras pending for settlement | Number of embezzlement paras pending for settlement at end of the immediately preceding Financial Year |

Table 9: Parameters for Risk Profiling of Auditible Units under ULBs & RLBs

Note: The above parameters are indicative, the DoA may add/delete/modify any of the above parameters based on the available information and the circumstances of the case in the field.

OAMS Functionality: All the above-mentioned parameters will be made available on OAMS for selection of audit units to be audited from the total number of available auditible units automatically. The DoA will have the option to add new parameters and/or delete any of the parameters based on their professional judgments and past experience.

Step 2: Plotting of data against each of the selected parameters

87. The next important step would be to plot the data for each of these parameters against each of the auditible unit of ULBs/ RLBs. The data with respect to these parameters will have to be fed on OAMS for the first time to create master data. Some data against these parameters is already available in OAMS while some of the data needs to be fed manually from external sources e.g. from e-Gram Swaraj or any other accounting and reporting software adopted by the ULBs and RLBs.

Step 3: Scoring of audit units based on the plotted data

88. In this step suitable benchmark value for each of the above-mentioned parameters will be assigned. The score will be assigned on a scale of 10 for each of these parameters.

OAMS Functionality: Once all the range of values and the respective score are decided and updated into OAMS master data, the system will automatically calculate the scores against each of these parameters based on the data plotted for each audit unit.

Step 4: Assigning of weights against each of the assigned score and calculation of weighted scores for each of the audit unit

89. After assigning the score for each of the selected parameters, the next step would be to assign appropriate weights against each of the parameters. The assigning of weight will be an administrative decision and shall be reviewed/revised once in every three years at DoA Level and approved by the Director, Audit based on the experience gathered from previous year's Financial Attest Audit. Once the weight to individual parameters and scores against each of the parameters have been updated in OAMS, the weighted score for each of the audit units will be calculated by OAMS automatically without any human intervention.

OAMS Functionality: For the first time these data needs to be updated into the OAMS database and then the OAMS will automatically calculate the weighted scores without any human intervention.

Step 5: Calculation of Overall Score

90. The overall score for each of the audit unit will be calculated by using the following formula.

$$SU_1 = \frac{(P_1 \times W_1) + (P_2 \times W_2) + \dots + (P_n \times W_n)}{(W_1 + W_2 + \dots + W_n)}$$

Where:

SU₁ is Score for selection of auditable unit of the ULB/RLB

P_n is score for variable under respective parameters

W_n is the weight of the respective parameter

OAMS Functionality: The OAMS will automatically add all the weighted scores of each of the parameters and then reflect the overall score for each audit unit to be audited.

Step 6: Classification of audit Unit as High, Medium, and Low based on the overall score and prioritization of audit units to be audited

91. Based on the overall score for each of the audit units, an appropriate range may be taken to classify the audit unit as High, Medium, and Low. For example, if the overall score is 7 and above the audit unit will be classified as ‘High’ and if the score is in a range of 4 to 7 then it will be classified as ‘Medium’ and for the units where the overall score is equal to or below 4 then it will be classified as ‘Low’.
92. Accordingly, the auditable units classified as ‘High’ should be planned for audit in second quarter of the audit year and the auditable units which have been classified as ‘Medium’ and ‘Low’ should be planned for audit from the third quarter onward based on the available audit team with the DoA.
93. The above process has been summarized as under.

| Categorisation of Auditable Units for Planning of Financial Attest Audit | | | | | | |
|--|--|-------------------|-----------------|--------------|--------------|-------------------|
| Frequency of this Activity | Annually | | | | | |
| Responsibility | Directorate of Audit | | | | | |
| Activities to be taken | The Directorate of Audit will categorise the auditable units for ULBs and RLBs separately based on the following steps: Step 1: Risk Profiling, of the auditable units (will be done separately for ULBs and RLBs) based on the following Financial and Non-Financial Parameters | | | | | |
| S. No. Parameter Description of Scoring | | | | | | |
| | Name | Parameters | Variable | Range | Score | Weig htage |
| Financial Parameters: | | | | | | |
| 1 | | | | 0-5% | 3 | 20% |

| | | Total Expenditures in case of ULBs or Total Payments in case of RLBs (both revenue and capital expenditure) | Total Expenditures in case of ULBs or Total payments in case of RLBs of the financial year to be audited. e.g. If Financial Attest Audit is to be done for FY 2020-2021 then Total Expenditures/Total Payments of FY 2020-21 needs to be considered | Total Expenditures or Total Payments of auditable unit <i>divided by</i> Total Expenditures in case of ULBs/Total Payments in case of RLBs as the case may be(%) | 5-10% | 6 | |
|--|---|---|---|--|-------|---|-----|
| | 2 | Total Revenue in case of ULBs or Gross Receipts in case of RLBs of the financial year to be audited. | Total Revenue in case of ULBs or Gross Receipts in case of RLBs of the financial year to be audited. | Total Revenue or Gross Receipts as the case may be(%) | <0% | 0 | 20% |
| | 3 | Values of paras pending for | Values of paras pending for | Value of paras pending for | 0 | 0 | |
| | | | | | 0-2L | 3 | |

| | | | | | | | |
|----------------------------------|--|---|---|--|---------|----|-----|
| | | pending for compliance | compliance of Financial Attest Audit at end of the immediately preceding financial year | compliance for the respective auditable unit | >2L-10L | 6 | 20% |
| | | | | | >10L | 10 | |
| Non-Financial Parameters: | | | | | | | |
| 4 | | Number of paras pending for compliance | Total Number of paras pending of Financial Attest Audit for compliance at end of the immediately preceding financial year | No. of paras pending for compliance as % of total no. of audit paras of all the ULBs/RLBs at the state level | <0% | 3 | 20% |
| | | | | | 0-5% | 6 | |
| | | | | | 5-10% | 10 | |
| 5 | | Financial Statements | Financial Statements prepared and submitted to DoA for Financial Attest Audit | Financial Statements prepared and submitted by the auditee | No | 0 | 10% |
| | | | | | Yes | 10 | |
| | | Number of embezzlement paras pending for settlement | Number of embezzlement paras pending for settlement at end of the immediately | No. of embezzlement paras pending for compliance as % of total no. of | <0% | 3 | 10% |
| | | | | | 0-5% | 6 | |
| | | | | | 5-10% | 10 | |

| | | | | | | |
|--|--|--------------------------|--|--|--|--|
| | | preceding financial year | embezzlement audit paras of all ULBs/RLBs at the state level | | | |
|--|--|--------------------------|--|--|--|--|

Table 10: Illustrative Parameters for Risk profiling of Auditible units with ranges, scores and weightage

Note:

- a. Above parameters has been kept as dynamic
- b. In case there is any embezzlement, fraud or misappropriation of funds reported in any of the auditable unit in the immediately preceding financial year then such auditable unit will be classified as high-risk audit unit irrespective of the score calculated above.
- c. If the relevant information with respect to the parameters no. 1 & 2, is not available then the ULBs/RLBs having higher expenditures or Payments and higher revenue or gross receipts will be given higher weightage.

Step 2: Calculate scores for each of the auditable unit based on the above parameters:

$$SU_1 = \frac{(P_1 \times W_1) + (P_2 \times W_2) + \dots + (P_n \times W_n)}{(W_1 + W_2 + \dots + W_n)}$$

Where:

SU₁ is Score for selection of auditable unit of the ULB/RLB

P_n is score for variable under respective parameters

W_n is the weight of the respective parameter

Step 3: Prioritisation of auditable Units to be audited

Based on the final score calculated in step-2 above, the auditable units within ULBs and RLBs shall be selected for audit as per:

| Particular | Category | Auditing Criteria |
|--|----------|--|
| Auditible unit with score more than 7 | High | To be prioritise for audit in second quarter of the audit year |

| | | | |
|--|---|--------|--|
| | Audit able unit with score more than 4 but less than or equal to 7 | Medium | To be planned for audit from third quarter onward of the audit year. |
| | Audit able Unit with score up to 4 | Low | |

Table 11: Illustrative Matrix for selection of units to be audited based on Risk Profiling

Note 1: The above process would help DoA to prioritise audit able units which need to be undertaken for Financial Attest Audit on priority basis.

Note 2: The above risk profiling is required to be carried out at Gram Panchayat Level due to involvement of large numbers of audit able units and low volume of transactions. Therefore, in case of GP, prioritisation of audit able unit will be done by DoA based on their professional judgment and past audit experience.

5.2 Allocate Audit Team

94. Allocation of the audit team to each of the audit units will be done at the level of DoA. The selection of the right audit team is one of the important factors for achieving the objectives of Financial Attest Audit. The audit team includes 2-3 members, depending on the size and nature of the audit unit led by a team leader. While allocating the audit team, the preference should be given to the background of the team members, their past experience, and skillsets. This would improve the effectiveness of the Financial Attest Audit. The following key considerations must be kept in mind while allocating the audit team for Financial Attest Audit.

- ▶ The team leader and other members should have prior work experience for conducting financial attest audits.
- ▶ As far as possible, the nearest audit unit is assigned to each of the audit teams in order to save time and cost.
- ▶ Further, each audit team member is responsible to comply with ethical requirements including independence as set out in this Financial Attest Audit manual.

OAMS Functionality: This logic will be built up in OAMS to automatically map the audit team for Financial Attest Audit. Any change in the structure of the audit team must be approved by the Directorate of Audit.

5.3 Allocate Man-Days to each Audit Unit

95. Once the audit team is mapped with the audit unit, the next step is to allocate the number of man-days required to carry out the Financial Attest Audit. The number of man-days required to carrying out Financial Attest Audit would be based on the type of audit units(such as Nagar Nigam, Nagar Palika, Nagar Panchayat, Zilla Panchayat, Kshettara Panchayat, and Gram Panchayat) and their risk rating as high, medium, and low. The framework for allocation of the number of man-days to each of the audit units to carry out Financial Attest Audit has been provided below.

| S. No. | Tasks | Nagar Nigam | Nagar Palika | Nagar Panchayat | Zilla Panchayat | Kshettara Panchayat | Gram Panchayat** |
|-----------|--|----------------|-----------------|--------------------|--------------------|------------------------|---------------------|
| | Parishad | | | | | | |
| 1. | Based on the information received through information sheet and data extracted from e-GramSwaraj or other software integrated with OAMS. The audit team will carry out data analysis, prepare the list of required information and finalise the audit program before visiting to audit unit. | 1 | 1 | 1 | 1 | 1 | 1* |

| | | | | | | | |
|-----------|--|----------|----------|----------|----------|----------|------------|
| 2. | Audit execution at the field i.e. verification of transactions and collection of evidence, assessment of internal control environment, issuing of half margin memo, entry and exit meeting and conversion of half margin memo into the audit paras | 4 | 3 | 3 | 4 | 1 | |
| 3. | Issuance of Auditors Report | 2 | 1 | 1 | 1 | 1 | |
| | Total | 7 | 5 | 4 | 6 | 3 | 1+1 |

Table 12: Illustrative Matrix for allocation of Man-days for Financial Attest Audit

*40 Gram Panchayat can be planned in a single day.

** In case of gram panchayat, only one audit personal would be allocated.

Note: The above framework for allocation of man-days is indicative which can be modified based on the requirement, risk rating and past experience gathered from the Financial Attest Audit of ULBs/ RLBs by the Director, Audit or any officer authorised by the Director, Audit.

OAMS Functionality: The number of days for each type of audit unit as per their risk rating will be pre-fed into OAMS and then OAMS will automatically allocate the number of man days to each auditable unit based on its risk rating.

5.4 Prepare Annual and Quarterly Audit Calendar

96. The DoA has the responsibility to prepare an annual audit calendar covering the following details:

- ▶ Name of the audit unit selected for audit.
- ▶ Quarter in which actual audit will be performed.
- ▶ Details of concerned Supervising Officer to supervise the audit team assigned for conducting Financial Attest Audit.
- ▶ Details of the audit team member assigned to carry out Financial Attest Audit including the name of the team leader.
- ▶ The number of audit teams required for carrying out the Financial Attest Audit.
- ▶ The financial year for which Financial Attest Audit is to be conducted.
- ▶ Man-days to be allotted for carrying out the Financial Attest Audit.

97. The annual audit plan will be prepared in the first quarter of the audit year. The approved annual audit plan shall be uploaded on the website of the Directorate of Audit, and on the OAMS. Based on the annual audit plan, a quarterly audit plan will be prepared by the DoA. Any amendment/change in the approved annual audit plan as well as in the quarterly audit plan can be done with the prior approval from Director, Audit.

OAMS Functionality: The OAMS will prepare the annual audit calendar automatically based on the previous information filled which can be reviewed and modified by the concerned officials of DoA.

5.5 Intimate Audit Plan to Audit Units and Audit Teams

98. Once the annual audit plan and quarterly audit plan is finalized. The quarterly audit plan shall be communicated to each of the audit units, their HoA, and to the audit team via auto generated emails from OAMS at least 30 days before the start of the quarter. This will enable to audit unit to arrange necessary records and in identifying the concerned personnel who is responsible for the smooth conduct of the Financial Attest Audit. Along with the intimation, Information Sheet will also be sent to the audit unit which needs to be filled and uploaded by the audit unit on OAMS at least 14 days before the start of the Financial Attest Audit. ***Refer to Section 12.1.3 of Chapter 12 “Forms, Formats and Audit Check List, Volume II” for Format of “Information Sheet and Intimation Letter”***

99. As soon as the Information Sheet is duly filled and approved by the HoA, the OAMS will send an intimation automatically to the concerned audit team via email. In case of non-submission of

Information Sheet by the auditee within the stipulated time, the OAMS will send reminders to the auditee and to HoA of the concerned ULBs/ RLBs for action. Disciplinary action can also be initiated U/s 7 of the Uttarakhand Audit Act, 2012 against the concerned officer for non-submission of Information Sheet intentionally after sending the final reminder.

OAMS Functionality: the approved annual and quarterly audit plans will be uploaded on OAMS. The audit plan will include all the information such as the name of the audit units selected for audit, financial year to be audited, name of the audit team members and a number of working days allotted for completion of the Financial Attest Audit. As soon as approved quarterly audit plan is uploaded on OAMS, , an intimation shall be sent to the auditee by the OAMS through email. Along with the intimation sheet and information sheet shall also be sent to the auditee which needs to be filled up and uploaded by the auditee on OAMS with the approval of the HoA at least 14 days before the start of the audit. Once the information sheet is approved by the HoA the same shall be intimated automatically to the concerned audit team through SMS/ email by OAMS. The Auditor can also view his schedule on OAMS and can plan their visit accordingly. If the auditee doesn't send the initiation letter in time the OAMS shall send reminders automatically.

5.6 Prepare Audit Planning for Individual Audit

100.Upon receipt of the Information Sheet from the auditee, the DoA with the help of a group of auditors shall prepare the individual audit plan. It is the responsibility of DoA to take necessary steps and prepare an audit execution plan for each of the audit units scheduled for the Financial Attest Audit for the relevant quarter. The findings noted during the individual audit planning will be communicated to the concerned audit team members before they proceed for a field visit. Following activities will be undertaken while preparing an individual audit plan.

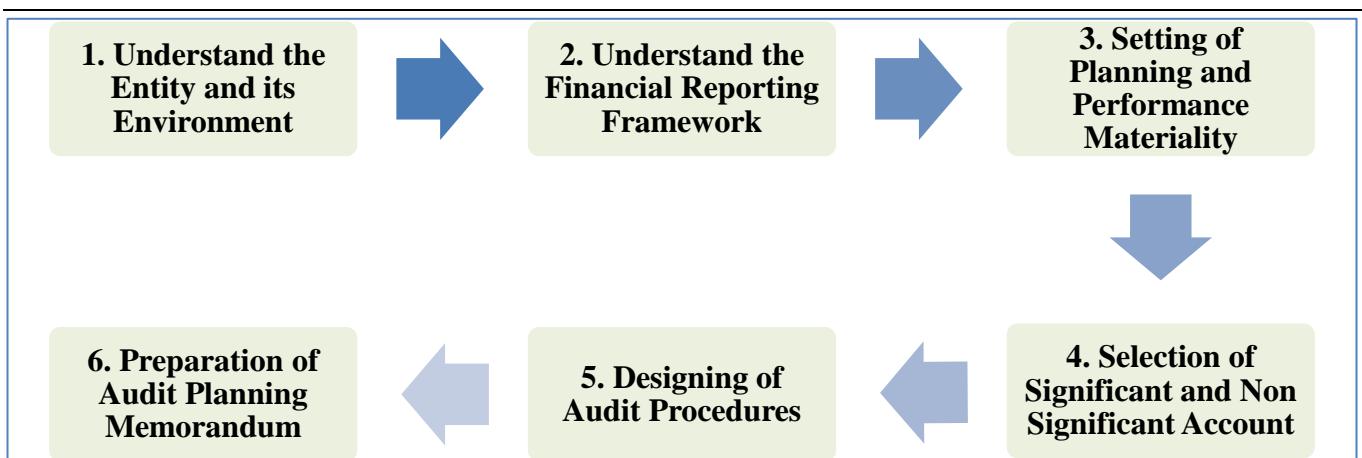


Figure 10: Steps in Audit Planning at the Unit Level

| S. No. | Steps to be Undertaken | Remarks |
|--------|---|--|
| I. | <p>Understand the audit unit and its Environment. This include the following.</p> <ul style="list-style-type: none"> a. Understand the Legal and Regulatory Framework b. Understand the Significant Areas c. Understand the extent of Computer Involvement | <p>This activity will be undertaken at DoA separately for Nagar Nigam, Nagar Palika Parishad, Nagar Panchayat, Zilla Panchayat, Kshettara Panchayat and Gram Panchayat by DoA along with group of auditors identified for this purpose. The findings of this activity will be communicated to the concerned audit team for their consideration. Refer clause no. 5.6.1 below.</p> |
| II. | Understanding Financial Reporting Framework | <p>This activity will be undertaken at DoA level separately for Nagar Nigam, Nagar Palika Parishad, Nagar Panchayat, Zilla Panchayat, Kshettara Panchayat and Gram Panchayat by DoA along with group of auditors identified for this purpose. The findings of this activity will be communicated to the concerned audit team for their consideration. Refer clause no. 5.6.2 below.</p> |
| III. | Setting of Planning and Performance Materiality | <p>This activity will be done at DoA level separately for Nagar Nigam, Nagar Palika Parishad, Nagar Panchayat, Zilla Panchayat, Kshettara Panchayat and Gram Panchayat by DoA along with group of</p> |

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| S. No. | Steps to be Undertaken | Remarks |
|--------|--|---|
| | | auditors identified for this purpose. The findings of this activity will be communicated to the concerned audit team for their consideration. Refer clause no. 5.6.3 below. |
| IV. | Selection of Significant and Non-Significant Account | This activity will be undertaken at DoA level separately for Nagar Nigam, Nagar Palika Parishad, Nagar Panchayat, Zilla Panchayat, Kshettara Panchayat and Gram Panchayat by DoA along with group of auditors identified for this purpose. The findings of this activity will be communicated to the concerned audit team members for their consideration. Refer clause no. 5.6.4 below. |
| V. | Designing of Audit Procedures | This activity will be undertaken at DoA level separately for Nagar Nigam, Nagar Palika Parishad, Nagar Panchayat, Zilla Panchayat, Kshettara Panchayat and Gram Panchayat by DoA along with group of auditors identified for this purpose. The findings of this activity will be communicated to the concerned audit team for their consideration. Refer clause no. 5.6.5below. |
| VI. | Preparation of Audit Planning Memorandum | This activity will be undertaken at DoA level separately for Nagar Nigam, Nagar Palika Parishad, Nagar Panchayat, Zilla Panchayat, Kshettara Panchayat and Gram Panchayat by DoA along with group of auditors. The findings of this activity will be communicated to the concerned audit team for their consideration. Refer clause no. 5.6.6 below. |

Table 13: Audit Planning for individual unit

101. The above steps have been described in detail below:

5.6.1 Understand the Audit Unit and Its Environment

102. A detailed understanding of the audit unit and its environment is essential for conducting a Financial Attest Audit efficiently and effectively. An understanding about the auditee would help in designing an efficient and effective audit approach with the focus on significant areas that may have an impact on the Financial Statements. Each member of the audit team should have knowledge about the audit unit and its operations before the start of the Financial Attest Audit. The understanding about the auditee and its environment would help in:

- a) Identifying entity's risks relevant to financial reporting objectives.
- b) Estimating the significance of the risks.
- c) Assessing the likelihood of their occurrence; and
- d) Deciding about actions to address those risks.

103. The entity's risk assessment process forms the basis as to how the management determines and manages the risk. If this process is appropriate to the circumstances, including the nature, size, and complexity of the entity, it would help in identifying risks of material misstatements whether due to fraud or error. Appropriateness of risk assessment processes is a matter of professional judgment. This will be done by reviewing the following areas/ documents of the audit unit.

| S. No. | Checkpoint | Response |
|--------|---|----------|
| 1. | Brief background of audit unit, organisation structure and activities undertaken by the audit unit | Yes / No |
| 2. | The accounting policies, books of accounts required to be maintained and actually maintained | Yes / No |
| 3. | The Accounting treatment for revenues, expenditure, grant received, assets and liabilities created. | Yes / No |
| 4. | Charts of accounts, any new heads of account introduced by audit unit since the last audit | Yes / No |
| 5. | Source of funding of audit unit | Yes / No |

| S. N0. | Checkpoint | Response |
|--------|--|----------|
| 6. | Main contacts for audit at the audit unit | Yes / No |
| 7. | Relationship with other audit units / government organizations | Yes / No |
| 8. | Change that has taken place in previous or is planned to be taken place (like re-organization of a unit/ wing) | Yes / No |
| 9. | List of the recipients of services/schemes | Yes / No |
| 10. | Key members of the audit unit and what are their responsibilities | Yes / No |
| 11. | Previous years' audit reports and Financial Statements; | Yes / No |
| 12. | Past audit experience and observations on previous years' accounts (including transaction audit observations if any); | Yes / No |
| 13. | Important points from discussion with management of ULB's and RLB's and internal audit personnel; | Yes / No |
| 14. | Key focus areas as per act, policy and procedural manuals, internal audit reports, budgets, revised budget and minutes of management meetings; interim accounts, if any; | Yes / No |
| 15. | Key points from Annual Administrative Report of ULB and RLB | Yes / No |
| 16. | Any other document relevant to the audit. | Yes / No |
| 17. | Whether any items require exercising of judgment or estimation. | Yes / No |
| 18. | Whether any new scheme/ services are implemented by audit unit since last audit. | Yes / No |
| 19. | Whether account balances, classes of transaction and disclosure expected in the Financial Statements are done appropriately or not | Yes / No |

Table 14: Illustrative checklist for understanding audit unit and its environment

OAMS Functionality: Audit team should use the documents uploaded by audit unit on OAMS together with intimation letter, to gain an understanding about the auditee and its operations.

A. Understand the Legal and Regulatory Framework

104. It is the responsibility of the management to ensure that entity's operations are conducted in accordance with the provisions of the applicable laws and regulations. Any breach related to laws and regulations could have an impact on the Financial Statements including the determination and

disclosure of material amounts in the Financial Statements. Therefore, the audit team needs to have an understanding of the legal and regulatory framework of the auditee to be audited. This may include the following information.

- ▶ Any changes in the reporting framework or formats of accounts since the last audit.
- ▶ Guidelines/ amendments issued by the regulatory authority for preparation and presentation of Financial Statements and reporting structure.
- ▶ Identify the legislative interest and public interest in the entity and its Financial Statements, in particular the level of assembly questions, complaints from the public directly or to the public representatives, and scrutiny of Financial Statements by government and/or legislature.
- ▶ Primary and Secondary Legislation (like any Governing Legislation, Financial Rules, Notification) and any changes since last year audit.
- ▶ Any instructions issued by Finance Department or Controlling Department or any changes since the last year's audit.

B. Understand the Significant Audit Areas

105. The audit team should analyse and understand the significant audit areas of the Financial Statements. The significant audit areas are the classes of assets, liabilities, income, and expenditure which have similar underlying characteristics and transactions stream. The Audit team should obtain an understanding of the accounting processes, its accounting systems, and the management information systems. The audit team also needs to understand the nature and accounting treatment for different types of transactions like Revenue (Tax Revenue, Non-Tax Revenue), Procurement, Establishment and Revenue expenditure, Grants in Aid, Capital & Revenue Receipts, Fixed Assets / Capital Expenditure, stores and stock management, Loans and Advances, Investments, schemes, accounting estimates etc. are happening in the books of accounts.

The definition of significant areas is a matter of professional judgment. However, the following are the guiding factor for the determination of significant audit areas.

- ▶ The significant transaction types or items.
- ▶ The accounting and financial reporting process.
- ▶ An assessment of the risk and tendency to error for a different type of transactions.
- ▶ The control systems followed and in operation in the entity; and

- The control systems operated for accounting.

106. Understanding significant audit areas would help to carrying out a risk assessment and designing of audit plan. Below is an example of significant audit areas with respect to the ULBs and RLBs.

A. Significant Audit Areas with respect to Urban Local Bodies

- a. **Planning and Budgeting:** A budgeting process as the toll that supports the allocation of resources for different operation plans prepared for achieving the strategic goals of the ULBs. Every ULB is required to prepare an annual budget which should be based on its annual work plan to achieve its objectives. These include estimation and forecasting, keeping in view the resource required for implementing the plan. Thus, the annual work plan and the budget should be aligned with the strategic objectives of the ULBs.
- b. **Procurement:** Procurement is the process of acquisition by way of purchase, lease, license or otherwise of works, goods, and services, including awarding of Public Private-Partnership projects by procuring entity whether directly or through an agency with which a contract for procurement services is entered.
- c. **Establishment or Human Resource:** The establishment is a key function in the ULBs. Following key tasks are undertaken in the establishment unit.
 - Maintenance of service book of employees (includes fixation of pay due to increase in pay or annual increment etc.), personal files and leave files of the employees,
 - Appointments, Transfers, Deployments, contracting of services etc.
 - Salary and wage processing,
 - Keeping and maintaining records related to Performance evaluation of the staff etc.
- d. **Accounting (including Cash and Bank):** Accounting is the process of recording, analysing, classifying, summarizing, communicating, and interpreting financial information in aggregate and in detail reflecting transactions and other economic events involving the receipt, spending, transfer, usability and disposition of assets and liabilities. The purposes of accounting are:
 - To record the financial transactions in a timely, efficient, and reliable manner (e.g. to make payments, settle liabilities, collect sums due, buy and sell assets etc.) in accordance with the applicable financial reporting framework.

- To keep systematic, easily accessible accounting and documentary records as evidence of past transactions and current financial status, so that detailed transactions can be identified and tracked, and all aggregates can be conveniently broken down into their constituent parts.
 - To provide periodic Financial Statements and results, containing appropriately classified financial information, as a basis for (a) accountability and (b) decision-making.
 - To maintain financial records suitable for budgetary control, internal control, and the needs of auditors.
 - To provide means for effective management of government assets, liabilities, expenditures, and revenues.
- e. The key accounting heads used in the Financial statements of ULBs as per UMAM 2021⁵ has been provided below in the table:

| S. No | Item | Description |
|------------|----------------------------------|---|
| 1. | Income & Expenditure | |
| 1.1 | Income | |
| a) | Tax Revenue | Fund raised through the various taxes is referred to as tax revenue such as property tax, water supply and drainage tax, elementary education tax, scavenging tax, or any other taxes as applicable from time to time. Tax revenue including surcharge shall be recognized in the period in which they become due and demands are ascertainable. |
| b) | Assigned Revenues & Compensation | Assigned revenues are a share in the revenues of the state government, to compensate for certain losses in revenue and arrangement of resources of the ULBs. The share in revenues is determined based on the recommendations of the State Finance Commissions and devolution of funds to ULBs agreed by the state. Assigned revenues passed on by the Central/ |

⁵ Refer UMAM for accounting policies and details on each area of transaction.

| S. No | Item | Description |
|--------------|---|---|
| | | State/Government Agencies to the ULB shall be accounted for during the year only upon actual receipt. At the year-end these shall be accrued only if a sanction order is received and the amount is ascertained and should be disclosed separately in the notes to accounts. |
| c) | Rental Income from Municipal Properties | Income accrued and collected by ULBs on account of municipal properties rent out/leased out. Revenues in respect of rents from municipal properties shall be accrued based on the terms of each agreement. |
| d) | Fees & User Charges | It includes various user charges, Licence Fee, building permission fee, registration fee, development charge, advertisement fee, etc. The rates shall be charged as per the relevant bye-laws. |
| e) | Sale & Hire Charges | This includes income from sale of products, forms & publications, stores & scrap etc. and hire charges for vehicles and equipment. |
| f) | Revenue Grants, Contributions & Subsidies | Revenue Grant is generally utilised for meeting recurring expenditure, the benefits of which usually expire within the accounting year in which it is incurred. Revenue Grants are usually in the nature of a subsidy. Untied (General) Revenue Grants, which are of a revenue nature, shall be recognised as income on actual receipt. Whereas, a specified revenue grant shall be accounted as a liability on receipt and will be treated as income once the specific condition has been fulfilled. |
| g) | Income from Investments | Interest/dividend earned on investments made from Municipal funds, Special Funds and Grants shall be deposited in the respective Fund bank account. Interest/dividend received on investments of Special Fund or Grants represents accretion to the Special Fund or Grant and cannot be utilised for any purpose |

| S. No | Item | Description |
|------------------|--------------------------|---|
| | | other than for which the Special Fund has been created or Grant has been received. |
| h) | Interest Earned | This includes interest accrued and collected through balances in bank accounts, interest on loans and advances to employees, interest on loans to others and other interest. |
| i) | Other Income | <p>It includes incomes such as deposits forfeited, lapsed deposits insurance claim recovery, profit on disposal of fixed assets, recovery from employees, Unclaimed Refund/Liabilities, Excess Provisions written back, Miscellaneous Income etc.</p> <p>Other income, in respect of which demand is ascertainable and can be raised in the regular course of operations of the ULB, shall be recognized in the period in which they become due, i.e., when the bills are raised.</p> <p>Other Incomes, which are of uncertain nature or for which the amount is not ascertainable or where demand is not raised in regular course of operations of the ULB, shall be recognized on actual receipt.</p> |
| 1.2 | Expenditure | |
| a) | Establishment Expenses | Establishment expenses include expenses towards salaries and wages, bonus, pensions etc. and shall be recognized on accrual basis at the end of each month. Contribution towards contributory pension fund shall be accounted as and when the salary expenditure is accrued. |
| b) | Administrative Expenses | Include expenses such as rent, rates and taxes, office maintenance, communication expenses, books & periodicals printing and stationery, traveling & conveyance, insurance audit fees etc. |
| c) | Operations & Maintenance | Includes expenses towards power & fuel, bulk purchases consumption of stores, hire charges, repair & maintenance |

| S. No | Item | Description |
|--------------|---|---|
| d) | Interest & Finance Expenses | Borrowing costs should be recognized as an expense in the period in which they are incurred, except to the extent that they are capitalized. |
| e) | Programme Expenses | Expenses towards election expenses own programs, share in programs of others. |
| f) | Revenue Grants, Contributions & subsidies | Includes grants, contributions and subsidies given by the ULBs |
| g) | Provisions & Write off | A provision is the amount of an expense that an entity elects to recognize, before it has precise information about the exact amount of the expense. For example, an ULB routinely records provisions for bad debts on an estimated basis. Normally such provisions are recognised at the end of financial year. This also includes various revenue and assets written off. |
| h) | Miscellaneous Expenses | This includes expenses such as loss on disposal of assets, loss on disposal of investments and other miscellaneous expense |
| i) | Depreciation | A measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. It is allocated to charge a fair proportion in each Accounting Period during the useful life of the asset. It includes the amortisation of assets whose useful life is predetermined and the depletion of wasting assets. The method adopted for depreciation of assets is a straight-line method of depreciation, except for leasehold lands, which are amortized over its leased life. Depreciation method adopted is same for assets acquired on finance lease. |
| 2. | Balance Sheet | |
| 2.1 | Liabilities | |
| a) | Corporation Fund/ Municipal Fund | The municipal or general fund is the general operating fund of a ULB. It is used to account for all financial resources except |

| S. No | Item | Description |
|--------------|--|---|
| | | those related to any special or trust funds. The fund is named as “Corporation Fund” in case of Nagar Nigam, and “Municipal Fund” in case of Nagar Palika Parishad and Nagar Panchayat. |
| b) | Earmarked Funds | Funds representing Special Funds to be utilised for specific purposes |
| c) | Reserves | includes funds towards capital contribution, capital reserve borrowing redemption reserve, statutory reserve, general reserve, revaluation reserve etc. |
| d) | Grants, Contributions for specific purposes | Includes capital grants and revenue grants for specific purposes which shall be accounted for in accordance with the condition attached to it. |
| e) | Secured Loan | Represents secured loans availed by ULBs from the State Government or others such as banks, international agencies etc. The details of the security shall be provided in the notes to the accounts. Rate of Interest and the original amount of loan and outstanding can be provided for every loan category separately |
| f) | Unsecured Loan | Represents unsecured loans availed by ULBs from the State Government or others such as banks, international agencies etc. Rate of Interest and the original amount of loan and outstanding can be provided for every loan category separately |
| g) | Current Liabilities and Provisions: <ul style="list-style-type: none"> • Deposits received • Deposit works • Other liabilities (Sundry Creditors) • Provisions | Current liabilities are short-term financial obligations that are due within one year or within a normal operating cycle. Current Liability includes creditors, loans, deposits and bank overdrafts which are due for payment in a relatively short period, normally not more than twelve months. |
| 2.2 | Assets | |

| S. No | Item | Description |
|------------------|---|--|
| a) | Fixed Assets including Gross Block, Net Block, Capital Work in Progress | <p>Fixed Assets represent those assets of the ULBs, which are meant for use over useful life of assets or further in an extended period. These are the assets held for providing services and are not held for resale in the normal course of operations of the ULBs. A tangible asset held for long term use in producing or providing goods and services, and which is not held for sale in the normal course of operations of the ULB is called a fixed asset.</p> <p>The fixed assets are shown net of depreciation known as Net Block (Net Block = Gross Block – Accumulated Depreciation)</p> |
| b) | Investments (General Fund and Other Funds) | includes investment towards central government securities state government securities, debentures and bonds, preference shares, equity shares, units of mutual funds, other investments etc. from general funds or other funds |
| c) | Stock / Inventories | Stores items (Inventories) are assets (a) In the form of materials or supplies to be consumed in the production process; (b) In the form of materials or supplies to be consumed or distributed in the rendering of the services, (c) Held for sale or distribution in the ordinary course of operations; or (d) In the process of production for sale or distribution. Inventories in the local bodies may include (a) Consumable stores; (b) Maintenance materials; (c) Spare parts for plant and equipment, other than those dealt with in standards on Property, Plant and Equipment; (d) Work-in-progress, including educational/training course materials; and (e) Property held for sale. The cost of inventories should comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Accordingly, it will include various expenses like carriage cost, material testing charge, etc. |

| S. No | Item | Description |
|------------------|---------------------------------|--|
| d) | Sundry (Receivables) Debtors | The person from whom amounts are due for goods sold or services rendered or in respect of contractual obligations. Also termed as Debtor, Trade Debtor, and Sundry Debtor. The words 'Receivables' and 'Debtors' are used interchangeably. In ULBs debtors would normally include dues recoverable on account of property tax, water tax, rents, lease, user fees etc. All the dues which are pending for recovery at year end should be analysed and recoverability of the same should be obtained from the ULB. |
| e) | Prepaid expenses | Any expenditure for which the payment has been made in the current period, but the benefit and/or service is likely to arise in a future period shall be treated as a prepaid expense in the year of spending (to the extent does not pertain to the current year proportionately). Carried forward prepaid expenses shall be treated as current asset in the year of incurring the expenditure to the extent related to a future period and will be treated as revenue expenditure in the period/s in which its benefit arises and/or services are received in future. |
| f) | Cash and Bank Balances | Cash management and banking (Treasury) arrangements are one of the most fundamental systems operated in the ULB/RLB and therefore it is the most important asset. The ability to pay wages, pay suppliers and meet expenditures on time depends on the availability of cash. Further, cash is always treated as most risky asset which is highly vulnerable to theft, fraud and corruption, as it can be hard to trace and is easy to spend. It is therefore of fundamental importance for ULB/ RLB to have good systems for collecting, managing and disbursing cash and bank balances in order to ensure that all cash income is |

| S. No | Item | Description |
|----------|-------------------------------|---|
| | | collected, recorded adequately and promptly banked; and that suitable banking (Treasury) services are obtained. |
| g) | Loans, advances, and deposits | This includes loans and advances given to employees, employee provident fund loans, loans to others, advance to suppliers and contractors, advance to others, deposit with external agencies etc. |
| h) | Other Assets | Other assets include deposits works, other assets control account, miscellaneous expenditure written off. |

Table 15: key accounting heads used in the Financial statements of ULBs

B. Significant areas with respect to Rural Local Bodies

- I. **Planning and Budgeting:** A budgeting process is a tool that support the allocation of resources for different operational plans prepared for achieving the strategic goals of the RLBs. Every RLB is required to prepare an annual budget which should be based on its annual work plan to achieve its objectives. These include estimations and forecasting, keeping in view the resources required for implementing the plan. Thus, the annual work plan and the budget should be aligned with the strategic objectives of the RLB.
- II. **Accounting (including Cash and Bank):** Accounting is the process of recording, analysing, classifying, summarizing, communicating, and interpreting financial information in aggregate and in detail reflecting transactions and other economic events involving the receipt, spending, transfer, usability, and disposition of assets and liabilities. The purpose of accounting is:
 - a. To record the financial transactions in a timely, efficient and reliable manner (e.g. to make payments, settle liabilities, collect sums due, buy and sell assets etc.) in accordance with the applicable financial reporting framework.
 - b. To keep systematic, easily accessible accounting and documentary records as evidence of past transactions and current financial status, so that detailed transactions can be identified and tracked, , and all aggregates can be conveniently broken down into their constituent parts.
 - c. To provide periodic Financial Statements and results, containing appropriately classified financial information, as a basis for (a) accountability and (b) decision-making.

- d. To maintain financial records suitable for budgetary control, internal control, and the needs of the auditor.
 - e. To provide means for effective management of government assets, liabilities, expenditures, and revenues.
- III. **Cash and Bank:** Cash management and banking (Treasury) arrangements are one of the most fundamental systems operated in the RLBs and therefore it is the most important asset. The ability to pay wages, pay suppliers and meet expenditure on time depends on the availability of cash. Further, cash is always treated as risky asset which is highly vulnerable to theft, fraud, and corruption, as it can be hard to trace and is easy to spend. It is therefore of fundamental importance for RLBs to have good systems for collecting, managing, and disbursing cash and bank balances in order to ensure that all cash income is collected, recorded adequately and promptly banked; and that suitable banking (Treasury) services are obtained.
- IV. **Establishment(Human Resource):** The establishment branch is a key branch in the government organisation. The establishment branch typically deals with matters related to Human Resources; Broadly, an Establishment branch performs the following tasks:
- a. Maintenance of service book of employees (includes fixation of pay due to increase in pay or annual increment etc.), personal files and leave files of the employees.
 - b. Matters related to Appointments, Transfers, Deployments, contracting of services etc.
 - c. Masters related to salary and wage processing.
 - d. Ensuring proper records are maintained related to Performance evaluation of the staff etc.
- V. **Procurement:** Procurement is the process of acquisition by way of purchase, lease, license or otherwise of works, goods, and services, including the award of Public-Private Partnership projects by procuring entity whether directly or through an agency with which a contract for procurement services is entered.
- VI. **Revenue (Tax revenue/Non-Tax revenue):** Government revenue is subdivided into two broad categories which are Tax revenue and Non-Tax revenue.
- a. Tax Revenue: A fund raised through the various taxes is referred to as tax revenue such as license fee etc.
 - b. Non-Tax Revenue: Public income received through the administration, commercial enterprises, user charges, gifts, Interest receipts and grants are the source of non-tax revenues of the RLBs

- VII. **Grants in Aid:** Grants are assistance by Government (state or central) in cash or kind to an enterprise for past or future compliance with certain conditions. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government that cannot be distinguished from the normal trading transactions of the enterprise.
- VIII. **Schemes:** The RLB undertakes schemes entrusted by the state government or central government in different sectors to capture new developments and commitments. The State Government is continuously striving for creating a policy environment that nurtures the private enterprise to invest in different schemes implemented by the State Government.
- IX. **Stores and Stock Management:** Stores and stocks management process includes aspects such as controlling and overseeing ordering inventory, storage of inventory, and the issue of inventory. It is all about having the right inventory at the right quantity, in the right place, at the right time, and at the right cost.

C. Concept of Accrual Basis of Accounting and Cash Basis of Accounting

- a. While analysing the Financial Statements, the audit team needs to understand the basics of accounting followed by the audit unit in preparation and presentation of the Financial Statements. If the accounts are prepared on an accrual basis, the underlying characteristics of assets and liabilities would be different from those prepared on a cash basis. Under cash basis accounting, the revenues and expenses are recorded only if they are actually received or paid irrespective of the accounting period to which they belong.
- b. While under the accrual basis of accounting, the occurrence of claims and obligations in respect of incomes or expenditures, assets or liabilities based on happening of any event, the passage of time, rendering of services, fulfilment (partially or fully) of contracts, diminution in value of assets, etc. are recorded even though actual receipts or payments of money may not have taken place during that period. Thus, the transactions with respect to outstanding expenses, prepaid expenses, income receivable and the income received in advance are shown separately in the books of accounts.
- c. Government of Uttarakhand has decided to implement Accrual Based Double Entry Accounting System (ABDEAS) in all the Urban Local Bodies (ULBs) in the State. Following are the reference materials with which auditors must be familiarised before the start of the field visit for conducting Financial Attest Audit:

| Type | Reference Material | Features |
|---------------------------|---|---|
| Urban Local Bodies | Uttarakhand Municipal Accounting Manual 2021(as amended from time to time) | The main features of the UMAM are as under: <ul style="list-style-type: none"> ▶ Accrual based accounting. ▶ New charts of Accounts. ▶ Significant Accounting Policies. ▶ Format of the books of accounts like cash book, demand and collection register, PLA etc. ▶ Standard format for preparation and presentation of the Financial Statements including notes to accounts. ▶ Accounting estimates. |
| Rural Local Bodies | Simplified, Formats of Account for RLBs (Guidelines for preparation of Receipts and Payments Accounts) | The main features of the Simplified, Formats of Account for PRIs are as under: <ul style="list-style-type: none"> ▶ The accounts are prepared on a cash basis. ▶ Daily transaction shall be recorded in cash book. ▶ Everyday cash book shall be closed ▶ At the end of the month bank reconciliation, treasury reconciliation should be done and difference between cash and bank and treasury balance should be rectified etc. |

Table 16: Reference documents and Features for understanding accounting process for ULB & RLB

C. Understand Extent of Computer Involvement

107. The computer-based systems often form an integral part of the financial control and reporting systems used by all sizes of audit units. In cases where a detailed review of the IT systems is required, trained IT audit personnel within the audit team should be involved especially in the cases where the audit unit has developed a new IT system. For conducting the IT system audit, the principle laid down in the **Information Technology Audit Manual** will be referred. The following questionnaire would help to assess the requirement for an Information Technology audit.

| S. No | Checkpoint | Response |
|-------|--|----------|
| 1. | Were the following areas related to IT environment reviewed before start of the Financial Attest Audit | |
| 1.1 | IT tools/ software used for accounting and recording of transactions | Yes / No |
| 1.2 | Level of coverage of accounting of transaction within the audit unit/department through IT tools/software | Yes / No |
| 1.3 | Input Controls surrounding the entry of data/journal entry through software (Maker, Checker, Approver), processing controls and output controls | Yes / No |
| 1.4 | Disaster recovery plan like back up of the data | Yes / No |
| 1.5 | Availability of IT user manual | Yes / No |
| 1.6 | Documentation of IT responsibilities to various users (Maker or Approver) | Yes / No |
| 1.7 | Existence of any legislation that impacts the need of IT control | Yes / No |
| 1.8 | Steps undertaken by the audit unit to ensure compliance with the regulatory requirements | Yes / No |
| 1.9 | Availability of required tangible and intangible infrastructure at the audit unit. | Yes / No |
| 1.10 | Polices/matrix related to IT security and password policy | Yes / No |
| 1.11 | Availability of trained professional on IT tools/software. | Yes / No |
| 1.12 | Provision of required training and capacity building activities | Yes / No |

Table 17: Illustrative checklist for understanding the Computer/IT involvement

5.6.2 Understand the Financial Reporting Framework (FRF)

108. A financial reporting framework refers to the set of criteria to determine the measurement, recognition, presentation, and disclosure of all material items appearing in the Financial Statements of the audit unit. An acceptable financial reporting framework is a precondition for the Financial

Attest Audit. The auditor should understand and evaluate the relevant financial reporting framework which the audit unit will use to prepare and present its Financial Statements. This evaluation would enable the auditor to conclude whether the financial reporting framework adopted by ULBs and RLBs is as per the applicable rules, acts, guidelines, manual and in understating with the accounting methodologies adopted by ULBs and RLBs including the format of the Financial Statements.

5.6.2.1 Financial Reporting Framework of ULBs

109. The ULBs is required to prepare their books of accounts in accordance with **Accrual Based Double Entry Accounting System (ABDES)** and present their Financial Statements based on the principles specified in the updated Uttarakhand Municipal Accounting Manual (UMAM),**2021** (as amended from time to time). The updated UMAM has also defined sets of rules for the measurement, recognition, preparation, presentation, and disclosure of all material items appearing in the Financial Statements.
110. The following table provides key concepts related to the Financial Reporting Framework used by the ULBs for the preparation and presentation of the Financial Statements:

| S No | Particular | Remarks |
|------|--|--|
| 1. | Applicable Accounting Rules/ Policies/ Manual | Uttarakhand Municipal Accounting Manual (UMAM) 2021 (as amended from time to time). |
| 2. | Applicability | Nagar Nigam, Nagar Palika Parishad and Nagar Panchayat. |
| 3. | Method of Accounting to be followed | Accrual Based Double Entry Accounting System. |
| 4. | Period for which Financial Statements to be prepared | Each financial year starting from 1 st April and ending on March 31 st or as directed by the Government of Uttarakhand. |
| 5. | Components of Financial Statements | The Financial Statements comprised of: <ul style="list-style-type: none"> ► Balance sheet. ► Income and Expenditure Account. ► Cash Flow Statement. |

| | | |
|-----------|-------------------------------------|---|
| | | <ul style="list-style-type: none"> ► Notes to Accounts (including Significant Accounting Policies and Disclosures). <p>The above components have been briefly explained at table 20 below.</p> |
| 6. | Mode of preparation | Presently, ULBs are maintaining books of accounts in manual form, or in some cases using standalone accounting software. In future, these could be maintained in a centralised accounting software application as approved by the Director, Urban Development. |
| 7. | Signing of the Financial Statements | <p>The Financial Statements shall be signed by the authorized representative of ULB as per the below matrix:</p> <ul style="list-style-type: none"> ➤ Nagar Nigam: Commissioner. ➤ Nagar Palika: Executive Officer and CAO or Sr. AO. ➤ Nagar Panchayat: Executive Officer and CAO and Sr. AO. |

Table 18: Overview of Financial Reporting Framework for ULBs

111. The above-mentioned Financial Statements would be prepared on the basis of the final trial balance generated by the accounting system. The purpose of preparing a Trial Balance is to determine the equality of posted debits and credits, and to generate a basic summary of accounts and to facilitate in preparation of Financial Statements. Each component of the Financial Statements have been explained below:

Components of Financial Statements

| | |
|----------------------|--|
| Balance sheet | Each ULB prepares a Balance Sheet at the end of each accounting period which reflects the financial position of assets and liabilities of the ULB as on that particular date. It presents the assets, liabilities, and reserves of the ULB at the end of the reporting period. The |
|----------------------|--|

| Components of Financial Statements | Brief Explanations |
|---|--|
| | <p>details of material items are given in separate schedules attached to the Balance Sheet.</p> <p style="text-align: right;"><i>[refer para 27.5 of the UMAM for details]</i></p> |
| Income and Expenditure Account | <p>Each ULB prepares an Income and Expenditure Statement for every accounting period. The Income and Expenditure Statement reflects the results of the working of the ULB for that period. It shows incomes earned and expenditures incurred by ULB during the accounting period with and excess of income over expenditure or vice-versa for that period. Since, Financial Statements are prepared on accrual basis, the Income and Expenditure Statement includes all the income earned during that period whether actually received or not and all the expenditure incurred during that period whether actually paid or not. The details of material items are given in separate schedules attached to the Income & Expenditure Account.</p> <p style="text-align: right;"><i>[refer para 27.4 of the UMAM for details]</i></p> |
| Cash Flow Statements | <p>A Cash Flow Statement is prepared in order to have information about the cash flows of the ULB. It is useful in providing users of Financial Statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the ULB to utilize those cash flows. A Cash Flow Statement, when used in conjunction with the other Financial Statements, provides information that enables users to evaluate the changes in assets and liabilities of an ULB, its financial status, and the actual performance in terms of cash inflows and outflows. The cash flow statement prepared for an ULB includes the cash flow generated/utilized from operating, investing and financing activities</p> <p style="text-align: right;"><i>[refer para 27.6 of the UMAM for details]</i></p> |
| | <p>The Notes to Accounts comprised of Statement of Significant Accounting Principles, Statement on Contingent Liabilities, and</p> |

| Components of Financial Statements | Brief Explanations |
|--|---|
| Notes to Accounts (including significant accounting policies and disclosures) | <p>other necessary disclosures related to items mentioned in the above Financial Statements of the ULB. The Statement of Significant Accounting Policies list down the details of accounting principles followed by the ULB in respect of accounting of the transactions and in the preparation & presentation of the Financial Statements. The notes to accounts also include the explanations on the figures shown in the above-mentioned Financial Statements, wherever necessary, and also includes disclosure of any material fact that has a bearing on the Financial Statements.</p> <p><i>[refer para 27.8 and all respective paragraphs of the UMAM for details]</i></p> |

Table 19: Components of Financial statements of ULBs

5.6.2.2 Salient Features of Accounting Framework Specified in UMAM for ULBs

112. The accounting framework specified in UMAM for ULBs are as under:

- I. **Basis of Accounting:** The accounts are prepared on accrual basis.
- II. **Accounting Period:** A period of 12 months starting from 1 April and ending on 31 March of the next year.
- III. **Historical Cost:** The transactions are recorded in the books of accounts with the respective amounts involved. For example, if an asset is purchased, it is entered in the accounting records at the price paid to acquire the same and that price is considered to be the base for all future accounting.
- IV. **Going Concern:** The underlying assumption is that, the ULB will remain in existence for the foreseeable future.
- V. **Revenue Recognition:** Income in respect of which demands are raised by the ULB are accounted on an accrual basis as and when they become due. For other income where there is no specific demand raised, it will be treated on a cash basis. The accounting policies will determine how and when the revenue will be recognised in the books of account. For example, the property tax is

accrued at the date prescribed in the ULB's byelaws, while the rental income is accrued as and when it becomes due as per the terms of the rental agreement.

VI. Recognition of Expenditure: Expenditure is recognised as they are incurred, for example:

- Establishment expenses are recognized on accrual basis at the end of each month. Contribution towards contributory pension fund is accounted for as and when the salary expenditure is accrued.
- Leave encashment, pension (including commuted pension) and gratuity, are reckoned only upon passing of bills for payment.
- Interest on long term loans has been accounted on annual basis as per the terms of the loan agreement
- Expenditure on works is accounted on approval of running bills after certification of the work.

VII. Fixed Assets and Depreciation: Fixed assets are accounted for as under:

- Fixed assets are shown at cost less accumulated depreciation.
- Capital works in progress are transferred to the respective fixed asset accounts as and when the works are completed.
- Depreciation is charged on fixed assets on Straight Line method at the rates prescribed in the accounting policy of UMAM..
- Fixed assets costing below Rs. 5,000 are charged to expense.
- Interest on borrowings specifically related to fixed assets is capitalised under the respective head

VIII. Grants: The accounting for grant will be done in the following manner:

- Specific grants towards revenue expenditure received prior to the incurring of expenditure are treated as liability till the actual date of incurring of actual expenditure
- Grants received and receivable towards specific revenue expenditure is recognised as income in the accounting period in which the corresponding revenue expenditure is charged to Income and Expenditure Account.
- Specific Grants received towards capital expenditure is treated as a liability till such time that the fixed asset is constructed or acquired. And upon utilisation the same is treated as capital contribution
- Capital Grants received by the Municipality as a nodal agency or implementing agency for intended purpose and which does not result in creation of assets with ownership rights for

the Corporation, are netted against the grant upon utilization. Only the unutilized portion of such grants, are carried over in the balance sheet as a liability

- IX. **Investment:** Investments are carried at cost. Any permanent reduction in the carrying value of the investments are provided for.
- X. **Stores and Spares:** Stores and spares are valued at cost based on weighted average method
- XI. **Disclosures Requirement:** To be followed as per UMAM.
- XII. **PFMS and IFMS:** The line ministries/ department utilise this platform to track the fund provided to implementing agencies and State Government. PFMS is also used for Direct Benefit Transfer (DBT) payments under notified schemes of the Government of India. Additionally, Certain expenses are paid through PFMS and IFMS and these expenses need to be consolidated at the time of preparation of final accounts and special focus to be provided at the time of audit.
- XIII. **Chart of Accounts:** The Chart of Accounts has to be followed as per UMAM.
- XIV. **Annual Closing:** To be followed as per UMAM.
- XV. **Budget:** To be followed as per UMAM.

5.6.2.3 Financial Reporting Framework of RLBs

113. The Technical Committee on Budget and Accounting Standards in the meeting held on 29 January 2009 have approved **Simplified Formats of Accounts for PRIs**. The following table provides the key concepts related to the Financial Reporting Framework for RLBs in State of Uttarakhand.

| S. No. | Particular | Remarks |
|--------|--|---|
| 1. | Applicable Accounting Rules/ Policies/ Manual | Simplified, Formats of Account for PRIs as approved by Technical Committee on Budget and Accounting Standards of the Comptroller & Auditor General of India in 2009. |
| 2. | Applicability | Zilla Panchayat, Kshettara Panchayat and Gram Panchayat |
| 3. | Method of Accounting to be Followed | Cash Basis of Accounting |
| 4. | Period for which Financial Statements to be prepared | Each financial year ending on March 31 st or as directed by the Government of Uttarakhand |
| 5. | Components of Financial Statements | The Financial Statements would comprise of: |

| S. No. | Particular | Remarks |
|--------|---|---|
| | | <ul style="list-style-type: none"> ▶ Format I – Annual Receipts and Payments Account <p><i>The above Simplified Formats of Accounts for RLBs have been briefly explained below.</i></p> |
| 6. | Other Formats as Per Simplified, Formats of Account for RLBs | <p>Apart from the above format, the following 7 formats are also to be prepared by the RLBs; however, this would not form part of the Financial Statements but could be considered as subsidiary reports and used for audit.</p> <ul style="list-style-type: none"> ▶ Format II – Consolidated Abstract Register. ▶ Format III – Monthly Reconciliation Statements. ▶ Format IV – Register of Receivable and Payments. ▶ Format V – Register of Immovable Assets. ▶ Format VI – Register of Movable Assets. ▶ Format VII – Inventory Stock Register. ▶ Format VIII – Register of Demand Collection and Balance. <p><i>The above Simplified Formats of Accounts for RLBs have been briefly explained below.</i></p> |
| 7. | Mode of preparation | To be prepared by RLBs through e-GramSwaraj application |
| 8. | Signing of the Financial Statements | <p>The Financial Statements shall be signed by the appropriate authority as per the below matrix:</p> <ul style="list-style-type: none"> ➤ Zilla Panchayat: Mukhiya Karyadhikari. ➤ Kshettara Panchayat: Block Development Officer. ➤ Gram Panchayat: Panchayat Secretary. |

Table 20: Overview of Financial Reporting Framework for RLBs

114. The description of **Simplified Formats of Accounts for RLBs** which have been prescribed to be maintained by the RLBs are given below:

| Format No | Name of the Format | Description |
|------------------|--------------------------------------|--|
| I. | Annual Receipts and Payments Account | <ul style="list-style-type: none"> ▶ Provides a summary of receipts and payments for the selected period under various heads of receipts (Tax and non-tax) and payments ▶ Includes both revenue and capital receipts and payments ▶ Prepared for each month and is consolidated for the year ▶ To be prepared from the cash book/register of the RLBs. At the end of each month the totals of Receipts and Payments (up to object head level) are posted to the Monthly Receipts and Payments Account. |
| II. | Consolidated Abstract Register | <ul style="list-style-type: none"> ▶ Provides a two-dimensional month wise and head wise comparison of planned and non-planned payments. ▶ The Receipts and Payments account is prepared on the basis of figures in the Consolidated Abstract. ▶ Prepared for each month and is consolidated for the year |
| III. | Monthly Reconciliation Statements | <ul style="list-style-type: none"> ▶ Provides reconciliation of bank and cash balances with the monthly receipts and payments ▶ Prepared on Monthly Basis |
| IV. | Register of Receivable and Payments | <ul style="list-style-type: none"> ▶ Provides head of account wise statement of receivables and payables at the end of a year ▶ Maintenance of this format would help in the subsequent switch over to the modified accrual system of accounting. |
| V. | Register of Immovable Assets | <ul style="list-style-type: none"> ▶ Provides details of the immovable's assets of the RLBs for a particular period with details of the cost of acquisitions, details of the transactions etc. ▶ Maintenance of this format would help in the subsequent switch over to the modified accrual system of accounting. |

| Format No | Name of the Format | Description |
|-----------|---|--|
| VI. | Register of Movable Assets | <ul style="list-style-type: none"> ▶ Provides details of the movable assets of the RLBs for a particular period with details of the cost of acquisitions, details of the transactions, details of disposal, if any, etc. ▶ Maintenance of this format would help in the subsequent switch over to the modified accrual system of accounting. |
| VII. | Inventory Stock Register | <ul style="list-style-type: none"> ▶ Provides details of the balance of different types of inventory for a month/year maintained at ULBs with entries related to purchase and issue or sale ▶ Maintenance of this format would help in the subsequent switch over to the modified accrual system of accounting. |
| VIII. | Register of Demand Collection and Balance | <ul style="list-style-type: none"> ▶ Provides details of the demands, collection, arrears, and write-offs of tax revenue for a month/year ▶ Maintenance of this format would help in the subsequent switch over to the modified accrual system of accounting. |

Table 21: Overview of Simplified Formats of Accounts for RLBs

5.6.2.4 Salient Features of Account Code Specified in Simplified Format of Accounts

115. The Simplified Format of Accounts for RLBs, has classified the accounts code into Major Code, Minor Code and Object Code. The first four-digit classification in the simplified system is '**Major Head**' represents a function enumerated in the 11th schedule of the Constitution. The second three-digit classification represents the '**Programme/Unit**' of expenditure and the third tier two digits represent '**Object Head**' which represents the items of expenditure. Two-digit standard object code has been recommended for most commonly used items of expenditure. Also, the RLBs may open separate Object Head as per requirement under each Minor Head. Additionally, for better planning, monitoring and decision making, the central scheme has been given distinct two-digit sub heads. Similarly, the state considering the number of schemes and diversity may use two digits Alphanumeric sub heads for state schemes.

5.6.2.5 Salient Features of Accounting Framework Specified in Simplified Format of Accounts for RLBS

116. The following accounting framework has been specified by the Simplified Format of Account for RLBS:

- I. **Basis of Accounting:** The accounts are prepared on a cash basis i.e. a transaction is only recorded when cash is received or paid.
- II. **Accounting Period:** A period of 12 months normally starting from 1 April and ending on 31 March of the next year.
- III. **Recording of Transactions:** Daily transactions shall be recorded in Cash Book. The receipts shall be recorded on the receipts side and payments on the payments side. Every day the cash book shall be closed, and the Closing Balance worked out would then form the Opening Balance for the next day. Classification/head of account for each transaction shall be clearly mentioned. Every day the details of transactions as recorded in the cash book should be transferred to either Register of Receipts if the transaction receipts or to Register of Payments if it is payment under the respective heads of account.
- IV. **Month-end closing of Accounts and Reconciliation:** At the end of the month the bank reconciliation and treasury reconciliation should be completed, and it should be ensured that all differences between cash book and bank and treasury balances are rectified. If any differences are noticed, the corrections should be made, then and there in the Register of Receipts and Register of Payments. At the end of the month totals in Register of Receipts and Register of Payments can be struck. This would give the total expenditure under each head of account for the month. Where RLBS and Bank/Treasury are computerized, online reconciliation with Bank/Treasury may be followed.
 - a. At the end of each month the totals of Receipts and Payments (up to object head level) are to be posted to the Monthly Receipts and Payments Account.
 - b. The monthly figure is added to the previous month's progressive total and the figures up to the end of the current month can be worked out in the Consolidated Abstract.
- V. **Annual Closing:** At the end of the year the progressive figure to the end of March can be worked out in the Annual Receipts and Payments Account.
 - a. After the closing of March Accounts, Reconciliation of Receipts and Expenditure figures with the Departments (online, where the facility is available) should be carried out to detect

any misclassification and to clear the unclassified transaction booked in the Suspense accounts and all transactions appearing as Transfer entries. The final progressive figure under each head is worked up to the end of March which completes the accounting process for that year. The Receipts and Payments account is prepared on the basis of figures in the Consolidated Abstract.

- VI. **Budget:** The Budget of RLBs for the year may be prepared by adopting the classification prescribed in the Receipts and Payments Account/ List of Codes for functions, programs and activities prescribed.
- VII. **Annual Financial Statements:** The annual Financial Statements of RLB would include Format I – Annual Receipts and Payments Account
- VIII. **Other Registers to be maintained:** Register of Receivable and Payable, Register of Movable, and Immovable property, Register of Inventory, Register of Demand, Collection and Balance form and integral part of the annual accounts. Maintenance of these registers would help in the subsequent switch over to the modified accrual system of accounting.

5.6.2.5 Salient Features of e-GramSwaraj Portal (i.e. Accounting and Reporting Software for RLBs)

117. In order to strengthen e-Governance in RLBs across the country, the Ministry of Panchayati Raj (MoPR) has launched e-GramSwaraj, a user-friendly web-based portal. The e-GramSwaraj is one of the applications developed as part of Panchayat Enterprise Suite (PES) under e-panchayat mission mode project of the Ministry of Panchayati Raj (MoPR). The e-GramSwaraj portal is a step to make RLBs digital and provides a single interface on which the development works will be listed for each RLB. The portal ensures real time monitoring and accountability. The portal provides RLB wise records of work from planning to implementation under the development plan. The main features for the e-GramSwaraj portal are as under:

- a. Profile: Maintain the basic profile of the panchayat such as election details, elected members and committees etc.
- b. Planning: Facilitates for creation of plan activities separately e.g. creation of plan activity as per Gram Panchayat Development Plan. In order to avoid duplication of work GIS based activity/ work planning will be done.

- c. Progress Reporting: Record the physical and financial progress of approved activities. Capture stage wise physical progress for each asset in the activity and capture stage wise photographs along with geo-coordinates of the assets (i.e. through Geotagging).
 - d. Finance and Accounting: Facilities the work-based accounting and monitoring of funds on real time basis through PFMS (real time payment on R-E-A-T module).
 - e. Assets Directory (Geo Tagging of Assets): Maintain assets details (immovable and movable assets).
118. The following reports can be generated from e-GramSwaraj:
- a. Annual Receipts and Payments Account.
 - b. Consolidated Abstract Register.
 - c. Monthly Reconciliation Statements.
119. The following are the features of e-GramSwaraj :
- a. The three-tier accounting classification consisting of Major Heads, Minor Heads and Object Heads are captured by the software. In addition, as defined by CAG in the revised classification, wherever Central/State scheme activities are to be captured as per the Scheme guidelines, the software provides for accounting the scheme as a Sub-head under the respective Minor Head.
 - b. At the time of entering the data of the receipts and expenditure figures into the system, the user selects the appropriate account heads from the three-tier classification. Once the receipts and expenditure entries are captured in the system, the software automatically generates the reports in the revised formats prescribed by the CAG. Since the format allows the user to book expenditure explicitly under the sub-head provided for the scheme, scheme-wise expenditure generates automatically.
 - c. In order to extend flexibility to states which want to retain their own existing classification relating to the schemes, the software allows mapping of the state-specific classification to the revised classification proposed by CAG. This enables the panchayats in the states to carry on with their ongoing accounting classification while at the same time enabling the Government of India to view the accounting details of the RLBs as per the classification prescribed by the CAG.
 - d. In view of the high security needs of the accounting system, the software provides a strong authentication mechanism and also maintains detailed audit logs of all the transactions carried out through the software.

120. After obtaining a complete understanding of the entity, its environment and financial reporting framework as explained in point 5.6.1 & 5.6.2 above, the next step is to identify the processes involved in the audit unit. This includes routine and non-routine processes undergone by classes of transactions, account balances and disclosures presented in the Financial Statements in order to identify the risk of material misstatements. The identification of risk of material misstatements in the Financial Statements involves professional judgments e.g. while processing payment to the supplier the following could go wrong.

| Payment Process | Risk | What could go wrong | |
|---|---|-------------------------------|--|
| Processing final payment for purchase of computer equipment | Inflated rate in the final invoice (over and above the quoted rate) | Overstatement of Expenditures | |

Table 22: Identify Material Risk of Material Misstatement

121. Misstatements in the Financial Statements can arise either from fraud or error. The distinction between fraud and error; is that fraud is caused intentionally while an error is unintentional. Although, the primary responsibility for the prevention and detection of fraud lies in the management of the audit unit through implementing and operating an adequate accounting and internal control system.

122. Identifying and assessing the risks of material misstatements provide a basis for designing and performing further audit procedures at two levels:

a. at the Financial Statements level:

- to determine whether the risk of material misstatements relate pervasively to the Financial Statements as a whole and is not specific to a class of transactions or account balances. This situation may arise where management override of internal controls process.
- deficient control environment.
- concern about the integrity of the management and doubt on the availability of sufficient and appropriate audit evidence.

b. at the assertion level:

- to determine the risk of material misstatements on classes of transactions, account balances, and disclosures (COTABD) and its impact on the preparation and presentation of the

Financial Statements. At the same time the auditor needs to assess the control risk which will have an impact on the audit plan to test the operative effectiveness of internal control. For example.

| Risk | Control Activity |
|--|---|
| Travel claim of an employee being paid at incorrect rates. | An independent check should be performed of standard data (e.g. government approved travel claim rates) to travel claim processed by an employee. |

Table 23: Risk of Control Activity

123. In the following situation the possibility for risks of material misstatement is greater. Therefore, a due consideration should be taken while preparing the audit plan.

| S. No. | Questions | Analysis |
|--------|--|----------|
| 1. | Greater management intervention to specify the accounting treatment | |
| 2. | Greater manual intervention for data collection and processing of data e.g. new systems, systems requiring a significant level of manual intervention. | |
| 3. | Complex calculations or accounting principles e.g. this may occur either due to a misunderstanding or a misinterpretation of the regulation or through simple error in application. | |
| 4. | Non-routine transactions, which may make it difficult to implement effective controls | |
| 5. | Significant judgmental matters that require the development of accounting estimates e.g. any estimates rarely be conclusive and require involvement of judgment which may be subjective therefore carrying high risk | |
| 6. | Significant related-party transactions, e.g. unusual related party transaction may carry higher risk | |
| 7. | Transactions that are outside the normal course of entity's activity or appear to be unusual e.g. Transactions not in the normal course of business and/or exceptional transactions may carry higher risk. | |

| | | |
|----|---|--|
| 8. | Recent significant developments (e.g. accounting reforms, political or economic instability, new contract arrangements of significant amount, etc.) that require specific attention to the risk | |
|----|---|--|

Table 24: Risk Analysis

The following information may be useful for conducting Risks Assessment:

- ▶ Past audit experiences, audit observations of the previous audits and pending audit paras yet to comply.
- ▶ Financial problems are being faced by the entity.
- ▶ Any new activities were undertaken during the period under audit.
- ▶ Effectiveness of internal controls and management's response to any weaknesses in internal controls.
- ▶ The complexity of accounting principles and calculations, any judgment involved.
- ▶ The complexity of operations and underlying regulations/ regulatory environment.
- ▶ Susceptibility of assets to material fraud/misappropriation.
- ▶ Competencies of Staffs especially accounting personal and frequencies of changes in last three years and reason for such changes.
- ▶ The track record in the production of records of the audited unit or non- preparation of records.
- ▶ Any complaints about the audit unit.
- ▶ Any newspaper/other media information about the audit unit in the last year.
- ▶ Nature and complexity of accounting process and use of IT in accounting; a mix of IT and manual controls in place; accounting policies and changes to accounting policies.
- ▶ Other Risk Indicators like Expenditure trends, Persistent and unexplained excess drawls, Unadjusted account bills, Transfers to Personal Ledger Accounts etc.
- ▶ Expenditure trend in last three years.
- ▶ Persistent and unexplained budget problems and excess spending.
- ▶ Transfers to Personal Ledger Accounts.
- ▶ Unadjusted bills.
- ▶ Large purchase

5.6.3 Setting of Planning and Performance Materiality

124. After understanding audit units and their environment and financial reporting framework, next step is to set the planning materiality and performance materiality as described in *Section 3.5 under chapter-3 “Basic Principles and Concepts of Auditing”*.

a. Planning Materiality

125. Planning materiality has an impact while framing an opinion on the Financial Statements at the reporting stage. The main aim to determine the planning materiality is to ensure that any misstatement below this materiality level will not affect the presentation of the Financial Statements and it will not affect the financial decision of the users made on the basis of the audited Financial Statements. As the materiality is determined by using professional judgment and prior experience. Therefore, it becomes essential to DoA to document the basis of the factors on which planning materiality has been considered for that particular year. *Refer to point 3.5.1 “Planning Materiality” under Chapter -3 “Basic Principles and Concepts of Auditing”*.

b. Performance Materiality

126. The auditor should determine performance materiality for the purposes of assessing the risks of material misstatements and in determining the nature, timing, and extent of further audit procedures. Application of Performance Materiality at the account or balance level is used to determine:

- ▶ The account areas that are significant,
- ▶ Sample sizes for the transaction to be audited
- ▶ The starting point for identifying key items, testing scopes and thresholds
- ▶ The starting point for establishing variance threshold when performing substantive analytical procedures. *Refer to point 3.5.2 “Performance Materiality” under Chapter-3 “Basic Principles and Concepts of Auditing”*.

5.6.4 Selection of Significant and Non-Significant Account Areas

127. Significant accounts areas are those account areas that significantly impact the Financial Statements of the audit unit for which the auditor must obtain sufficient, relevant and reliable audit evidence. If the audit team focuses on account areas that do not have a significant impact on the Financial Statements (i.e. non-significant accounts) it would result in over auditing and inefficient utilisation of audit resources. **However, for account areas that are non-significant, audit team should perform analytical procedures.** Therefore, identification of significant account areas and non-significant account areas is essential part of the audit planning to ensure that the Financial Attest Audit is effective and efficient.
128. Identification of non-significant account areas is usually dependent upon analysing audit areas into their smaller constituent parts. *This analysis is done on the basis of materiality by value, materiality by nature and materiality by context as explained in clause no. 3.5 under Chapter 3.* For identification of significant and non-significant account areas the auditor should use object code/trial balance as the base documents. The auditor should be careful to consider the aggregate value of all non-significant audit areas in relation to materiality. In all cases it is essential that the audit file contains lead schedules that clearly demonstrate that the amounts being audited are in agreement with the Financial Statements.
129. The audit team should ensure the following.
- ▶ All account areas have been assessed into significant and non-significant account areas to the Financial Statements.
 - ▶ This analysis should be done based upon materiality by value.
 - ▶ The results of auditor understanding on entity's control environment should also be consider for this assessment.
130. After classification of accounting areas into significant account and non-significant accounts, the next step is to classify the risk associated with each of the significant accounting area as high risk, medium risk and low risk as explained below. The decisions about nature, extent and direction of audit tests depend upon an assessment of the risk of material error or irregularity occurring (inherent risk); and the risk that the entity's controls cannot detect the irregularities in a timely manner (control risk). **Refer Clause No. 3.6 “Risk Model and Materiality” under Chapter-3 “Basic Principles and Concepts of Auditing”.**

131. Based on risk assessment, the auditor should design audit procedures so as to have a reasonable expectation of detecting and evaluating material misstatements and irregularities arising due to fraud or error. Once all the inherent risk of misstatements has been identified, it is important to review them and focus on those that will have the greatest impact on the accounts and on the Financial Statements.

132. **The steps for classification of significant accounting areas as high, medium, and low have been summarised below:**

Step-1: Take the Object Code/Trial Balance of ULB and Receipts and Payments Account of RLB.

Step-2: Determine the performance materiality as explained in *clause no. 3.5.2 under Chapter-3*.

Step-3: Identify the significant account areas, this is the account or group of accounts whose closing balance is more than the performance materiality.

Step-4: Identify the non-significant account areas, this is the account or group of accounts whose closing balance is equal to or less than the performance materiality.

Step-5: Classification of each identified significant account as mentioned in step-3 above would be done into high, medium, and low based on the guidance provided in para no. 131 below.

133. The guidance for classification of significant account areas as High, Medium, and Low risk is provided below. This classification would be done separately for each significant account head based on their respective nature i.e. revenue, expenditure, assets, or liability.

A. For Urban Local Bodies

| S. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-------------------|--|---|---|--|
| 1. Revenue | | | | |
| 1.1 | Own Source Revenue-Tax (like property tax) | Demand collection and balance (DCB) register not maintained/ provided or delayed as | DCB register updated but not maintained in the prescribed Format as specified in UMAM | DCB maintained in the prescribed format and all demand and receipts till last FY has been updated. |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-------------------|--|--|--|-----------------|
| | | <p>per the previous year's audit report.</p> <p>Debtors' balance as per DCB and as per accounts department remain un-reconciled.</p> | <p>2021(as amended from time to time)</p> <p>Paras relating to errors in preparation of demand collection and balance register like overwriting, strike off, etc. found in the previous year's audit report</p> | |
| | Where current year's Own Sources Revenue Tax for selected head is more than 15% of the Total Revenue of ULB. | Where current year's Own Sources revenue Tax for selected head is more than 5% but not more than 15% of the Total Revenue of ULB. | Where current year's Own Sources revenue Tax for selected head is not more than 5% of the total Revenue of ULB. | |
| | If more than 50% of revenue is collected in cash | If 20% to 50% of revenue is collected in cash | If less than 20% of revenue is collected in cash | |
| | Where there is significant variation in the selected tax revenue head by more than 30% in the current year as compared to previous year. | Where there is a variation in the selected tax revenue head by more than 10% but not more than 30% in the current year as compared to previous year. | Where there is a variation in the selected tax revenue head up to 10% in the current year as compared to previous year. | |
| | Subsidiary register (receipt books, | Subsidiary register (receipt books, | Subsidiary register (receipt books, | |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-------------------|---|---|--|---|
| | | collection files etc.) were not maintained or delayed as per previous year's audit report | collection files etc.) updated but not maintained in the prescribed formats as specified in UMAM 2021 | collection files etc.) are maintained and updated as per prescribed formats as specified in UMAM 2021 |
| 1.2. | Own Source Revenue- Non-Tax (like rent, interest, licensee fee etc.) | Demand and collection register not maintained/ provided or delayed as per the previous year's audit report. Debtors' balance as per DCB and as per accounts department remain un-reconciled. | Demand and collection register not maintained in prescribed formats as specified in UMAM 2021 Paras relating to errors in preparation of demand collection and balance register like overwriting, strike off, etc. found in the previous year's audit report | Demand and Collection register maintained as per format and all demand and receipts till last FY has been updated. |
| | | Where current year's Own Sources Non-Tax revenue for selected head is more than 15% of the Total Revenue of ULB. | Where current year's Own Sources Non-Tax revenue for selected head is more than 5% but not more than 15% of the Total Revenue of ULB. | Where current year's Own Sources revenue Non-Tax for selected head is not more than 5% of the total Revenue of ULB. |
| | | If more than 50% of revenue is collected in cash | If 20% to 50% of revenue is collected in cash | If less than 20% of revenue is collected in cash |

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| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-------------------|-------------------------------------|--|--|---|
| | | Where there is significant variation in the selected non-revenue head by more than 30% in the current year as compared to previous year. | Where there is a variation in the selected non-tax revenue head by more than 10% but not more than 30% in the current year as compared to previous year. | Where there is a variation in the selected non-tax revenue head up to 10% in the current year as compared to previous year. |
| | | Subsidiary register (receipt books, collection files etc.) were not maintained or delayed as per previous year's audit report | Subsidiary register (receipt books, collection files etc.) updated not maintained in the prescribed Form and Format. | Subsidiary register (receipt books, collection files etc.) are maintained and updated in the prescribed Forms and Format. |
| 1.3 | Assigned Revenue | Variation in Assigned Revenue receipts is more than 30% in current year as compared to previous year. | Variation in Assigned Revenue receipts is more than 10% but less than 30% in current year as compared to previous year. | Variation in Assigned Revenue receipts is up to 10% in current year as compared to previous year. |
| | | Assigned Revenue mentioned in the Government Order (G.O) is not accounted in the books of accounts. | Irregularities noted in accounting of Assigned Revenue as per previous year audit report. | There was no irregularity noted in accounting of Assigned Revenue as per previous year audit report. |
| 1.4 | Grant in Aid | Grant Register as prescribed under rules is not maintained as per | Grant Register maintained but not in the prescribed Format as per | Grant register maintained as per Format and all demand |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-----------------------|--|---|--|---|
| | | Previous Year audit report. | Previous Year audit report. Paras relating to errors in preparation of Grant Register like overwriting, strike off, etc. found in previous year audit report. | and receipts till last financial year has been updated. |
| | Grant receipt for the selected head is more than 15% of the total revenue of the current year. | Grant receipt for the selected head is more than 5% but less than 15% of the total revenue of the current year. | Grant receipt for the selected head is up to 5% of the total revenue of the current year. | |
| | Variation of more than 30% in selected grant receipts in current year as compared to previous year. | Variation of more than 10% but less than 30% in selected grant receipts in current year as compared to previous year. | Variation of up to 10% in selected grant receipt in current year as compared to previous year. | |
| | Subsidiary register (receipts books, expense register, utilization certificate etc.) not maintained or delayed as per previous years audit report. | Subsidiary register (receipt books, expenses register, utilization certificate etc.) updated but not maintained in the prescribed Forms and Format. | Subsidiary register (receipt books, expenses register, Utilization Certificate etc.) are maintained and updated in the prescribed Forms and Format. | |
| 2. Expenditure | | | | |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-------------------|--|---|--|--|
| 2.1 | Establishment Expenditure (like salary, TA, MA, service book, etc) | Variation in establishment expenditure by more than 30% in current year as compared to previous year. | Variation in establishment expenditure by more than 10% but not more than 30% in current year as compared to the previous year. | Variation in establishment expenditure up to 10% in current year as compared to the previous year. |
| | | If Establishment expenditure is more than 15% of the total expenditure of current year. | Establishment expenditure is 5% to 15% of the total expenditure of current year. | Establishment expenditure is up to 5% of the total expenditure of current year. |
| | | Subsidiary registers (Pay posting register, TA and MA register etc.) not maintained or delayed as per previous year audit report. | Subsidiary register (Pay posting register, TA and MA register etc.) not maintained in the prescribed formats or Paras relating to errors in preparation of records like overwriting, strike off, etc. found in previous year audit report. | Subsidiary register (Pay posting register, TA and MA register etc.) maintained and updated as per prescribed Format. |
| 2.2 | Work, Contract and Procurement Expenditure | Procurement expenditure is more than 15% of total expenditure during current the year. | procurement expenditure is 5% to 15% of total expenditure during current the year. | procurement expenditure is up to 5% of total expenditure during current the year. |
| | | Variation in works/procurement | Variation in the procurement | Variation in works/procurement |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-------------------|---|---|---|---|
| | | expenditure by more than 30% as compared to the previous year expenditure. | expenditure by more than 10% but not more than 30% as compared to the previous year expenditure. | expenditure up to 10% as compared to the previous year expenditure. |
| | | Measurement Book and Subsidiary registers (works files, contractor register, advances register, deductions register, UCs, supporting documents etc.) not maintained or delayed as per previous year audit report. | Measurement Book and Subsidiary register (works files, UCs, supporting documents etc.) not maintained in the prescribed formats or Paras relating to errors in preparation of records like overwriting, strike off, etc. found in previous year audit report. | Measurement Book and Subsidiary register (works files, UCs, supporting documents etc.) maintained and updated as per prescribed format. |
| 2.3 | Office Expenditure (like printing and stationary, repair and maintenance, etc.) | Variation in office expenditure by more than 30% as compared to the previous year expenditure. | Variation in the office expenditure by more than 10% but not more than 30% as compared to the previous year expenditure. | Variation in office expenditure up to 10% as compared to the previous year expenditure. |
| | | Office expenditure is more than 15% of the total expenditure of current year | Office expenditure is between 5% to 15% of the total expenditure of current year | Office expenditure is up to 5% of the total expenditure of current year |
| | | Related records/ registers not maintained | Related records/ registers not maintained/ | Related records/ registers maintained |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-------------------|--|---|---|--|
| | | or delayed as per Previous Year audit report. | provided as per Previous Year audit report per prescribed forms and formats or Paras relating to errors in preparation of records like overwriting, strike off, etc. found in Previous Year audit report. | and updated as per prescribed forms and format. |
| 2.4 | Other Expenditure (like electricity, water, telephone expenses, etc) | Variation in other expenditure by more than 30% as compared to the previous year expenditure. | Variation in the other expenditure by more than 10% but not more than 30% as compared to the previous year expenditure. | Variation in other expenditure up to 10% as compared to the previous year expenditure. |
| | | Other expenditure is more than 15% of the total expenditure of current year. | Other expenditure is between 5% to 15% of the total expenditure of current year. | Other expenditure is up to 5% of the total expenditure of current year. |
| | | Related records/ registers not maintained or delayed as per previous year audit report. | Related records/ registers not maintained/ provided as per previous year's audit report in the prescribed Forms &Format or Paras relating to errors in preparation of records like overwriting, strike | Related records/ register maintained and updated as per prescribed Forms and Format. |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-------------------|-------------------------------------|---|--|--|
| | | | off, etc. found in previous year audit report. | |
| 3. Assets | | | | |
| 3.1 | Capital Expenditures | Significant addition (more than 30%) in current year as compared to previous year. | Significant addition (10% to 30%) in current year as compared to previous year. | Addition (up to 10%) in current year as compared to previous year. |
| | | Deletion is more than 30% of the total expenditure of current year. | Deletion is 10% to 30% of the total expenditure of current year. | Deletion is 5% to 10% of the total expenditure of current year. |
| | | Related records/ registers not maintained or delayed as per previous year audit report. | Related records/ registers not maintained/ provided as per Previous Year audit report per prescribed Forms and Format. Paras relating to errors in preparation of records like overwriting, strike off, etc. found in previous year audit report | Related records/ register maintained and updated as per prescribed forms and format. |
| | | There was irregularity under serious audit paras noted as per previous year audit report. | There was irregularity of under non- serious audit paras noted as per previous year audit report. | There was no irregularity noted as per previous year audit report. |

| S. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|------------|---|---|---|--|
| 3.2 | Other Assets (Other than Fixed Assets) | Variation in assets by more than 30% in current year as compared to previous year. | Variation in assets between 10% to 30% in current year as compared to previous year. | Variation in Assets up to 5% in current year as compared to previous year. |
| | | Related records/ registers not maintained or delayed as per previous year audit report. | Related records/ registers not maintained/ provided as per Previous Year audit report per prescribed Forms and Format. Paras relating to errors in preparation of records like overwriting, strike off, etc. found in previous year audit report | Related records/ register maintained and updated as per prescribed Forms and Format. |
| | | There was irregularity under serious audit paras noted as per previous year audit report. | There was irregularity of under non- serious audit paras noted as per previous year audit report. | There was no irregularity noted as per previous year audit report |
| 3.3 | Investment | Variation in value of investment by more than 30% in current year as compared to previous year. | Variation in value of investment between 10% to 30% in current year as compared to previous year | Variation in value of Investment up to 5% in current year as compared to previous year |
| | | Variation in income from investment by | Variation in income from investment | Variation in income from Investment up to |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-----------------------|-------------------------------------|--|--|--|
| | | more than 30% in current year as compared to previous year. | between 10% to 30% in current year as compared to previous year | 5% in current year as compared to previous year |
| | | Specific fund was invested without obtaining approval from the Finance Department. | Irregularity in making investment were reported in the Previous Year audit report. i.e. investment was not made in accordance with guidelines specified in the UMAM | Investment was made in accordance with guidelines specified in the UMAM |
| | | Related records/ registers not maintained or delayed as per Previous Year audit report. | Related records/ register maintained. However, Paras relating to errors in preparation of records like overwriting, strike off, etc. found in previous year audit report | Related records/ register maintained and updated in the prescribed Forms and Format. |
| | | There was irregularity under serious audit paras noted as per previousyear audit report. | There was irregularity under non- serious audit paras noted as per previousyear audit report. | There was no irregularity noted as per previousyear audit report. |
| 4. Liabilities | | | | |
| 4.1 | Other liabilities | Variation in liability by more than 30% in current year as | Variation in Liability between 10% to 30% in current year as | Variation in Liability up to 5% in current year |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-------------------|-------------------------------------|--|---|---|
| | | <p>compared to previous year.</p> <p>Related records/ registers not maintained or delayed as per previous year audit report.</p> | <p>compared to previous year</p> <p>Related records/ registers not maintained/ provided as per Previous Year audit report per prescribed Forms and Format. Paras relating to errors in preparation of records like overwriting, strike off, etc. found in previous year audit report.</p> | <p>as compared to previous year</p> <p>Related records/ register maintained and updated as per prescribed Forms and Format.</p> |
| | | <p>There was irregularity under serious audit paras noted as per previous year audit report.</p> | <p>There was irregularity of under non- serious audit paras noted as per previous year audit report.</p> | <p>There was no irregularity noted as per previous year audit report.</p> |
| 4.2 | Capital Grant | <p>Grant Register prescribed under rules is not maintained as per previous year audit report.</p> | <p>Grant Register maintained but not in the prescribed Forms and Format as per previous year audit report.</p> <p>Paras relating to errors in preparation of Grant Register like overwriting, strike off, etc. found in previous year audit report.</p> | <p>Grant register maintained in the prescribed Forms and Format were maintained.</p> |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-------------------|-------------------------------------|---|---|---|
| | | Segregation of combined grant into capital and revenue is not done | Segregation of combined grant into capital and revenue is not properly | Segregation of combined grant into capital and revenue is done as per UMAM |
| | | Variation of more than 30% in selected grant receipts in current year as compared to previous year. | Variation of more than 10% but less than 30% in selected grant receipts in current year as compared to previous year. | Variation of up to 10% in selected grant receipt in current year as compared to previous year. |
| | | Subsidiary register (receipts books, expense register, utilization certificate etc. not maintained or delayed as per previous years audit report. | Subsidiary register (receipt books, expenses register, Utilization certificate etc.) updated but not maintained in the prescribed Forms and Format. | Subsidiary register (receipt books, expenses register, Utilization Certificate etc.) are maintained and updated in the prescribed Forms and Format. |

Table 25: Classification of Transactions for ULBs

Note 1: The above classification of transactions are not applicable for the Inherent Risk type of transaction e.g. cash and bank balance.

Note 2: The above classification of the transaction is based on professional judgments and are dynamic in nature.

Note 3: If any fraud, embezzlement were noticed with respect to any transaction or class of transaction in the previous year's audit then it will be classified under high risk category without applying the above guidelines.

Note 4: Current Year means the financial year for which the Financial Attest audit of the Financial Statements is being carried out whereas Previous Year means the immediately preceding financial year to Current Year

B. For Rural Local Bodies

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|--------------------|---|--|---|---|
| 1. Receipts | | | | |
| 1. Receipts | | | | |
| 1.1 | Own Source Receipts-Tax (like property tax) | Demand collection and balance (DCB) register not maintained/provided or delayed as per the previous year's audit report. Debtors' balance as per DCB and as per accounts department remain un-reconciled. | DCB register updated but not maintained in the prescribed Forms and Format. Paras relating to errors in preparation of demand collection and balance register like overwriting, strike off, etc. found in the previous year audit report. | DCB maintained as per format and all demand and receipts till last FY has been updated. |
| | | Where current year's Own Sources Receipts Tax for selected head is more than 15% of the Total receipts of RLB. | Where current year's Own Sources receipts Tax for selected head is more than 5% but not more than 15% of the Total receipts of RLB. | Where current year's Own Sources receipts Tax for selected head is not more than 5% of the total Receipts of RLB. |
| | | If more than 50% of receipts is collected in cash. | If 20% to 50% of receipts is collected in cash. | If less than 20% of receipts is collected in cash. |
| | | Where there is significant variation in the tax receipts by more than 30% in the current | Where there is a variation in the tax receipts by more than 10% but not more than | Where there is a variation in the tax receipts up to 10% in the current year as |

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| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-----------|---|--|--|---|
| | | <p>year as compared to previous year.</p> <p>Subsidiary register (receipt books, collection files etc.) were not maintained or delayed as per previous year's audit report</p> | <p>30% in the current year as compared to previous year.</p> <p>Subsidiary register (receipt books, collection files etc.) updated but not maintained in the prescribed Forms and Format.</p> | <p>compared to previous year.</p> <p>Subsidiary register (receipt books, collection files etc.) are maintained and updated as per prescribed Forms and Formats.</p> |
| 1.2. | Own Source Receipts- Non-Tax (like rent, interest, licensee fee etc) | <p>Demand and collection register not maintained/ provided or delayed as per the previous year's audit report.</p> <p>Debtors' balance as per DCB and as per accounts department remain un-reconciled.</p> | <p>Demand and collection register not maintained in prescribed Forms and Format.</p> <p>Paras relating to errors in preparation of demand collection and balance register like overwriting, strike off, etc. found in the previous year's audit report</p> | <p>Demand and Collection register maintained in the prescribed Forms and Format and all demand and receipts till last FY has been updated.</p> |
| | | <p>Where current year's Own Sources Non-Tax receipts for selected head is more than 15% of the Total Receipts of RLB.</p> | <p>Where current year's Own Sources Non-Tax receipts for selected head is more than 5% but not more than 15% of the Total Receipts of RLB.</p> | <p>Where current year's Own Sources receipts Non-Tax for selected head is not more than 5% of the total Receipts of RLB.</p> |

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| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-----------|-----------------------------|---|---|--|
| | | If more than 50% of receipts is collected in cash | If 20% to 50% of receipts is collected in cash | If less than 20% of receipts is collected in cash |
| | | Where there is variation in the selected non-receipts head by more than 30% in the current year as compared to previous year. | Where there is a variation in the selected non-tax receipts head by more than 10% but not more than 30% in the current year as compared to previous year. | Where there is a variation in the selected non-tax receipts head up to 10% in the current year as compared to previous year. |
| | | Subsidiary register (receipt books, collection files etc.) were not maintained or delayed as per previous year's audit report | Subsidiary register (receipt books, collection files etc.) updated not maintained in the prescribed Forms and Format.. | Subsidiary register (receipt books, collection files etc.) are maintained and updated in the prescribed Forms and Format. . |
| 1.3 | Assigned Revenue | Variation in Assigned Revenue receipts is more than 30% in current year as compared to previous year. | Variation in Assigned Revenue receipts is more than 10% but less than 30% in current year as compared to previous year. | Variation in Assigned Revenue receipts is up to 10% in current year as compared to previous year. |
| | | Assigned Revenue mentioned in the Government Order (G.O) is not accounted. | Irregularities noted in accounting of Assigned Revenue as per Previous Year audit report. | There was no irregularity noted in accounting of Assigned Revenue as per Previous Year audit report |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-------------------|--|--|--|---|
| 1.4 | Grant in Aid | Grant Register as prescribed under rules is not maintained as per Previous Year audit report. | Grant Register maintained but not in accordance in the prescribed Forms and Format as per Previous Year audit report. Paras relating to errors in preparation of Grant Register like overwriting, strike off, etc. found in Previous Year audit report. | Grant register maintained in the prescribed Forms and Format and all demand and receipts till last FY has been updated. |
| | Grant receipt for the selected head is more than 15% of the total receipts of the Current Year. | Grant receipt for the selected head is more than 5% but less than 15% of the total receipts of the Current Year. | Grant receipt for the selected head is up to 5% of the total receipts of the Current Year. | |
| | Variation of more than 30% in selected grant receipts in current year as compared to previous year. | Variation of more than 10% but less than 30% in selected grant receipts in current year as compared to Previous Year. | Variation of up to 10% in selected grant receipt in current year as compared to previous year. | |
| | Subsidiary register (receipts books, expense register, utilisation certificate etc. not maintained or delayed as | Subsidiary register (receipt books, expenses register, Utilisation certificate etc.) updated but not maintained in the | Subsidiary register (receipt books, expenses register, Utilisation Certificate etc.) are maintained and updated in the | |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|--------------------|---|---|---|--|
| | | per previous years audit report. | prescribed forms and formats | prescribed forms and formats |
| 2. Payments | | | | |
| 2.1 | Payments under Grant-in –Aid, Capital Outlay or Other Payments | Variation in selected payment head by more than 30% in current year as compared to previous year. | Variation selected payment head by more than 10% but not more than 30% in current year as compared to the previous year | Variation selected payment head up to 10% in current year as compared to the previous year |
| | | If payments for the selected head is more than 15% of the total Payments of Current Year | payments for the selected head is 5% to 15% of the total Payments of current Year | payments for the selected head is up to 5% of the total Payments of current year. |
| | | Subsidiary registers not maintained or delayedas per previous year audit report. | Subsidiary registers not maintained in the prescribed formats or Paras relating to errors in preparation of records like overwriting, strike off, etc. found in Previous Year audit report. | Subsidiary registers maintained and updated as per prescribed format |
| 2.2 | Work, Contract and Procurement Expenditure | Procurement expenditure is more than 15% of total expenditure during current the year. | procurement expenditure is 5% to 15% of total expenditure during current the year. | procurement expenditure is up to 5% of total expenditure during current the year. |
| | | Variation in works/procurement | Variation in the procurement | Variation in works/procurement |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|-----------|---|--|---|--|
| | | expenditure by more than 30% as compared to the previous year expenditure | expenditure by more than 10% but not more than 30% as compared to the previous year expenditure | expenditure up to 10% as compared to the previous year expenditure |
| | | Measurement Book and Subsidiary registers (works files, contractor register, advances register, deductions register, UCs, supporting documents etc.) not maintained or delayedas per previous year audit report. | Measurement Book and Subsidiary register (works files, UCs, supporting documents etc.) not maintained in the prescribed formats or Paras relating to errors in preparation of records like overwriting, strike off, etc. found in Previous Year audit report. | Measurement Book and Subsidiary register (works files, UCs, supporting documents etc.) maintained and updated as per prescribed format |
| 2.3 | Office Expenditure (like printing and stationary, repair and maintenance, etc.) | Variation in office expenditure by more than 30% as compared to the previous year expenditure | Variation in the office expenditure by more than 10% but not more than 30% as compared to the previous year expenditure | Variation in office expenditure up to 10% as compared to the previous year expenditure |
| | | Office expenditure is more than 15% of the total expenditure of current year | Office expenditure is between 5% to 15% of the total expenditure of current year | Office expenditure is up to 5% of the total expenditure of current year |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|---------------|---------------------------------|--|--|---|
| | | Related records/ registers not maintained or delayed as per Previous Year audit report. | Related records/ registers not maintained/ provided as per Previous Year audit report per prescribed forms and formats or Paras relating to errors in preparation of records like overwriting, strike off, etc. found in Previous Year audit report. | Related records/ registers maintained and updated as per prescribed forms and format. |
| 2.5 | Investment | Variation in value of investment by more than 30% in current year as compared to previous year. | Variation in value of investment between 10% to 30% in current year as compared to previous year | Variation in value of Investment up to 5% in current year as compared to previous year |
| | | Variation in income from investment by more than 30% in current year as compared to previous year. | Variation in income from investment between 10% to 30% in current year as compared to previous year | Variation in income from Investment up to 5% in current year as compared to previous year |
| | | Specific fund was invested without obtaining approval from the Finance Department. | Irregularity regarding investment were reported in the Previous Year's audit report. | Investment was made in accordance with guidelines specified in the Act and Rules |
| | | Related records/ registers not maintained | Related records/ register maintained. However, | Related records/ register maintained and |

| S. No. | Significant Transactions | High Risk | Medium Risk | Low Risk |
|---------------|---------------------------------|---|---|---|
| | | or delayed as per Previous Year audit report. | Paras relating to errors in preparation of records like overwriting, strike off, etc. found in Previous Year audit report | updated in the prescribed forms and format. |
| | | There was irregularity under serious audit paras noted as per Previous Year audit report. | There was irregularity under non-serious audit paras noted as per Previous Year audit report. | There was no irregularity noted as per Previous Year audit report |

Table 26: Classification of Transactions for RLBs

Note: As per the above table, assessment of a significant account/head is done on multiple parameters and therefore there is a need to develop a uniform mechanism to classify a significant account/head based on the responses on all the parameters for such a significant account/head. This would include the following steps:

- a) Scoring each of the individual parameters for a significant account/head based on the respective response i.e. for High Risk - 10 Point, Medium Risk- 5 Points, Low Risk– 3 Points
- b) Calculating the overall score of the significant account/head by calculating a simple average or weighted average scores on the individual parameters. The decision regarding selection of simple average or weighted average methodology shall be done by DoA.
- c) Classifying a significant account/head as High, Medium or Low as below table:

| Particular | Category | Auditing Criteria |
|-----------------------------|-----------------|--------------------------|
| Score upto3 | Low | 25% |
| Score between 3 to 7 | Medium | 40% |
| Score more than7 | High | 50-60% |

Table 27: Classification of Significant Accounts/Heads

OAMS Functionality: After classification of accounts code as High Risk, Medium Risk and Low Risk, the next step is to select the transactions to be audited. (refer clause no.6.2.4 for selection of transaction to be audited). OAMS will have a unique feature to select the transaction to be audited based on certain predefined parameters. DoA need to select the different parameters for each of the specific accounting areas in OAMS and the OAMS will automatically throw a listing of sample transactions to be audited for each of the audit unit.

5.6.5 Designing of Audit Procedures

134. After understanding the audit unit and its environment and upon identifying significant and non-significant account areas, the auditor should evaluate the effectiveness of internal controls designed by the audit unit. The responsibility to design internal control lies in the management of the audit unit. Internal control is considered adequately designed and operative when it can prevent or detect the risk of material misstatements and errors. If controls are not appropriately designed and effective the auditor should report its ineffectiveness to the management along with the recommendations if any. An understanding of internal control designed would assist the auditor in identifying types of potential misstatements and factors that affect the risks of material misstatements, in designing the nature, timing and extent of “**further audit procedures**” as defined in ISSAI 2330. The audit procedures as provided in ISSAI 2330 are as under:

135. **Test of Control (i.e. Test of Internal Control):** This is designed to evaluate the operating effectiveness of controls in preventing or detecting and correcting material misstatements at the assertion level. These tests are necessary when the risk assessment includes an expectation of the operating effectiveness of controls, requiring the testing of those controls to support the risk assessment; and where substantive procedures alone do not provide sufficient appropriate audit evidence, enquiring tests of controls to obtain audit evidence about their operating effectiveness.

136. The audit team performs audit procedures to evaluate the effectiveness of the internal control system. The Audit team should make a list of internal controls which are in operation then perform **tests of control** to assess the existence and adequacy of internal controls. However, the Auditor may not be required to test all the internal controls. The audit team may select some sample controls based on the results of the risk assessment and professional judgment. Internal control assessment will help to the audit team to know the following:

- ▶ Reliability of records and registers maintained by the audit unit.
- ▶ Whether the internal controls are sufficient and being followed.
- ▶ What are the areas where controls are weak and where it is unnecessarily excessive.
- ▶ The extent and the depth of the examination that needs to be carried out in the different areas of accounting, for example.

| Risk | Control Activity | Test of Control Procedures | Financial statements Assertion |
|--|--|---|---|
| Travel claim of an employee being paid at incorrect rates. | An independent check should be performed of standing data (e.g. government approved travel claim rates) to travel claim processed by an employee | Inspect the travel claim of an employee for evidence of independent check being performed | Accuracy (<i>checking if rates of travel claim were applied correctly</i>). |

Table 28: Example of Test of Internal Control

137. The method commonly applied by the audit team to confirm whether the controls are operating effectively and consistently have been detailed in table below:

| Inspection of Records | Inspection consists of examining records or documents whether it is internal, external or in paper form or electronic form |
|---|--|
| Physical verification of tangible assets | Inspection of tangible assets consists of physical examination of the assets. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but does not assure about the entity's rights and obligations or the valuation of the asset |
| Observation | Observation consists of looking at a process or procedure being performed by others e.g. include observation of the counting of inventories by the entity's personnel and observation of the performance of control activities |
| Inquiry | Inquiry consists of seeking information, both financial and nonfinancial, from knowledgeable persons in the entity or outside the entity. |
| External Confirmation | External confirmation directly from a third party such as the confirmation of bank balance as at the end of financial year from the bank. |

| | |
|---------------------------------|---|
| Inspection of Records | Inspection consists of examining records or documents whether it is internal, external or in paper form or electronic form |
| Recalculation | Recalculation includes checking the mathematical accuracy of documents or records |
| Analytical Procedures | Analytical procedures consist of evaluations of financial information made by a study of reasonable relationships among both financial and non-financial data |
| Process Flow on internal | Process flow charts will help the audit team in identification of weakness in internal control |

Table 29: Illustrative Methods used for Evaluating control

138. **Substantive Procedures:** This is a detailed test that needs to be designed and performed on the class of transactions, account balances or disclosures, irrespective of whether internal control exist or not. The substantive procedures comprise of:

- i. **Test of Details:** To be used for a particular class of transactions, account balances and disclosures e.g. reconcile general ledger expense, account totals to purchase journal, reconcile quantities on purchase invoice to goods received. In other words, test of details includes tracing of figures relevant to supporting documents to determine the validity of transactions, proper classification, and completeness. For example.

| Risk | Control Activity | Test of Control Procedures | Substantive Audit Procedures | Financial statements Assertion |
|--|--|---|---|---|
| Travel claim of an employee being paid at incorrect rates. | An independent check should be performed of standing data (e.g. government approved travel claim rates) to travel claim processed by an employee | Inspect the travel claim of an employee for evidence of independent check being performed | Obtain printout of standing data (e.g. Govt. approved travel claim rates) and compare with the rates being applied in | Accuracy (<i>checking if rates of travel claim were applied correctly</i>). |

| Risk | Control Activity | Test of Control Procedures | Substantive Audit Procedures | Financial statements Assertion |
|------|------------------|----------------------------|------------------------------|--------------------------------|
| | | | travel claim of an employee | |

Table 30: Test of details

ii. **Substantive Analytical Procedures:** To be used for ratio analysis, calculating the percentage increase in revenue, and comparing to forecast and to the prior year (trend analysis); performing a calculation to test the reasonableness of interest received for instance, the average bank balance against average interest rate for the year. In other words, the substantive analytical procedure includes financial information in the Financial Statements with other reliable information or with the auditor's expectation, to determine that the reported information is accurate. The unexpected variations or differences identified by performing analytical procedures may lead to further review and investigation.

| Financial Statements Assertion | Account Balance | Substantial Analytical Procedures |
|--------------------------------|-----------------|--|
| Accuracy | Payroll Cost | <ul style="list-style-type: none"> Define the acceptable tolerance for the difference between the independent expectation for current financial year e.g. employee basis salary expenses and actual employee basic salary recognised in the previous financial year in the Financial Statements. Determine the actual basic salary recognised in the current financial year in the Financial Statements Calculate the difference between the independent expectation and actual outcome Explain a difference that exceeds the acceptable tolerance |

Table 31: Substantive procedures

139. Decision Regarding Appropriate Audit Approach to be Adopted: It is important to note that even if the assessed levels of inherent risk and control risk is sufficiently low, this cannot eliminate for the auditor not to perform some substantive audit procedures for significant account balances and a class of transactions. The audit team should discuss and evaluate the most appropriate audit approach for different account balances/ transaction streams. Following are the important point for consideration.

- ▶ Whether internal controls are existing.
- ▶ Whether the controls can be relied upon.
- ▶ Whether there is a need to perform other substantive audit procedures.

| Instances | Approach to be Performed |
|---|--|
| For each audit assertion to the Financial statements, where specific risk factors are identified | The audit team should either <ul style="list-style-type: none"> ▶ Rely on the mitigating control and perform a minimum level of substantive audit procedure or ▶ Perform focussed substantive procedure. |
| For each audit assertion to the Financial statements, where no specific risk factors are identified | The audit team should either <ul style="list-style-type: none"> ▶ Confirm the reliability of the relevant accounting systems and controls and perform a minimum level of substantive audit procedure or; ▶ Perform focussed substantive procedure. |

Table 32: Matrix for Approach to be adopted for testing of controls

140. Level of Substantive Procedure to be Performed: The substantive procedures can be performed at one of three levels, depending on the amount of assurance required. In decreasing order of assurance, they are:

- ▶ Focused
- ▶ Standard
- ▶ Minimum.

141. In general, the lower the level of assurance required, the lesser will be the extent of audit procedures.

| Type of Substantive procedure | Circumstances in which performed | Audit procedures generally included |
|-------------------------------|----------------------------------|-------------------------------------|
| | | |

| | | |
|---------------------------------------|---|--|
| Focussed substantive procedure | Performed if the audit team identifies a risk that could lead to a potential material misstatement and where no reliance can be placed on mitigating control to address the risk | Substantive procedure: <ul style="list-style-type: none"> ▶ Testing high value and significant transactions ▶ Sample testing of representative transactions ▶ Confirmation from third parties ▶ Reliance on internal audit work |
| Standard substantive procedure | Performed if the audit team identifies a risk that could lead to a potential material misstatement and where no reliance can be placed on controls | Substantive procedure: - <ul style="list-style-type: none"> ▶ Comparative type procedures ▶ Other substantive procedures |
| Minimum Substantive procedure | Performed if the audit team plans to take assurance from mitigating controls (where there is risk of material misstatement) and from other controls (where there is no risk of material misstatement) | Substantive procedure: - <ul style="list-style-type: none"> ▶ Comparative type procedures ▶ Other substantive procedures |

Table 33: Matrix for Substantive procedure

5.6.6 Preparation of Audit Planning Memorandum

142. The overall audit plan should be summarised in an audit planning memorandum containing a summary of the scope of the audit and planned audit approach. The audit planning memorandum should present an analysis of the main audit areas and a summary of the key planning decisions during the preparation phase.

143. The audit planning memorandum provides a basis for regular monitoring progress of the Financial Attest Audit. It helps audit team members to understand what is required from them. It facilitates redistribution of audit work in the event of changes in the composition of the audit team.

144. While the contents of an audit planning memorandum depend on the specific circumstances attending for a particular type of audit. The audit planning memorandum should include:

- ▶ A brief description of the audit unit, its function and financial reporting framework. .
- ▶ Basic details about the audit (such as, name of audit unit, audit period and start date and tentative completion date).
- ▶ Scope of Financial Attest Audit along with planning and performance materiality.
- ▶ The list of significant and non-significant accounting areas.
- ▶ Sources of funding, financial targets, and a brief assessment of the auditee's financial situation.
- ▶ Details of key personnel of the auditee (such as, name, designation, contact number and email id).
- ▶ Details of audit team members (such as, name, designation, contact number and email id).

OAMS Functionality: At the end of the preparation phase, an Individual Audit Planning Memorandum shall be prepared in the OAMS which will include scope of audit, nature and timing of audit procedure and the overall strategy for the audit execution.

145. After determining the audit approach and preparation of the audit planning memorandum, detailed audit programs explaining the procedures to be followed by the audit team to implement the chosen audit approach should be prepared and included in the audit planning memorandum. The previous experience with the audit unit must be considered while preparing the audit planning memorandum and audit program. *Refer to Section 12.1.4 of Chapter 12 "Forms, Formats and Audit checklist" – Volume II for Format of Audit Planning Memorandum.*

Chapter 6: Audit Execution

146. In this stage, quarterly audit plans are executed, and observations are noted through a systematic application of the audit procedures. The prime focus under this stage is to ensure the completion of the audit program in accordance with the designed audit execution strategy. This stage also involves, on-field review of the audit work done, to ensure that conclusions drawn, or observations made are based on the facts. And the relevant documents have been collected to validate the observations.

6.1 Important Points Need to be Remembered during Audit Execution

147. **Period:** Check whether the date of vouchers falls within the accounting period or not.
148. **Authorization:** The vouchers/transactions are duly and properly authorized by the appropriate authority.
149. **Ownership:** The transactions incurred belongs to the audit unit and took place during the period under audit, e.g. check whether the voucher solely belongs to the audit unit, followed by a unique voucher number or not.
150. **Accurate Records:** The transaction is recorded in the proper account e.g. check whether the transactions are recorded in the correct register, forms or not.
151. **Occurrence:** All transactions which have occurred during the period of audit have been recorded e.g. check whether transactions entered in the books of accounts are occurred during the period under audit or not.
152. **Supporting:** The vouchers that is being examined need to be properly supported with all and relevant documents.
153. **Rechecking of calculations:** It involves checking on a sample basis the computations as well as ledger postings to test arithmetical accuracy.
154. **Physical Examination:** Test check the tangible asset such as fixed assets, stock, cash, etc.
155. **Requisition for Data:** The requisition for data, information or documents should be made in writing through OAMS to the officer in-charge to the audit unit.
156. **Accounting Estimates:** Accounting estimates are approximations of the amount of an item in Financial Statements in the absence of a precise means of measurement. The accounting estimates

are usually associated with the preparation of accounts on an accrual basis. They may also be found in cash accounts e.g. when it is required to disclose estimates of contingent liabilities.

157. The audit team can adopt one or more of the following approaches for checking of accounting estimates:

- ▶ Review and test the processes used by the audit unit to develop the estimate.
- ▶ Use an independent estimate for comparison with that prepared by audit unit.
- ▶ Review subsequent events.

158. Following steps are involved for the review and testing of the processes used by the audit unit with respect to the accounting estimates.

- ▶ Evaluation of the data and consideration of the assumptions on which the estimate is based.
- ▶ Testing of the calculations involved in the estimate.
- ▶ Comparison, wherever possible, of estimates made for prior periods with actual results of those periods; and
- ▶ Consideration of audit unit's review and approval procedures.

159. **Review of Subsequent Events:** The audit team should consider the effect of subsequent events on the Financial Statements between the period end and the date of the audit report. For this purpose, subsequent events are those relevant events (favourable or unfavourable) that occur and those facts which are discovered after the close of the period covered by the Financial Statements under audit and before the date of signing of Financial Attest Audit. The audit team should perform audit procedures to obtain assurance that all material subsequent events up to the date of the Financial Attest Audit have been identified and that appropriate adjustments or disclosures have been made in the Financial Statements. These procedures are performed during the field visits and updated to the date of signing of the audit report. Some of these procedures are:

- ▶ Make enquiries to the audit unit to ascertain their procedures for identifying subsequent events.
- ▶ Review of minutes of various committees meeting of audit units including board meeting if any.
- ▶ Reviewing the latest available financial information, e.g. post period accounts, budgets and management information.
- ▶ Obtaining written representations letter from auditee.

6.2 Field Work

160. While conducting Financial Attest Audit, auditors are required to visit the office of the audit unit. Fieldwork involves verification of accounts, relevant records and compliance with the act, rules and various orders issued from time to time. However, the responsibility of the audit team is not only limited to verification of accounts and performing audit procedures but also to giving recommendations to improve the financial management system of the audit unit. Following are the steps involved in fieldwork.

6.2.1 Entry Conference Meeting

161. The purpose of the entry conference meeting is to establish effective communications between the audit team and the audit unit at the beginning itself. The entry conference meeting will be held after the completion of the individual audit plan prepared in the planning phase and before the commencement of actual audit work at the field. The entry conference meeting will be held among the audit team members, audit unit's head and key officials of the audit unit. During the entry conference meeting the audit coordinator to be identified. The entry conference meeting will facilitate to build a good relationship between the audit team and official of the audit unit. Following are the main points that need to be discussed in the entry conference meeting.

- a. **Objectives and Scope of Work:** There should be clear communication about the objective and scope of the audit. Auditors shall emphasize that the purpose of the audit is to assist management by providing analysis, appraisals, recommendations, and information in respect of their activities.
- b. **Seeking Inputs and Co-operation from Auditee:** Discuss and seek inputs on problem areas where the auditor can be of assistance to the audit unit. Careful consideration must be given to any suggestions and requests. Inquire about working hours, access to records, available work area for participating auditors, the audit unit's work deadline and any other information which would help to schedule audit activities with minimal interruption to the audit unit's routine activities.
- c. **Audit Progress:** Establish a clear understanding with the audit unit and regularly update them regarding audit progress and findings. Determine the frequency of progress updates at the audit level to be updated.
- d. **Audit Findings:** Discuss how the audit findings will be handled, e.g. resolution of minor findings, the discussion of all findings on a concurrent basis to enable the audit unit to take timely and corrective action and other actions relating to closing meeting etc. and also discuss the status of prior audit findings.

- e. **Debriefing and Reporting:** The audit team shall discuss the procedures for verifying and reporting the audit findings with the audit unit. Immediately after the entry conference meeting, the audit team shall submit an additional list of records required for the execution of the audit and enhance their understanding of the operation of the audit unit based on the entry conference meeting.
- f. One the member of audit team should be assigned to fill up all the details of the entry conference meeting on OAMS under the entry conference tab and need to be duly approved by both parties. Wherever practicable the entry conference meeting must be attended by the person responsible for preparation of the Financial Statements with respect to the Urban Local Bodies and Rural Local Bodies and official responsible for the execution of programs. *Refer to Section 12.1.5 of Chapter 12 “Forms, Formats and Audit checklist” – Volume II for format of Minutes of Entry Conference Meeting*

OAMS Functionality: In OAMS, under the entry conference tab, the audit team will fill all the necessary details relating to audit units like name of the HoA of concerned ULBs and RLBs, period of audit, last audit time and period, audit start date, audit end date, audit month, auditee name, mobile number of concerned officials etc.

6.2.2 Revision in Audit Planning Memorandum

162. Based on the Entry Conference Meeting in case any new/revised information comes out then the audit planning memorandum prepared by the audit team at the audit planning stage shall be reviewed and updated for effective conducting of Financial Attest Audit.

OAMS Functionality: After the entry conference meeting, the audit team needs to update the Audit Planning Memorandum based on the discussion if any relevant information comes out which may affect the execution strategy.

6.2.3 Work Distribution Among the Audit Team Members

163. The audit team leader should divide the audit work among the team members and according to the work distribution the team members should proceed with the audit. For example, one team member may take up verifying cash book, treasury bill registers and reconciliation with treasury and the bank;

another might start checking the establishment expenditure and the audit team leader should take up the more significant items along with supervision of other team members work. Each member of the audit team needs to maintain an updated record of the work performed each day in the prescribed formation OAMS.

OAMS Functionality: Post the entry conference meeting and based on the review of the information sheet, a work distribution form is required to be filled by the team leader into OAMS specifying the details of work allocated among the audit team members together with the completion timeline.

6.2.4 Selection of Transaction to be Audited

164. After risk classification of significant areas as high, medium, and low and post distribution of work among the team members by the team leader. The audit team will start the audit by going through the audit checklist which provides a comprehensive list of questions to be reviewed in each area of an audit. The audit team could use it as a guidance document during the audit and frame their questions for the audit. In this step, the audit team will carry out the review of transactions incurred during the period under audit which involves an examination of transactions along with their supporting documents to examine the audit assertions. The transaction audit will ensure, whether the transactions incurred by the audit unit are authorised by the competent authority, incurred during the relevant period, and ownership of transactions lies with the audit unit. The audit shall be conducted based on the detailed audit checklist specified under the chapter. *Refer to Section 12.2 of Chapter 12 "Forms, Formats and Audit checklist" – Volume II for Audit Checklist for ULBs & RLBs*

165. Following are the steps to be followed by the audit team for selection of transactions to be audited.

Step 1: Extraction of Transactions Report

166. The audit team will first extract the total expenditures report of the audit unit from the software integrated with OAMS e.g. e-GrmaSwaraj or other accounting and reporting software used by the ULBs or RLBs.

167. The following is an indicative list of documents/books of accounts required to be extracted for selection of transactions to be audited:

- ▶ Cash book- consist of day wise receipts and payments.
- ▶ Receipts and Payments Account/Budget and Expenditure statement (as applicable);

-
- ▶ Procurement Register.
 - ▶ Asset Register.
 - ▶ List of ongoing schemes (central as well as state-sponsored).
 - ▶ Types of own source of revenue and monthly collection details.
 - ▶ Monthly payroll sheet.
 - ▶ Bank statements (if any).
 - ▶ Any other books/ register maintained by auditee.

Step 2: Extent of Audit

168. Based on the classification of significant accounting transactions as high, medium, and low as mentioned in **point no.5.6.5.1‘Risk Assessment’ under Chapter- 5“Audit Planning and Preparation”**, the audit team will select the transactions to be audited based on the random sampling.
- ▶ **For High-Risk Significant Account Balance and for Inherent Risk Items: 50% to 60% value shall be selected for audit**
 - ▶ **For Medium Risk Significant Account Balance: 40% value shall be selected for audit**
 - ▶ **For Low-Risk Significant Account Balance: 25% value shall be selected for audit**
169. The above extent of checking is indicative which the auditors may increase based on their professional judgments and findings during the course of the audit. However, with respect to the non-significant account balances, the auditors are required to verify at least 2-3 transactions from each of the account balances so that completeness of verification can be ensured.
170. To select the transactions to be audited, the guidance provided *in clause no. 3.7 “Audit Sampling” under Chapter 3. "Basic Principles and Concepts in Auditing"* will be followed. Based on the selected sample the audit team will verify the transactions, incurred during the period which involves an examination of transactions along with their supporting documents and will examine the audit assertions. This verification would ensure that transactions incurred by the audit unit are authorised by the competent authority, incurred during the relevant period, and ownership of transactions lies with the audit unit. The verification of transactions will be carried out based on the audit checklists provided in chapter 12.2. of Volume-II. *Refer to Section 12.2 of Chapter 12 "Forms, Formats and Audit checklist" – Volume II for Audit Checklist for ULBs & RLBs.*

171. The audit team will carry out the audit of sampled transactions which involves an examination of supporting documents and occurrence of transactions. The auditor has to ensure that transactions are recorded in time after proper verification and under the appropriate budget head and all transactions should be approved by the competent authority. For expressing an opinion on the Financial Statements being audited, the auditor shall collect sufficient and appropriate evidence. Further, all the evidence collected must be relevant to the general audit objectives called audit assertions.

6.2.5 Audit Assertions

172. In order to substantiate the audit findings, audit team should obtain audit evidence, and the same must relate to the general audit objectives ‘called audit assertions.

Assertions can be defined as “Representations by management, explicit or otherwise, that are embodied in the Financial Statements, as used by the auditor to consider the different types of potential misstatements that may occur.” Assertions are positive statements about the "state of being." For example, an assertion may be that all receipts were accounted for, or that all the investments shown in accounts were really owned by the entity. These general audit objectives (assertions) are designed to ensure that the auditor obtains evidence to support all aspects of the opinion required to be expressed on Financial Statements.

173. Assertions are used by the auditors to form a basis for:

- ▶ Considering the different types of potential misstatements that may occur.
- ▶ Assessing the risk of material misstatement.
- ▶ Designing further audit procedures that are responsive to the assessed risks.

174. The assertions are classified in two parts

A) Assertions for items related to assets and liabilities

175. There are five general objectives (assertions) for items related to assets and liabilities explained below:

| Assertions | Explanations |
|---------------------|---|
| Completeness | Completeness means that all assets and liabilities have been recorded in the accounts and nothing was omitted. This objective directly tests for potential understatement of assets and liabilities. For example, if the Financial Statements omit some investment or liabilities, the ‘completeness’ objective is not satisfied. |
| Existence | Existence means that all recorded assets and liabilities exist. This objective directly tests for the potential overstatement of assets and liabilities. For example, if the accounts show some amount as cash balance, which does not exist, the ‘existence’ objective is not satisfied |
| Valuation | Valuation means that the values given to the assets and liabilities are accurate and have been arrived at in accordance with the established accounting policies or on an acceptable and consistent basis. This goes beyond mere arithmetical accuracy and requires conformity with accounting policies and standards and their consistent application |
| Ownership | Ownership means that the assets are owned by the entity, the liabilities are of the entity and both arise solely from regular activities. The balance sheet represents an accumulation of the entity’s rights and obligations. ‘Ownership’ assertion requires that the assets and liabilities reported actually represent those rights and obligations. For example, if an item is shown in the accounts as an amount receivable, the entity should have the legal right to sue and collect the amount. |
| Disclosure | ‘Disclosure’ means that the assets and liabilities have been properly disclosed in accordance with the applicable reporting framework. This implies that the assets and liabilities were booked to the proper account head and the disclosures made in the notes and footnotes to the accounts are appropriate and adequate. For instance, if obligations under guarantees given by the entity are not shown in the accounts, the requirement of ‘disclosure’ is not satisfied. |

Table 34: Principal of Assertion for Balance sheet items

B) Assertions for items related to Income and Expenditure account

176. There are five general objectives (assertions) for items related to Income and Expenditure account, explained below:

| Assertions | Explanations |
|---------------------|--|
| Completeness | ‘Completeness’ means that all transactions relevant to the year of account have been recorded. This implies that no transaction has been overlooked. This assertion directly tests for potential understatement of figures in accounts. To take an example, if the accounts are prepared for the financial year 2018-19 and an item of expenditure that takes place during 2018-19 is omitted from accounts, the ‘completeness’ objective is not fulfilled |
| Occurrence | ‘Occurrence’ means that all recorded transactions occurred and were relevant to the year of account. For instance, if an item of receipt was booked in the accounts for the financial year 2018-19, to satisfy the ‘occurrence’ objective, the item should properly relate to only 2018-19 and not to any other financial year. This assertion directly tests for the potential overstatement of figures in the accounts. |
| Measurement | ‘Measurement’ means that the recorded transactions have been correctly valued, properly calculated, or measured in accordance with established accounting policies, on an acceptable and consistent basis. This involves much more than clerical accuracy as it requires the auditor to check the conformity with established accounting policies and standards and the consistency in the measurement |
| Disclosure | ‘Disclosure’ means that the recorded transactions have been properly classified and disclosed where appropriate. This implies that the receipts and expenditures were booked to the proper account head and the disclosures in the notes and footnotes to the accounts are appropriate and adequate. |
| Regularity | ‘Regularity’ is a unique requirement for government accounts. This requires that the recorded transactions are in accordance with the primary and secondary legislation and other specific authorities required by them. For example payment may be correctly recorded and properly disclosed in the right year of account at the right value, but the payment would be irregular if it did not accord with the requirement of the governing legislation or regulations. |

Table 35: Principal of Assertion for Receipts and payments or Income and expenditure account

Example 1

One of the audit concerns is whether the transactions were properly disclosed. If some item of revenue expenditure is misclassified as capital expenditure, it can be said that the disclosure is not proper. The auditor has to be satisfied with the classification of transactions.

Example 2

One of the concerns of the auditor is whether any items have been omitted from the account. The auditor must obtain evidence to the effect that all transactions relevant to the year of account have been recorded. This relates to the completeness objective. The auditor has to design audit tests to ensure that the completeness objective is met.

Example 3

Payment may be correctly recorded and properly disclosed in the relevant year of account at the right value, but the payment would be irregular if it did not accord with the requirement of the governing legislation or regulations.

OAMS Functionality: The audit team will carry out test of transactions for selected transactions extracted from OAMS. For this purpose, the audit team will use the audit checklist of provided in the OAMS.

6.2.6 Issuance of Half Margin Memo

177. While conducting Financial Attest Audit, the audit team might come across various issues/findings for which a clarification from the audit unit is required by issuing a Half Margin Memo to be created through OAMS and sent to the audit unit for replies
178. Half margin memo shall be prepared by the audit team member during the audit for (i) seeking clarification from the audit unit regarding any findings or (ii) requirement of any additional information or documents.
179. Thus, the Half Margin Memo is classified as under:
 - **Information Memo:** This is used to obtain additional information or documents from the audit unit.
 - **Observation Memo:** is used where the preliminary audit indicates that a draft para can be made.

- **Information Cum Observation Memo:** HMM created by team members shall be reviewed and approved by the team leader before sharing it to the audit unit. HMM shall be approved or rejected by the team leader only once.

180. HMM created by the team leader shall be sent directly to the audit unit. However, the HMM created by the team members needs to be approved by the team leader before sharing with the audit unit for reply. There could be the following scenarios for the HMM created by the team member:

181. **If HMM is approved by the Audit Team Leader:** The approved Half Margin Memo shall be sent to the audit unit for seeking a response. The timeline for providing a response against Half Margin Memo is three working days starting from the date of issuance of the Half Margin Memo. The auditor is required to evaluate the response provided by the audit unit for each of the Half Margin Memo and needs to take necessary actions accordingly. Following are the two outcomes of Half Margin Memo:

- **Resolved Half Margin Memos:** In case the audit the unit provides a response, which is satisfactory as per the auditor, then Half Margin Memo is considered to be resolved.
- **Un-resolved Half Margin Memos-**
 - In case the audit unit fails to provide a response within the stipulated time, then Half Margin Memo is considered to be un-resolved and shall be converted into audit para.
 - In case audit the unit provides a response, which is not satisfactory as per the auditor, then HMM is considered to be un-resolved and shall be converted into audit para.

182. **If HMM is not approved by the Audit Team Leader:** The unapproved HMM shall be returned to the audit team member along with the comments (reason for rejection) for necessary corrections. The team member post rectification is required to resubmit this to the team leader for his/her approval.

183. The Team leader will review all unresolved HM /uncorrected misstatements before converting the same into the audit para.

OAMS Functionality: Half Margin Memo (HMM) created on OAMS by the team members will be approved by the team leader. Once it is approved by the team leader, an automatic intimation will be sent to the coordinator of the audit unit through SMS/email for the reply.

HMM once created and submitted to the audit unit, cannot be edited. The audit team can add sub-HMM for any additional point or for addressing the reply received from the audit unit. However, all the HMM must be either closed as resolved or converted into draft paras in the OAMS. Information HMM has to be closed and any discrepancy or limitation faced shall be mentioned in the audit report.

- ▶ The audit unit has to respond to the HMM within three working days. Along with the reply, the audit unit has also to upload all the documents on OAMS as a supporting document which helps in resolving of HMM.
- ▶ Based on the response of the audit unit, the audit team either drops the HMM or covert the same into the draft para. However, in case of a non-reply or unsatisfactory reply, the HMM must be converted into audit para.

6.2.7 Exit Conference Meeting

184. Once the audit team completes the audit and compiles all its findings noted during the audit execution stage, the audit team shall interact with the audit unit for discussion on the conclusion drawn on the audit findings. The audit team leader together with other team members shall be responsible for the scheduling of Exit Conference Meeting with HoA along with the concerned official of the auditee prior to the last date of fieldwork in order to provide an opportunity to the auditee to provide clarification on unresolved Half Margin Memo. The purpose of the exit conference meeting is:

- ▶ To Inform the HoA about the audit findings (discuss the unresolved half margin memo issued during the audit period / uncorrected misstatement, which have been included in the half margin memo) and reporting process,
- ▶ To obtain management response on the half margin memo and recommendation made along with the reason thereof,
- ▶ To provide reasons for acceptance or rejection of responses received on the half margin memo,
- ▶ To provide adequate guidance about corrective actions to be taken against each half margin memo and also provide guidance about their rights and available remedies,
- ▶ To Suggest for improvement in accounting and financial management and general performance of the audit unit, If any

185. One of the audit team members will be assigned to document all the discussion of Exit Conference Meeting in OAMS. The minutes of exit conference meeting will be digitally signed by the team leader

and by HoA. *Refer to Section 12.1.6 of Chapter 12 “Forms, Formats and Audit Checklist” -Volume II for Format of Minutes of Exit Conference Meeting.*

OAMS Functionality: Under the exit conference meeting tab in the OAMS, all the discussions of exit conference meeting will be documented. The exit conference meeting template also includes major queries raised and discussed during the exit conference meeting.

6.2.8 Written Representation Letter from the Auditee

ISSAI 2580 requires the auditor to perform certain audit procedures on management representations by the end of the audit. The auditor should ensure that the date of written representations is as close as possible to, but not after, the date of the auditor's report. The auditor cannot express an opinion on the presentation of the financial statements on a date before the date of written representations, because those representation are audit evidence.

186. The **ISSAI 2580** deal with “Written Representation”. The audit team shall obtain written representations from the auditee (shall be issued by HoA) on material matters of the Financial Statements. A written representation is a statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Therefore, the auditor should obtain a written representation from the HoA acknowledging the responsibility of the management on certain material matters and transactions. The Management representations are usually sought for the following reasons:

- Where Knowledge of the facts pertaining to a matter is confined to management alone.
- To acknowledge management's responsibility for the regularity of expenditure.
- To acknowledge management's responsibility for the preparation of the Financial Statements.

Refer to Section 12.1.7 of Chapter 12 “Forms, Format and Audit Checklist” Volume II for Format of Written Representation letter.

6.3 Documentation of Field Work

Documentation is an integral part of the auditor's responsibilities. As per **ISSAI 2230 “Documentation of the Audit Procedures Performed and Audit Evidence Obtained** “deals with the auditor's responsibility to prepare audit documentation for an audit of Financial Statements.

The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the financial attest audit, to understand:

- (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements.
- (b) The results of the audit procedures performed, and the audit evidence obtained; and
- (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

187. The audit working papers are documents that record the audit procedures undertaken, the conclusions drawn and the impact on the audit opinion. They should record the reasoning on all significant matters where the members of the audit team have exercised their professional judgment. The audit working papers help the individual audit team members to ensure that they have completed all the work in accordance with the work plan and they have collected the evidence to back their conclusion drawn from them.

188. All correspondence with the audit unit should be retained, together with minutes of meetings (MoM) wherever applicable. The acid test for good documentation is that an experienced auditor with no previous connection with the Financial Attest Audit should be able, without difficulty, to ascertain the evidence gathered and understand & support the conclusions reached.

189. In addition to the above, audit documentation also serves a number of additional purposes, including the following:

- Assisting the engagement team to plan, perform and review the audit engagements.
- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ISSAI 2220 ‘Quality Control for an Audit of Financial Statements’.
- Enabling the engagement team to be accountable for the work performed
- Retaining a record of matters of continuing significance for future audits.
- Enabling for the conduct of quality control reviews and inspections in accordance with professional requirements.
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

- ▶ Ensuring that all errors or control weaknesses have been investigated and discussed with the management of the audit unit, as necessary.
- ▶ Any matters that are unresolved or that have been informed in writing to the audit unit.

OAMS Functionality: All the forms, formats, checklists and annexures used by audit team in audit life cycle process shall be uploaded/updated on OAMS and audit team need to be updated the same through the use of OAMS and take out the print for approval from auditee if, required.

6.3.1 Timely Preparation of Audit Documentation

190. The audit team shall prepare audit documentation on a timely basis i.e. before issuance of the auditor's report.

6.3.2 Documentation of the Audit Procedures Performed and Audit Evidence Obtained

191. The auditor shall prepare audit documentation, which is sufficient to enable an experienced auditor, having no previous connection with Financial Attest Audit, to understand:
- ▶ The nature, timing and extent of the audit procedures performed to comply with the ISSAIs and applicable legal and regulatory requirements.
 - ▶ The results of the audit procedures performed, and the audit evidence obtained; and
 - ▶ Significant matters arose during the audit, the conclusions reached thereon, and significant professional judgments were made in reaching those conclusions.
192. In documenting the nature, timing and extent of audit procedures performed; the auditor shall record:
- ▶ The identifying characteristics of the specific items or matters tested.
 - ▶ Name of the team members who performed the audit work and the date of completion of such work.
 - ▶ Name of the team member who reviewed the audit work performed and the date and extent of such review.
193. The auditor shall document discussions of significant matters with audit unit/ senior officials, and others, including the nature of the significant matters, discussed including the details of time and participants with whom the discussions took place.

194. If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

6.3.3 Departure from a Relevant Requirement

195. If, in exceptional circumstances, the auditor's judgment is necessary to depart from a relevant requirement from ISSAI, the auditor shall document how the alternative audit procedures were performed to achieve the aim of that requirement, and the reasons for the departure.

196. Sufficient documentary evidence to support audit conclusions and confirms that the audit was carried out in accordance with the relevant act, rules & regulations, and standards. "Adequate documentation is important for several reasons" so that it can:

- ▶ Confirm and support the auditors' report.
- ▶ Increase the efficiency and effectiveness of the audit.
- ▶ Facilitate planning and supervision and provide evidence of work done for future reference.
- ▶ Serve as a source of information for preparing reports or answering any inquiry from the audited entity or from any other authority.
- ▶ Serve as evidence of the auditor's compliance with relevant rules, guidelines, and auditing standards.

6.3.4 Audit Working Papers

197. Maintaining sufficient and relevant working papers is the responsibility of the audit team. The working papers file should contain all tests conducted, samples were drawn, documentary evidence supporting the audit findings and conclusions. The term "audit working paper" in this context applies to both hard copy audit working papers and to files stored in computer-readable form.

OAMS Functionality: All the relevant working papers will be uploaded on OAMS before the finalization of the Independent Audit Report.

6.3.5 General Content of Working Papers

198. A standard method of filing working papers/documents is essential. The filing method should recognise that documents may be categorised in two categories:

- ▶ Those relevant to the audit of ULBs/ RLBs generally.

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- ▶ Those relevant only to the audit of ULBs/ RLBs for a particular year.
199. The documents to which the auditor needs to refer each year should be placed in **Permanent File**. This file should contain current information about the organisation itself, such as:
- ▶ Information concerning with legal and organisation structure of the auditee;
 - ▶ Governing Acts and Rules.
 - ▶ Extracts or copies of important documents such as the agreement and minutes of the meeting.
 - ▶ Notes regarding significant accounting policies.
 - ▶ Short description of the activities carried on by the auditee.
 - ▶ Details of the standing committees and key personnel along with their designation and contact information.
 - ▶ Descriptions of accounting systems, internal control environment.
 - ▶ Any other relevant documents.
200. The documents relevant to the audit of a particular year should be placed in a manner which brings together related working papers in a series of folders (or in separate sections within the folders).
201. The audit file should contain a list of working papers referred / prepared during the course of audit and generally include the following:
- ▶ The names of audit personnel who carried out Financial Attest Audit work.
 - ▶ The dates when the audit work was carried out by the respective audit personnel.
 - ▶ The sources of the information/evidence obtained.
 - ▶ Audit Plan/Programme.
 - ▶ Audit Schedule and allocation sheet among the team members.
 - ▶ Planning Memorandum.
 - ▶ A record of nature, timing and extent of audit procedures performed and the result of such procedure.
 - ▶ Previous Internal audit reports.
 - ▶ Physical verification reports of cash/stock and store etc.
 - ▶ Data relating to budget provision and actual expenditure for the period of audits.
 - ▶ Minutes of opening and closing meeting conducted.
 - ▶ Summary review Memorandum.

- ▶ Written representation letter.
 - ▶ Conclusion reached by the auditors including how exception and unusual matters if any, disclosed by the audit procedure were resolved and treated.
 - ▶ Copies of communication with other auditors, expert and third parties if any.
 - ▶ A note of the study and evaluation of the accounting system and related internal control. This could be in the form of narratives description, questionnaire, flowcharts, or combination thereof; and
 - ▶ Analysis of transaction and account balances.
202. It is important to note that any judgments made, and each audit conclusion reached, on account areas and balances should be recorded clearly. Lead schedules covering each account area should summarise the audit work carried out and the results of the audit. Each the lead schedule should provide cross-referencing between the figures in the Financial Statements and the audit done to confirm or verify them.
203. In order to standardize the working paper's headings following key characteristics should be followed:
- ▶ It should provide details of Urban Local Bodies/ Rural Local Bodies being audited and the audit period covered.
 - ▶ Cross-referencing within work papers should be complete and accurate. Work papers should be cross-referenced to the Audit Findings and Audit Plan.
 - ▶ The system of indexing audit work papers should be simple. A capital letter (A-Z) should be used to identify each segment of the audit, and Arabic numerals (I, II, III etc.) should be used to identify schedules within the segments.
 - ▶ The auditor should make full use of the working papers developed in the prior audit. Flow charts, system descriptions, and other data may still be valid. Those papers that remain useful should be made as a part of the current working papers.

6.3.6 Review of Working Papers

204. A timely review of working papers is an important part of quality control. The audit team leader is required to maintain adequate working papers of the work. These working papers would be reviewed by Audit Team Leader and by the Supervising officer. While discharging their review responsibilities in accordance with ISSAI 2220 ‘Quality Control for an Audit of Financial statements’ they should

look whether the working papers are correct and contain reliable and adequate evidence to the support the audit findings. An illustrative checklist for review of working papers is provided in below table:

| S. No | Checkpoint | Response |
|-------|--|----------|
| 1. | Check that the working papers are appropriately indexed, labelled, and dated | Yes / No |
| 2. | Check whether each of the audit observation is supported with proper evidence which is documented adequately | Yes / No |
| 3. | Check that adequate referencing and cross-referencing of the working papers with the relevant audit observations is made to make it more meaningful and useful for stakeholder | Yes / No |
| 4. | Check that all the documents/ working papers are legible | Yes / No |
| 5. | Check the mode of collection to comment on authenticity and reliability of the documents | Yes / No |
| 6. | Check whether the Audit File (either in hard copy or on OAMS) includes: | Yes / No |
| 7. | Organizational Chart | Yes / No |
| 8. | Description of Schemes, programs, systems, procedures and business plans | Yes / No |
| 9. | Corrective action plans | Yes / No |
| 10. | Legal and regulatory issues impacting the organization | Yes / No |
| 11. | Risk assessment | Yes / No |
| 12. | Copies of the Draft and Final Audit Report | Yes / No |
| 13. | Significant findings and issues identified during the audit and how they were resolved | Yes / No |
| 14. | Audit planning documentation | Yes / No |
| 15. | Work Distribution sheet | Yes / No |
| 16. | Administration/correspondence documents | Yes / No |
| 17. | Follow-up of previous audit reports | Yes / No |
| 18. | Updated audit programmes/ planning memorandum | Yes / No |
| 19. | Supporting documentation for the audit conclusions | Yes / No |
| 20. | Minutes of entry and exit meeting | Yes / No |
| 21. | Any other document/evidence collected during audit | Yes / No |

Table 36: Illustrative checklist for review of Working paper

6.3.7 Ownership and Custody of Working Papers

205. The ownership of the audit working papers rests with the administrative section of the Directorate of Audit and not with the individual auditor. Upon completion of the Financial Attest Audit and issuance of the Financial Attest Audit Report, it would be the responsibility of the team leader to update the audit files and upload the same on OAMS and archive the file of working papers so that they can be retrieved as and when needed. The original working papers shall be submitted by the audit team leader to the administrative section of DoA for necessary recording and safekeeping. These working papers shall be kept for a minimum period of **8 years** unless other law requires for longer periods to satisfy any legal requirements of records retention.

Chapter 7: Audit Reporting

206. Audit Report would be the final deliverable of the Financial Attest Audit. Hence, the audit team should take utmost care in drafting the *Audit Report*. The Audit report would be prepared based on the evaluation and conclusions drawn from the audit evidence obtained during the audit execution phase.

International Standard of Supreme Audit Institutions (ISSAI) standard 2700, “Forming an Opinion and Reporting on Financial Statements,” deals with the auditor’s responsibility to form an opinion on the Financial Statements. It also deals with the form and content of the auditor’s report issued as a result of an audit of Financial Statements.

The auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

- (a) The Financial Statements appropriately disclose the significant accounting policies selected and applied.
- (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate.
- (c) The accounting estimates made by management are reasonable.
- (d) The information presented in the Financial Statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor shall consider whether:
 - The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterized.
 - The overall presentation of the Financial Statements has not been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed.
- (e) The Financial Statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the Financial Statements; and
- (f) The terminology used in the Financial Statements, including the title of each Financial statements, is appropriate.”

International Standard of Supreme Audit Institutions (ISSAI) standard 2701 “Communicating Key Matters in the Independent’s Auditor Report” Deal with how the key matters will be communicated by the Independent Auditor.

International Standard of Supreme Audit Institutions (ISSAI) standard 2705, “Modification to the Audit Opinions in the Independent Auditor’s Report” and International Standard of Supreme Audit Institutions (ISSAI) standard 2706, “Emphasis of Matter, “Deal with how the form and content of the auditor’s report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or other Matter paragraph in the auditor’s report.

International Standard of Supreme Audit Institutions (ISSAI) standard 2706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”, provides the requirements for an auditor who, having formed an opinion on the financial statements, has determined that it is necessary to draw users’ attention, by way of clear additional communication in the auditor’s report, to:

- ▶ A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users’ understanding of the financial statements; or
- ▶ As appropriate, any other matter that is relevant to users’ understanding of the audit, the auditor’s responsibilities, or the auditor’s report

207. This phase would start after the exit conference meeting is recorded in OAMS. Below are the timelines involved for the preparation and circulation of the audit report.

| Activities | Timelines | Responsibility | Reference |
|---|--|--|------------------------------|
| Exit Conference Meeting | On or before the last date of field work | Team Leader | Refer Clause No.6.2.7 |
| Conversion of HMM into Audit Para | Within 3 working days from the date of exit conference meeting | Team Leader along with Team Member | Refer Clause No.7.1 |
| Preparation of Financial Attest Audit Report | Within 15 days from the date of exit conference meeting | Team Leader | Refer Clause No.7.3.2 |
| Review of Financial Attest Audit Report | Within 30 days from the date of exit conference meeting | Supervising Officer. | Refer Clause No.7.3.3&7.3..4 |
| Final Review, Approval and Issuance of Financial Attest Audit Report to the Auditee | Within 45 days from the date of exit conference meeting | Director, Audit or Officer Authorised by the Director, Audit | Refer Clause No.7.3.4 |

Table 37: Illustrative Timeline related to Audit reporting

208. The process for preparation and submission of the Auditors Report in **OAMS** has been summarised below.



Figure 11: Process of Audit Reporting

7.1 Conversion of Half Margin Memo (HMM) into Audit Para

209. Based on the response submitted by the audit unit, the audit team would either drop the HMM or convert the same into audit para. However, the unresolved HMM due to non-submission of the reply within the stipulated period of time or due to the unsatisfactory reply will mandatorily be converted into audit para within 3 working days from the date of the exit conference meeting.

210. The HMM converted into audit para by the audit team member shall be sent to the audit team leader for review and approval. The audit team leader can either approve or reject or return the audit para created by the team member along with comments for appropriate action by the team member. The team leader can reject or return any audit para created by the team member for their necessary action only once. The team member after making necessary rectification shall resubmit the same to the team leader for approval.

OAMS Functionality: Creation of audit para from HMM shall be done through the functionality provided in OAMS. All the Half Margin Memo (HMM) must either be closed as resolved *or* converted into audit paras in OAMS. There can be following two types of situations:

- Where reply submitted by the auditee against the half margin memo (HMM) is satisfactory then the HMM shall be dropped or considered as closed and resolved.
- Where reply submitted by the auditee against the HMM is unsatisfactory in the opinion of the auditor or the auditee has not submitted any reply within the stipulated period of time then the Half Margin Memo (HMM) mandatorily be converted into Audit Para.

7.1.1 Categorization of Audit Para

211. For ease of tracking, reporting and recommendations on the audit paras, the audit paras noted during current audit period shall be classified under the following two categories.

| | |
|----------------------------|---|
| Serious Audit Paras | Those audit paras which have a significant impact or are considered material when expressing an opinion on the Financial Statements will be categorised under this category and will be suitably disclosed in the Detailed Audit Report/ Management Letter. |
| Other Audit Paras | All other audit paras which have not been classified as serious audit paras will be categorised as Other Audit Paras and will be suitably disclosed in the Management Letter. |

Table 38: Categorization of Audit Para

OAMS Functionality: The categorization of audit paras shall be done through OAMS. The category of audit paras shall be pre-fed in the OAMS for the first time and thereafter it shall be updated on periodical basis by the DoA. The auditor needs to select the appropriate category of audit para while converting the HMM into audit para.

7.2 Preparation of Financial Attest Audit Report

7.2.1 Types of Financial Attest Audit Report

212. Following reports will be issued under Financial Attest Audit.

| S. No | Type of Report | Responsibility of Preparation | Remarks |
|--------------|------------------------------|--------------------------------------|--|
| | | | |
| 1. | Independent Auditors' Report | Team Leader | To provide an audit opinion on the Financial Statements. Refer Clause No. 7.2.3 for Form and Content of the Independent Auditors' Report. This report will be issued for all ULBs and RLBs where Financial Attest Audit is undertaken. |
| 2. | Detailed Audit Report for | Team Leader | A detailed audit will be done in limited cases and will cover only a few audit entities every year. A detailed audit may be conducted when: |

| S. No | Type of Report | Responsibility of Preparation | Remarks |
|-------|---|---|---|
| | Selected ULBs and RLBs | | <ul style="list-style-type: none"> Audit findings from Financial Attest Audit are significant/material/pervasive and there is a need to apply detailed audit procedures to identify the cause and effect of these findings (there are significant qualifications/audit report is adverse or disclaimer); Instances of fraud or serious irregularities have been noticed during audit. Special request from HoA to Director, Audit or Finance Department to conduct a detailed audit for specific units. At the discretion of the Director, Audit (e.g. the DoA at its discretion may select a sample of ULBs/ RLBs to be undertaken for detailed audit every year). The report will be issued to the Head of the Auditee. Refer clause no. 7.2.4. for details |
| 3. | Management Letter | Team Leader | The Management Letter is normally issued along with the Financial Attest Audit report at the discretion of the Auditor. The Management Letter shall include an Executive Summary and shall be addressed to the Head of the Auditee. Refer clause no. 7.2.5 for details. |
| 4. | Annual Consolidated Report for State Assembly | DoA will prepare and submit to Finance Department as per point 1.3.1. | There will be an Annual Consolidated Report will be which shall be laid before the State Assembly. Refer clause no. 8.5 for details. |

Table 39: Types of Financial Attest Audit Report

7.2.2Evaluation of Material Misstatements and Selection of Basis for Opinion

213. The auditor should evaluate the audit evidence with a view to obtaining audit findings. When evaluating the audit evidence and assessing the materiality of findings the auditor should take both quantitative and qualitative factors into consideration.
214. Misstatement is the difference between what has been reported and what was supposed to be reported. The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial (unimportant).
215. The auditor should determine whether misstatements are material, individually or in aggregate. The evaluation of misstatements is done against the materiality and tolerable error limit that the auditor has set using professional judgment. The misstatement should include the identified misstatements and the projected misstatements based on the sample results.
 - (a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosure and on the Financial Statements as a whole and the particular circumstances of their occurrence; and
 - (b) The effect of misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and on the Financial Statements as a whole.
216. The auditor shall also evaluate a misstatement affected by the auditor's responsibilities established by law, regulation or other authority to report specific matters e.g. fraud. Further, issues like public interest, accountability, probity and ensuring effective legislative oversight may affect the assessment of whether an item is a material by virtue of its nature. This is particularly for the items that relate to compliance with laws, regulations or other authorities.
217. Broadly two types of audit opinion will be given by the Independent Auditors.
 - (a) Unmodified opinion.
 - (b) Modified Opinions (Qualified, Disclaimer and Averse).
218. Below table will help to Independent Auditor to carry out an evaluation in order to form an opinion on the Financial Statements.

| S. No. | Indicators | Evaluation Criteria | Response | |
|---------------|---|---|-----------------|-----------|
| | | | Yes | No |
| 1 | Audit Evidence | Sufficient, Appropriate | √ | X |
| 2 | Uncorrected material misstatements | Materiality | X | √ |
| 3 | Significant accounting policies | Disclosed Adequately | √ | X |
| 4 | Accounting policies | Consistent with financial reporting framework | √ | X |
| | | Appropriate | √ | X |
| 5 | Accounting estimates | Reasonable | √ | X |
| 6 | Information Presented in the Financial Statements | Relevant | √ | X |
| | | Reliable | √ | X |
| | | Comparable | √ | X |
| | | Understandable | √ | X |
| 7 | Financial Statements Disclosures | Adequate | √ | X |
| 8 | Measurement | Reasonable | √ | X |
| 9 | Recognition | Complete | √ | X |
| 10 | Maintenance of books of records | Complete | √ | X |
| 11 | Adequate internal controls | Adequate | √ | X |

Table 40: Illustrative Matrix for evaluation to form an Opinion

219. From the above table if the auditor gathers a negative response on one or more indicators, the auditor shall evaluate the pervasiveness and materiality of the same on the Financial Statements which in turn would enable them to form the basis of opinion.
220. Thus, while determining the type of auditor's opinion, the auditors' professional judgment plays a crucial role in determining the pervasiveness of the effects or possible effects of the matter that may give rise to a modification of the auditor's opinion on the Financial Statements. Thus, if the auditor concludes that:
- The result of finding is not material and Financial Statements gives a true and fair view in all material respect then the auditor will choose the Unqualified type of Opinion.

- b. The result of finding is material but not pervasive of the Financial Statements then the auditor will choose the Qualified type of Opinion.
 - c. The result of finding is material and pervasive of the Financial Statements then the auditor will choose the Adverse type of Opinion.
 - d. The result of finding is material and pervasive of the Financial Statements and the auditor is unable to obtain sufficient and appropriate audit evidence then the auditor will choose the Disclaimer of Opinion.
221. The below figure provides an illustrative process for selecting the different kind of modified opinion in various situations.

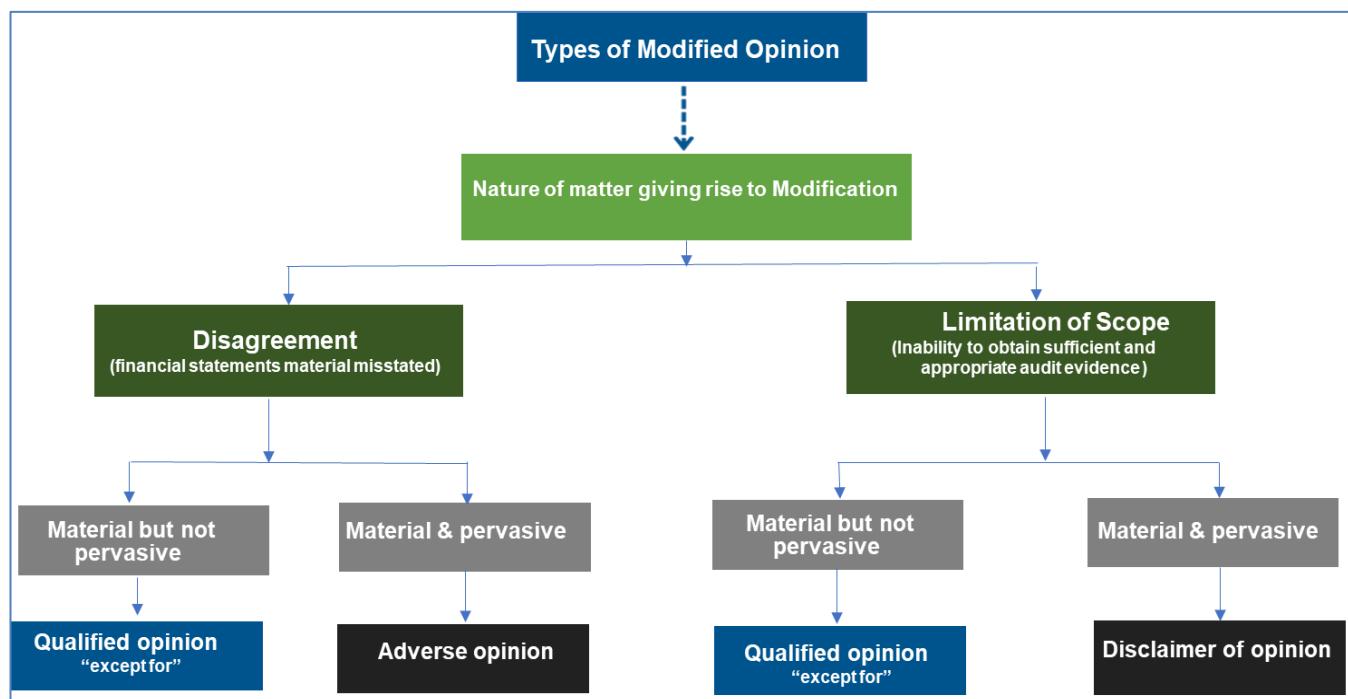


Figure 12: Process for deciding on type of Opinion

7.2.3 Form and Content of Independent Auditor's Report

222. Independent Auditor's Report, would include the following headings:
- a. Title of the report
 - b. Addressee
 - c. Auditors' Opinion

- d. Basis for Opinion
- e. The Emphasis of Matter (to be reported wherever applicable)
- f. Responsibilities of Management of (insert name of the ULBs/ RLBs) for the Financial Statements
- g. Auditors' Responsibilities for the Audited Financial Statements
- h. Report on Legal, Regulatory and Other Requirements (to be reported wherever applicable)
- i. Name, Address and Signature of Auditors along with the date
- j. Appendix to the Independent Auditors Report (to be reported wherever applicable)

223. The detailed format of **Independent Auditors' Report** is as under:

7.2.3.1 Title

224. The Independent Auditors Report shall have title that clearly indicates that it is an "**Independent Auditor's Report**". The "**Independent Auditor's Report**" affirms that the auditor has met all the ethical requirements, including that of independence and therefore, distinguishes the independent auditor's report from reports issued by others.

7.2.3.2 Addressee

225. The auditor's report shall be addressed as appropriate, based on the circumstances of the engagement, law, regulations, or the terms of the engagement. The auditor's report is normally addressed to those for whom the report is prepared, or to those charged with governance of the entity whose Financial Statements are being audited.

| Independent Audit Report Relate To | Addressed to |
|---|----------------------------|
| Gram Panchayat | Panchayat Secretary |
| Kshettara Panchayat | Block Development Officer |
| Zilla Panchayat | Apar Mukhya Adhikari (AMA) |
| Nagar Panchayat | Executive Officer |
| Nagar Palika | Executive Officer |
| Nagar Nigam | Municipal Commissioner |

Table 41: Designation of the Authority to whom the report to be addressed

7.2.3.3 Auditors Opinion

226. The Financial Attest Audit is an independent assessment of the Financial Statements prepared by the ULBs and RLBs, wherein the auditor expresses an opinion providing reasonable assurance regarding whether, in all material respects, the Financial Statements are prepared as per the applicable financial reporting framework or not. In this section, the opinion shall be provided by the auditor based on the audit of the Financial Statements.
227. The Independent Auditor's Report shall include a section called '**Opinion**'. Before framing an opinion on the Financial Statements, the auditor should consider the following conditions:
- ▶ Whether Financial Statements are prepared in all material respects, in accordance with the applicable Financial Reporting Framework. *Refer clause no. 5.6.2. "Financial Reporting Framework" under Chapter-5 "Audit Planning and Preparation".*
 - ▶ Whether the Financial Statements as a whole are free from material misstatements whether due to fraud and error. This conclusion should be based on the following:
 - Whether appropriate audit evidence has been obtained as required by ISSAI 2330 "Auditors Response to Assessed Risk" and
 - Whether uncorrected misstatements are material individually, or in aggregate, in accordance with ISSAI 2450 "Evaluation of Misstatement Identified during the Audit."
 - ▶ Consideration of the qualitative aspects of accounting practices.

A. Unmodified Opinion

228. The auditor gives an unmodified opinion when the auditor concludes that Financial Statements are prepared in all material aspects, in accordance with the applicable Financial Reporting Framework. However, the wording of the opinion paragraph of the auditor's report will depend on the type of reporting framework used by the entity in preparing the Financial Statements, i.e. either the fair presentation framework or the compliance framework. In Uttarakhand, the Financial Statements of ULBs are prepared in accordance with the provisions specified in **Uttarakhand Municipal Accounting Manual (UMAM)2021** and Financial Statements of RLBs are prepared in accordance

with **Simplified Format of Accounts for PRIS, 2009**. The above Financial Reporting Framework follows the accounting policy which provide emphasis on providing Fair presentation of Financial Statements (i.e. Financial Statements give true and fair view). Therefore, the Financial Reporting Framework used by the ULBs and RLBs are Fair Presentation Framework. Accordingly, the unmodified opinion of the auditor shall include the following phrase:

"In our opinion, the accompanying Financial Statements give a true and fair view, in all material respects, of the financial position of the [name to the entity] as at March 31, 20XX in accordance with [the applicable Financial Reporting Framework]." The format of unmodified opinion for ULB and RLB is provided in Volume-II of this manual. **Refer to Section 12.1.8.1 and Section 12.1.11.1 of Chapter 12 "Forms, Format and Audit Checklist" Volume II for Format of Format Independent Audit Report in case of Unmodified opinion.**

229. **Basis of Opinion:** The auditor gives the unmodified opinion on the Financial Statements when the auditor concludes that:

- ▶ Financial Statements are prepared in accordance with the applicable financial reporting framework in all material aspects and free from any material errors, irregularities or misstatements.
- ▶ Accounting policies are followed consistently.
- ▶ Total value of errors or irregularity or deficiencies is less than or equal to the threshold limit decided in audit materiality step.
- ▶ There is adequate disclosure of all information relevant for a proper understanding of the Financial Statements and it gives a true and fair view in conformity with the applicable financial reporting framework

B. Modified Opinion

230. The auditor gives the modified opinion on the Financial Statements when the auditor concludes that:

- ▶ Based on the audit evidence obtained, the Financial Statements as a whole are not free from material misstatement e.g. disagreement with the accounting policies used by the ULB/ RLB or accounting transactions made in the books of accounts; or
- ▶ Unable to obtain sufficient & appropriate audit evidence to conclude that the Financial Statements as a whole are not free from material misstatement e.g. lack of access to certain areas of accounting transactions/documents or failure by the management to produce documents. The format of

modified opinion for ULB and RLB is provided in Volume-II of this manual. ***Refer to Section 12.1.8.2 to 12.1.8.4 and Section 12.1.11.2 to 12.1.11.4 of Chapter 12 “Forms, Format and Audit Checklist” Volume II for Format Independent Auditor’s Report in case of Modified Opinion.***

231. The extent of modification in the auditor’s opinion shall depend on the circumstances and pervasive effects of the matter, or its possible effects on the Financial Statements. Therefore, while determining the type of modified opinion, auditors’ professional judgment plays a crucial role in determining the pervasive effects or possible effects of the matter on the Financial Statements.
232. **Pervasive Effects on the Financial Statements:** Pervasive effects are those that are not confined to specific elements, accounts or items in the Financial Statements. These misstatements represent the substantial part of the Financial Statements. Auditor’s opinion is based on their judgment about the pervasive effects or possible effects of a matter on the Financial Statements, is provided in the below table.

| Nature of Matter Giving Rise to Material but not Material and Pervasive Modification | Pervasive | |
|---|-------------------|-----------------------|
| Financial Statements are materially misstated | Qualified Opinion | Adverse Opinion |
| Inability to obtain sufficient appropriate audit evidence (not due to the auditor) | Qualified Opinion | Disclaimer of Opinion |

Table 42: Effect of pervasiveness on Opinion

I. Qualified Opinion

233. Where the auditor is uncertain or disagrees with one or more particular items of the Financial Statements that are material but not fundamental to understanding of the accounts, a qualified opinion should be given. A qualified opinion is expressed when the auditor concludes that there are material errors or irregularity, or deficiency appears in the Financial Statements of the audit unit or the audit team is unable to obtain adequate evidence against error or irregularity or deficiency noted during the audit. Accordingly, the qualified opinion of the auditor shall include the following phrase:

"In our opinion, except for the effects of the matter(s) described in the basis for Qualified Opinion, the accompanying Financial Statements give a true and fair view, in all material respects, of the financial position of the [name to the entity] as at March 31, 20XXX in accordance with [the applicable Financial Reporting Framework]. Refer to Section 12.1.8.2 and Section 12.1.11.2 of Chapter 12 "Forms, Format and Audit Checklist" Volume II for Format of Format Independent Auditor's Report in case of Qualified Opinion.

234. **Basis of opinion:** Audit team shall select the qualified audit opinion where any of the following situations arise:

- ▶ The audit team have obtained sufficient and appropriate audit evidence and concludes that errors or irregularity or deficiency, individually or in aggregate are material i.e. total value of errors or irregularity or deficiencies is greater than the threshold limit decided in the audit materiality step; or
- ▶ The audit team is unable to obtain sufficient and appropriate audit evidence against the error or irregularity of deficiency noted during the audit.

235. In both the above situation, if the auditor concludes, based on their professional judgment that the above deficiencies or limitation is material, but not pervasive, qualified opinion shall be given.

II. Adverse Opinion

236. Where an auditor is unable to form an opinion on the Financial Statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion that is qualified in certain respects would not be adequate then an adverse opinion shall be given. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the Financial Statements. An adverse opinion is expressed when the audit team found any fraud, embezzlement, defalcation of cash which are pervasive to the Financial Statements and audit team concludes that qualification of the report is not adequate to disclose the misleading or incomplete nature of the Financial Statements. Accordingly, the adverse opinion of the auditor shall include the following phrase:

*"In our opinion, because of the significance of the matter(s) described in the basis for Adverse Opinion, the accompanying Financial Statements do not give a **true and fair view**, of [.....] in accordance with [the applicable Financial Reporting Framework]. Refer to Section 12.1.8.3 and Section 12.1.11.3 of Chapter 12 "Forms, Format and Audit Checklist" Volume II for Format of Format Independent Auditor's Report in case of Adverse Opinion.*

237. **Basis of opinion:** The audit team shall select the adverse audit opinion where any of the following situations arise and the auditor concludes, based on their professional judgment that the deficiencies or limitation is material and pervasive to the financial statement then qualified opinion shall be given.
- ▶ After having obtained sufficient audit evidence, the audit team found cases of fraud, embezzlement, or defalcation of cash which affect validity and truthfulness of the accounts/ Financial Statements which are materially and pervasive to the Financial Statements.
 - ▶ The audit team observes that the audit unit has not maintained accounts (i.e. books of accounts/ records/ registers/ documents and information etc.) in accordance with forms and formats as prescribed under rules and regulations which governed such audit unit and the effect of which is material and pervasive to the financial statement.

III. Disclaimer of Opinion

238. The auditor disclaims an opinion only when he concludes that, for the items or accounts, they could not obtain sufficient and appropriate audit evidence to provide the basis for an opinion on the Financial Statements and the effect of which could be so material and pervasive to the financial statements. However, if the effects of the items or accounts are immaterial or material, but not pervasive, the auditor issues a qualified opinion. In other words, a disclaimer type of opinion is expressed in a situation where the audit team has not been able to obtain sufficient and appropriate audit evidence and accordingly is unable to express an opinion on the Financial Statements. Such an opinion may be issued in case of non-maintenance of records or non-production of records etc. Accordingly, the Disclaimer of Opinion of the auditor shall include the following phrase:

"We do not express an opinion, on the accompanying Financial Statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Financial

Statements". Refer to Section 12.1.8.4 and Section 12.1.11.4 of Chapter 12 "Forms, Format and Audit Checklist" Volume II for Format of Disclaimer of Format Independent Auditor's Report in case of Opinion.

239. **Basis of opinion:** Audit team shall select the disclaimer of opinion where any of the following situations arise and the auditor concludes that they could not obtain sufficient and appropriate audit evidence to provide basis for opinion on the Financial Statements and the effect of which could be so material and pervasive on the financial statements then disclaimer of opinion shall be given.
- ▶ The audit team member observed that the audit unit has not maintained appropriate accounts (i.e. books of accounts/ records/ registers/ documents and information etc.) as prescribed in the rules and regulations which govern the audit unit or audit unit refuses to produce books of accounts for audit.
 - ▶ There has been limitation on the scope of audit.

7.2.3.4 Basis for Opinion

240. This section shall provide a description of the matters due to which the auditors provide unmodified or modified opinion. This section also includes a para on the auditing standards and code of ethics followed by the auditors. The basis for framing an opinion has been explained at *clause no. 7.2.2 above*. The wording to be used for the basis of opinion has been provided in the Format of Independent Auditors Report. *Refer to Section 12.1.8 and Section 12.1.11 of Chapter 12 "Forms, Format and Audit Checklist" Volume II for Format of Independent Auditor's Report.*
241. The heading of this section shall be based on the type of opinion provided by the auditor such as "Basis for Unqualified Opinion", "Basis of Qualified Opinion", "Basis of Adverse Opinion" and "Basis of Disclaimer Opinion".

7.2.3.5 Emphasis of Matter Paragraph (only if applicable)

242. The Emphasis of Matter paragraph which is included immediately after the Opinion paragraph does not affect the audit opinion. An 'Emphasis of Matter' paragraph reflected in the auditor's report

emphasize a matter already presented or disclosed in the Financial Statements. However, the purpose of this paragraph is to draw the attention of the user to those matters that, in the auditor's judgment, are fundamental to the user's understanding of the Financial Statements. The wording for Emphasis of Matter has been provided below:

"We draw attention to note X to the Financial Statements, which describes the uncertainty regarding the future outcome of an outstanding litigation against XXXX. However, we have not qualified our opinion in respect of this matter. Refer to Section 12.1.8 and Section 12.1.11 of Chapter 12 "Forms, Format and Audit Checklist" Volume II for Format of Independent Auditor's Report.

7.2.3.6 Responsibilities of Management of(name of the ULB/ RLB) for the Financial Statements

243. This section of the auditor's report describes the responsibilities of those in the entity that is responsible for the preparation of the Financial Statements. The auditor's report shall include a section with the heading "**Responsibilities of Management for the Financial Statements.**" The auditor's report shall use the term that is appropriate in the context of the legal framework applicable to the entity and need not refer specifically to "management". In some entities, the appropriate reference may be to those charged with governance.
244. The auditor's report shall describe management's responsibility for the preparation of the Financial Statements. The description shall include an explanation that management is responsible for the preparation of the Financial Statements in accordance with the applicable financial reporting framework, and for such internal control as it determines necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error. *Refer to Section 12.1.8 and Section 12.1.11 of Chapter 12 "Forms, Format and Audit Checklist" Volume II for Format of Independent Auditor's Report.*

7.2.3.7 Auditors Responsibilities for the Audit of the Financial Statements

245. The auditor's report shall include a section with the heading "**Auditor's Responsibilities for the Audit of Financial Statements**".

246. This section state the auditor's responsibility to express an opinion on the Financial Statements based on the audit. This section of the auditor's report shall:
- I. State that the objectives of the Financial Attest Audit are to:
 - a. obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatements, whether due to fraud or error; and
 - b. issue an Independent Auditor's Report that includes auditor's opinion.
 - II. State that the reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance to the applicable auditing standards will always detect a material misstatement when it exists; and
 - III. State that the misstatement can arise from fraud or error, and either.
 - a. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these Financial Statements; or
 - b. Define or describe materiality in accordance with the applicable financial reporting framework.

7.2.3.8 Report on Legal, Regulatory and Other Requirements (to be reported wherever applicable)

247. In case of ULBs there is an additional requirement for the auditors to report on specific matters as provided in Chapter 12. This additional reporting necessitates enhanced due diligence and is designed to bring in greater transparency in the state of affairs of the ULBs for the benefit of the users of the Financial Statements. *Section 12.1.8.5 of Chapter 12 “Forms, Format and Audit Checklist” Volume II for Report on Legal, Regulatory and Other Requirements.*
248. In addition to the above, any other matter which is notified by the State Government needs to be reported as an annexure to the auditors' report. Such additional reporting will be applicable from the year as desired by the State Government.

7.2.3.9 Name Address and Signature of Auditor

249. The Independent Auditors' Report shall be signed either digitally through digital signature or in hard copy as per the below matrix:

| Independent Audit Report Relate To | Preparation &Submission of Audit Report | First Level Review | Final Review, Approval and Signature* |
|---|--|---|--|
| Gram Panchayat | Team Leader | Officer Authorized by the Director, Audit not below the rank of Assistant Director, Audit | Deputy Director, Audit |
| Kshettara Panchayat | Team Leader | Officer Authorized by the Director, Audit not below the rank of Deputy Director, Audit | Joint Director, Audit |
| Zilla Panchayat | Team Leader | Officer Authorized by the Director, Audit not below the rank of Deputy Director, Audit | Director, Audit |
| Nagar Panchayat | Team Leader | Officer) Authorized by the Director, Audit not below the rank of Deputy Director, Audit | Joint Director, Audit |
| Nagar Palika | Team Leader | Officer Authorized by the Director, Audit not below the rank of Deputy Director, Audit | Additional Director, Audit |
| Nagar Nigam | Team Leader | Officer Authorized by the Director, Audit not below the rank of Deputy Director, Audit | Director, Audit |

Table 43: Matrix for signature of the Independent Auditor's Report.

**All the above posts are under the DoA. In case where any of the above posts is vacant, the auditors' report shall be signed by an officer authorized by the Director, Audit. Further, in case of fraud, adverse type of opinion and disclaimer type of opinion, the auditors' report will mandatorily be sent to Director, Audit for his/her review and approval before signed by the appropriate authority.*

250. The auditor's report shall be dated not earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to form an opinion on the Financial Statements

7.2.3.10 Appendix to Independent Auditor's Report

251. The appendix to the Independent Auditor's report shall include details regarding the responsibilities and functions of the auditors while carrying out the Financial Attest Audit. This section includes detailing of the auditor responsibilities which has been summarized in the *clause no. 7.2.3.7 above.*
Refer to Section 12.1.8and Section 12.1.11 of Chapter 12 “Forms, Format and Audit Checklist” Volume II for Format of Independent Auditor’s Report.

7.2.4 Detailed Audit

252. The detailed audit will be done in limited cases and will cover only a few audit entities every year. the detailed audit will be initiated either on the direction of the Finance Department or Director, Audit. the detailed audit may be conducted in the following cases:

- a. Where audit findings from Financial Attest Audit are significant/material/pervasive and there is a need to apply detailed audit procedures to identify the cause and effect of these findings (i.e. for qualified, adverse and disclaimer type of opinion).
- b. Instances of fraud or serious irregularities are noticed during Financial Attest Audit.
- c. Special request from HoA to conduct a detailed audit for specific units.
- d. Sample units selected for detailed audit every year at the discretion of the Director, Audit.

253. A detailed audit will be conducted with respect to the ULBs and RLBs except for Gram Panchayat. However, if a Gram Panchayat falls under any category mentioned in para 252(a), (b) and (c) above, the detailed audit will be conducted with the approval of the Finance Department.

254. Detailed audit report will be issued to the management of the audit unit and shall include the following information. For conducting the detailed audit procedures specified in "*Audit of ULBs and RLBs Manual*" shall be referred.

255. The content of the detailed audit report has been provided below.

- a. General Information
- b. Audit Observation, Conclusion and Recommendations
- c. Compliance of Previous Audit Observations

Refer to Section 12.1.9 and Section 12.1.12 of Chapter 12 “Forms, Format and Audit Checklist” Volume II for Format of Detailed Audit Report.

7.2.4.1 General Information

256. This would provide brief information about the auditee and the auditor.

- ▶ **Audit Unit’s Profile:** provides basic details about the audit unit such as name of the auditee, address & contact details of the auditee, name of the HoA, name of the senior account person and DDO.
- ▶ **Auditor’s Profile:** provides basic details about the team leader and team members such as name and contact details (email and phone no.) of the audit team member.
- ▶ **Audit Profile:** provides basic details such as audit period, the start date of audit, the end date of audit allocated man days and actual man days etc.

7.2.4.3 Audit Observations, Conclusion, and Recommendations

257. This section would include the details of observations along with their categorization **as mentioned in clause no. 7.1.1 above**. This section shall cover all major irregularities noticed during the course of the Financial Attest Audit, its impact (quantitative or qualitative), the response received from audit units on the observations etc. This section shall become the base for audit follow- ups and compliance. The auditor shall also provide recommendations, if any, for each observation in this section. Further, the observation mentioned in this section may also form the basis for auditors to provide their opinion.

7.2.4.4 Compliance to Previous Years’ Audit Observations

258. In this section, the auditors shall provide the status of compliance/ action taken by the auditee with respect to the audit observations reported in the previous year’s Financial Attest Audit report.

7.2.5 Management Letter

259. The outcome of the Financial Attest Audit is not only to express an opinion on the Financial Statements but also to add value in improving the financial management and controls. The Management Letter shall be issued along with the Financial Attest Audit report at the discretion of the Auditor and shall be conveyed to the Head of the Auditee.

260. The content of the Management Letter is provided below.

- a) Executive summary
- b) Good practice: highlighting the good practices observed during the Financial Attest Audit report.
- c) Key, analysis, issues and recommendation.
- d) Details of Audit Observation

Refer to Section 12.1.10 and Section 12.1.13 of Chapter 12 “Forms, Format and Audit Checklist” Volume II for Format of Management Letter.

7.3 Review, Approval, and Issuance of Financial Attest Audit Report

261. The process flow for submission, review, approval, and issuance of Financial Attest Audit Report to the individual auditee is explained below:

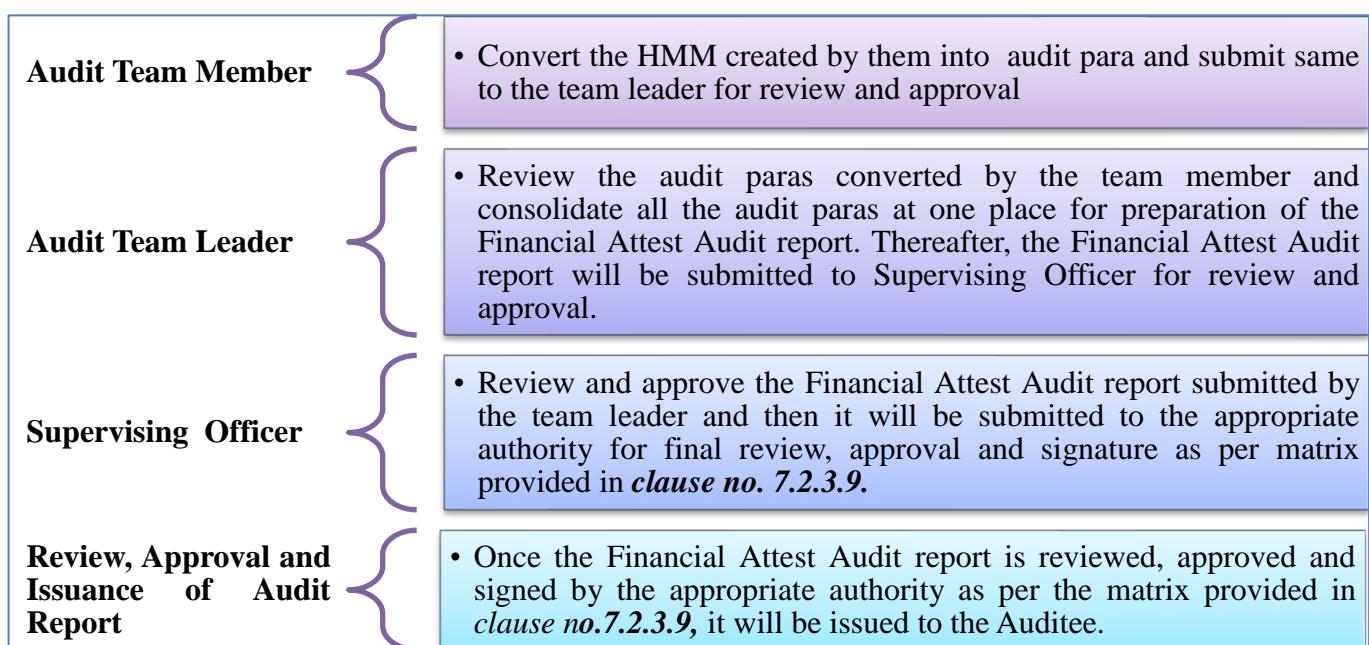


Figure 13: Review, Approval, and Issue of Financial Attest Audit Report

7.3.1 Audit Team Members

262. Audit team members shall convert HMM created by them into audit para and submit same to the team leader for review and approval.

7.3.2 Audit Team Leader

263. The team leader shall review the audit para submitted by the team member before consolidating all the audit para at one place for the preparation audit report. While reviewing the audit para of team members team leader can either drop, edit or delete the audit para on merit or advise them for making necessary changes. However, such rejection or approval to audit para by the team leader can be done only once.
264. Post consolidation of all audit paras at one place, the team leader shall prepare Financial Attest Audit report in the prescribed format provided in OAMS **within 15 days** from the date of exit conference meeting. The team leader before finalising the Financial Attest Audit report including opinion on the Financial Statements will consult with the team members. Once the Financial Attest Audit report is finalised by the team leader it will be submitted to the Supervising Officer for review and approval.

7.3.3 Supervising Officer

265. The Supervising Officer shall review the Financial Attest Audit report submitted by the audit team leader.
266. The Supervising Officer shall either approve or return the Financial Attest Audit report to the team leader for correction, if any with respect to improvement in languages, reference to Acts, Rules, Regulations, or notification.
267. The Supervising Officer can return the Financial Attest Audit report to the team leader for correction or modification only once.
268. The Supervising Officer shall take all necessary efforts to review and approve the Financial Attest Audit report **within 30 days** from the date of the exit conference meeting. As soon as the Financial Attest Audit Report is approved by the Supervising Officer in OAMS it will be submitted to the appropriate authority for final review, approval, and signature as per the matrix provided in ***clause no. 7.2.3.9 above.***

269. The Financial Attest Audit report prepared by the CA Firms shall also be reviewed by the Supervising Officer by following the same procedure and then it shall be finally reviewed, approved, and signed by the appropriate authority. *Refer to Section 11.2 to 11.2.3 of Chapter 11 “Appointment of Chartered Accountant Firms” for Provisions Related Work of CA Firms.*

7.3.4 Final Review and Approval and Issuance of Financial Attest Audit Report

270. The Supervising Officer on being satisfied with the quality of the Financial Attest Audit report submitted by the team leader shall approve the same in OAMS and then it will be submitted to the appropriate authority for their review, approval and signature as provided *in clause no. 7.2.3.9 above*.
271. In case the appropriate authority has any comments/ suggestions which need to be addressed, the same shall be communicated to the audit team leader through the Supervising officer for necessary correction.
272. On receipts of the comments and suggestions, the team leader shall carry out the necessary correction as suggested and then resubmit the Financial Attest Audit Report by following the same procedures as provided above.
273. However, in case of fraud, adverse or disclaimer type of opinion, the Financial Attest Audit Report shall be sent to the Director, Auditor for review and approval before it is signed by the appropriate authority provided in **clause no. 7.2.3.9 above** and in case of Gram Panchayat only for disclaimer type of opinion, it will be sent to Additional Director, Audit or Joint Director, Audit for review and approval.
274. The Financial Attest Audit report review, approval, signed by the appropriate authority and issuance to the auditee to be completed **within 45 days** from the date of exit conference meeting.

OAMS Functionality: The Financial Attest Audit report would be prepared by the team leader on the functionality provided in OAMS and then it will be sent to the appropriate authority for review, approval, and signature. The signature on the Financial Attest Audit Report will be done digitally.

Chapter 8: Audit Monitoring, Follow Up and Compliance

275. This chapter describes the steps that are to be followed for Audit Monitoring, Follow Up and Compliance. It would be the responsibility of the auditee to comply with the audit paras reported in the Financial Attest Audit Report and to take appropriate steps to implement the recommendations provided in the Financial Attest Audit report in time bound manner.
276. The objective of this chapter is to ensure that observations and recommendations provided in the Financial Attest Audit report should be complied with by the auditee in time bound manner. So that similar types of observations could be avoided in the future. This chapter has been divided into the following sections:
- 8.1 Introduction
 - 8.2 Audit Monitoring Process
 - 8.3 Audit Follow up Process
 - 8.4 Audit Review Compliance Committees
 - 8.5 Guidelines for Accelerating the Follow up Procedure

8.1 Introduction

277. The audit monitoring and compliance process will be done at two levels:
- a. **The Officers Authorised by the Director, Audit:** The officers authorised by the Director, Audit would be responsible to monitor the progress of audit execution work and review about the quality of the Financial Attest Audit Report prepared and submitted by the team leader. The officers authorised by the Director, Audit would also be responsible for follow up and compliance of audit paras reported in the last year's Financial Attest Audit Report and would submit the "**Quarterly Progress and Performance Report**" to the Director, Audit about the progress of Financial Attest Audit work, comments on the quality of work done by the audit team and status on compliance of audit paras reported in previous years Financial Attest Audit Report.

b. **Director, Audit:** After issuance of the Financial Attest Audit Report to the auditee, Director, Audit is entrusted to monitor the compliance of audit paras reported in the Financial Attest Audit Report. The Director, Audit in every six months shall prepare the compliance report of the audit paras and submit the same to Finance Department which will be presented to State Level Committee for review and suggestion of the Committee.

278. The important timelines for compliance with the audit paras reported in the Financial Attest Audit report are as under:

| Particular | Report to | Responsibility | Timelines | Reference |
|--|---|--|--|-----------------------|
| Submission of action plan taken or proposed to be taken against each of the audit para | DoA | Audit Unit | Within 1 month from the date of receipt of FAA Report | Refer Clause No.8.2 |
| Submission of Compliance Report | DoA | Audit Unit | Within 3 months from the date of receipt of FAA report or within such extended time as permitted by the Director, Audit. | Refer Clause No.8.2 |
| Quarterly Progress and Performance Report | DoA and FD as per clause no. 1.3.1 & 1.3.2.1 provided above | Officers Authorised by the Director, Audit | Within 15 days from the close of each quarter | Refer Clause No.8.2.1 |
| Status Compliance Report | State Level Audit Review Committee | DoA | Once in every six Months | Refer Clause No.8.2.2 |

Table 44: Timelines for submission of compliance to audit report

8.2 Audit Monitoring Process

279. On receipt of the Financial Attest Audit Report under Section 8 of the Uttarakhand Audit Act, 2012, the auditee shall take immediate action and submit replies to Supervising Officer within one month against each point raised therein, showing the action taken or proposed to be taken thereon.
280. The Financial Attest Audit report along with the comments of the auditee shall also be placed before the **Departmental Audit Review Committee** for review on the adequacy of the response.
281. **The Departmental Audit Review Committee** shall be constituted for review on the adequacy of the compliance done by the audit units. It shall be the responsibility of the auditee to ensure that the audit observations and irregularities reported in Financial Attest Audit report are addressed within **three months** from the date of the receipt of the Financial Attest Audit Report.
282. The Director UDD/Director PRI shall be responsible for periodically follow up on the status of compliance of the audit findings. *Refer clause no. 8.4.1 about the Departmental Audit Review Committee.*
283. The DoA will institute processes for monitoring and follow up with the auditee for compliance of outstanding audit paras reported in the Financial Attest Audit Report. On a periodic basis the DoA will verify whether the auditee has taken necessary steps to comply with audit paras and implemented the recommendation made in the Financial Attest Audit Report or not. On a Quarterly basis the DoA shall update to Finance Department on the status of compliance carried out by the auditee.
284. The Audit Cell within 15 days from the date of the receipts of status of compliance report would apprise to Secretary, Finance on the compliance carried out by the auditee along with the details of serious paras pending for compliance at each audit unit.

8.2.1 Supervising Officer

285. The Supervising Officer will be responsible for timely and efficient execution of quarterly/annual audit plans. The Supervising Officer shall prepare and submit a “**Quarterly Progress and**

Performance Report” to the Director, Audit on the progress of the Financial Attest Audit work carried out by the audit team within 15 days from the close of each quarter. The Supervising Authority shall also responsible to oversee whether work allocated to the respective audit team is expected to complete within the stipulated timelines or not and the team has sufficient audit allocation.

286. Apart from the above, Supervising Officer would also be responsible for **quality review** of the Financial Attest Audit Report prepared and submitted by the audit team and monitor the compliance of the previous year’s audit paras reported in the Financial Attest Audit Report. The content of the ‘**Quarterly Progress and Performance Report**’ will be as under:
- a. **Part A:** The summary of the Quarterly Progress and Performance Report will include the status of audit execution up to the reporting period, plan for the ongoing quarter, remaining annual audit plan, and any other challenges and issues along with suggestions on staffing issues, backlog, etc. This report should also include the comments on the audit findings noted for Quality Assurance Improvement Program (QAIP).
 - b. **Part B:** Status of Audit Plan up to the reporting period includes:
 - ▶ List of audit units where audit is yet to begin.
 - ▶ List of audit units that are in the execution stage.
 - ▶ List of audit units where Finance Attest Audit is completed but issuance of the Finance Attest Audit Report is pending.
 - ▶ List of audit units to whom Finance Attest Audit Report has been issued.
 - ▶ List of Audit Team with number of audits allotted and status (yet to begin, in the execution stage, completed but the issue of Finance Attest Audit Report is pending, and Financial Attest Audit Report issued)
 - ▶ Details of deviation in planned audit activities with the actual together with the reasons for such deviation (if any) and suggestions.
 - ▶ Suggestion relating to Quality Assurance Improvement Program (QAIP) for the audit team.
 - ▶ Comments on the status of compliances carried out by the audit unit with respect to audit paras reported in the previous year’s Financial Attest Audit Report.
 - c. **Part C:** Plan for the Ongoing Quarter and remaining Annual Audit Plan.
 - ▶ The number of audit units planned.

-
- ▶ Details of planned audit team deployment.
 - d. **Part D:** The Quarterly Progress and Performance report may also include such other specific items as per the guidelines issued by Director, Audit and Finance Department. **Refer to Section 12.1.14 of Chapter 12 “Forms, Format and Audit Check List” for Format of Quarterly Progress and Performance Report.**

OAMS Functionality: OAMS will provide MIS for the Quarterly Progress and Performance Report for monitoring the status of audit executed, in progress and yet to start. Once the system stabilizes, the DoA may mandate at least monthly updating of the data so that the report is available with improved frequency. The dashboard of OAMS provides information relating to total number of audit units scheduled, number of audit units pending for audit, number of audit units where audit is in progress and number of audit units completed for the month.

8.2.2 Monitoring by Director, Audit

287. The auditee on receipts of the Financial Attest Audit report shall submit action taken or proposed to be taken against each audit paras to Director, Audit within one month.
288. The Director, Audit is vested with the responsibility to monitor for compliance with the audit paras and for implementation of the recommendations reported in the Financial Attest Audit report. In the Financial Attest Audit Report, there may be audit paras that are of serious nature and require immediate action by the auditee. Therefore, the Director, Audit or any person authorised by Director, Audit is responsible to carry out the following activities on regular basis:
- a. Whether auditee has submitted action taken report or proposed action to be taken against each of the audit paras/recommendations reported in the Financial Attest Audit report within one month from the date of receipt of such report. Consolidate the status of compliance carried out against each audit paras /recommendations provided in the Financial Attest Audit Report as per the action plan submitted by the auditee.
 - b. Put up the status of the compliance report before the State Level Audit review committee for its review and suggestions.
 - c. Consolidate the decision of the State Level Committee and communicate the directions to the auditee and to their Administrative Department for action.

8.3 Audit Follow Up Process

289. Follow up is a process that evaluates the adequacy, effectiveness and timeliness of actions taken by concerned officials of the auditee on the observations and recommendations reported in the Financial Attest Audit Report. The Director, Audit shall determine the nature, timing, and extent of follow up process based on the following factors:

- ▶ Significance (or materiality) of the reported observations or recommendations.
- ▶ Degree of effort and cost needed to correct the reported observations or recommendations.
- ▶ The impact that may result in case the corrective action is not implemented.
- ▶ The complexity of the corrective action.
- ▶ The time period required to resolve the observation or act upon the recommendation.

290. The audit unit shall send the compliance detail against each of the audit paras to the Director, Audit within one month from the date of receipt of Financial Attest /Detailed Audit report through OAMS.

291. Timeline for follow-up procedure for the audit paras is provided below:

| Action | Timelines | Responsibility |
|---|--|--|
| 1 st reminder for seeking compliance | On completion of one month from the date of issue of Financial Attest /Detailed Audit Report | Through OAMS by DoA to ULBs/RLBs and in case of GPs DPRO |
| 2 nd reminder for seeking compliance | Within 30 working days from the date of first letter of reminder | Through OAMS by DoA to ULBs/RLBs and in case of GPs DPRO |
| 3 rd reminder: Official letter to the Administrative Department of the Auditee i.e. Director UDD and Director Panchayati Raj | Within 30 working days from the date of second letter of reminder | Through OAMS by DoA to ULBs/RLBs and in case of GPs DPRO |

Table 45: Timeline for follow-up

292. The status of compliance would be monitored through OAMS. The OAMS will provide the dashboard on a real time basis about the audit paras pending for compliance and the audit paras which have already been compiled by the auditee.
293. The Director, Audit based on the above report will compile common and recurring nature of observations and discuss the same for resolution with the Director UDD or Director Panchayati Raj or with their designated representatives. Such observations will be considered and dealt with at the central level between the Finance Department and Director, Audit before escalating it at the State Level Audit Review Committee. Such observation can be of the systemic issues, deficiency in some direction or rule or absence of guidelines. *Refer clause no 12.1.15of “Forms, Format and Audit Checklist” Volume-II for Format of Follow up Report and Detailed Follow up report on Action Taken by the Management/ Auditee.*

OAMS Functionality: The Quarterly Progress and Performance Report and Follow up Register shall be prepared and maintained through OAMS. The template for Quarterly Progress and Performance Report would be integrated in the OAMS. The integration of the above formats on the OAMS would be done in such a manner that it would ensure auto-populating of maximum data which is already available in the database. Further, the follow-up process including sending of reminders shall also be carried out through OAMS to the extent possible.

8.4 Audit Review Compliance Committees

294. There shall be two Audit Review Compliance Committees for observations/recommendations reported in Financial Attest /Detailed Audit Report as provided below:
- Departmental Audit Review Committee
 - State Level Audit Review Committee

8.4.1 Departmental Audit Review Committee

295. There will be **Departmental Audit Review Committee** at ULB/ RLB level which shall be responsible for compliance of observations/recommendations reported in the Financial Attest Audit

Report. The committee on a quarterly basis shall review the compliance done by the audit unit and shall send its report to the Director, Audit for consideration.

296. The Composition of the Departmental Audit Review Committee will be as under (Separately for Directorate Urban Development and Panchayati Raj):

| | | |
|---|--|---------------------|
| 1 | Head of ULB/ RLB (Director of Urban Development/ Director of Panchayati Raj) | Chairman |
| 2 | Representative of Directorate of Audit as nominated by Director of Audit | Member |
| 3 | Finance Controller/Finance Officer of the Directorate of Urban Development/ Directorate of Panchayati Raj | Member |
| 4 | Representative nominated by the Head of ULB/ RLB (Director of Urban Development/ Director of Panchayati Raj) | Member Secretary |
| 5 | Respective Auditee (| Member |

Table 46: Constitution of Departmental Audit Review Committee. In case of GPs the DPRO will be the member for point 5

297. The functions, roles and responsibility of Departmental Audit Review Committee is as under:

- The Committee meeting shall be scheduled once in a every quarter
- Review of the audit compliance report submitted by various audit units with respect to the serious and non-serious observations made in the Financial Attest /Detailed Audit Report and issue direction and guidelines to the audit unit for compliance.
- Recommend to respective administrative department to carry out a departmental inquiry to find out the responsible person in case clear misuse or misappropriation of funds were observed and ensure the recovery of public money based on the departmental inquiry and evidence.
- To act upon the directions of State Level Audit Review Committee.

8.4.2 State Level Audit Review Committee

298. There shall be a State Level Committee for review of the compliance of the finding reported in the Financial Attest Audit report.

299. The Composition of the State Audit Review Committee will be as under:

| | | |
|---|--|------------------|
| 1 | Chief Secretary, GoUK | Chairman |
| 2 | Secretary Finance of GoUK | Member Secretary |
| 3 | Secretary UDD | Member |
| 4 | Secretary Panchayati Raj | Member |
| 5 | Director UDD | Member |
| 6 | Director Panchayati Raj | Member |
| 7 | Director, Audit Uttarakhand | Member |
| 8 | Joint Secretary Audit Cell | Member |
| 9 | Finance Controller ULB and Panchayat Raj | Member |

Table 47: Constitution of State Level Review Committee

300. The functions, roles and responsibilities of the State Level Audit Review Committee is as under:

- Committee meeting shall be scheduled once in every six months.
- Review of minutes and recommendations of the Departmental Audit Review Committee.
- Review the common and recurring observations of systemic nature to be dealt with at the State Level.
- Advice concerned administrative department for disciplinary proceedings regarding serious paras identified in the Financial Attest Audit report.
- Review and provide suggestions to the Finance Department and Director, Audit for preparation of ***Annual Consolidated Audit Report*** to be placed before the State Assembly.

OAMS Functionality: The Compliance report and the actions taken report shall be submitted by audit unit and Departmental Audit Review Committee respectively through OAMS. Minutes of the Committee proceedings shall also be uploaded on OAMS.

8.5 Annual Consolidated Audit Report to be Placed before the State Assembly

301. This report will be a consolidated report based on various audit reports issued during the year and will provide a synopsis of systemic and other issues which will help the Assembly to understand the

status of accounts and audit of ULBs and RLBs. The Annual Consolidated Audit report of ULBs and RLBs shall be laid before the State Assembly as per Section 8(3) of the Uttarakhand Audit Act 2012 within a period of 12 months from the end of each financial year. The Annual Consolidated Report shall be prepared by the Director, Audit and shall be submitted to the Finance Department which shall be laid before the State Legislature by Principal Secretary/ Secretary, Finance.

Refer Clause No. 12.1.16 under Chapter 12: “Forms, Format and Audit Check List” - Volume II for Format of Annual Consolidated Report to be Placed before State Assembly

Chapter 9: Quality Assurance Framework

The **International Standards of Supreme Audit Institutions (ISSAI) standard 20**, Principle 3 states, “SAIs should implement an appropriate system of quality assurance over their audit activities and reporting and subject such system to periodic independent assessment.” Additionally, **ISSAI-200 on INTOSAI Auditing Standards-General Standards** paragraph 1.27 states the SAI should establish systems and procedures to:

- (a) confirm that integral quality assurance processes have operated satisfactorily.
- (b) ensure the quality of the audit report; and
- (c) secure improvements and avoid repetition of weaknesses

As per the **International Standards of Supreme Audit Institutions (ISSAI) standard 2220 “Quality Control for an Audit of Financial Statements”**, An effective system of quality control must include a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.

9.1 Quality Assurance and Improvement Program (QAIP)

302. The Quality Assurance and Improvement Program (QAIP) is “an ongoing and periodic assessment of the entire spectrum of audit work performed by the audit team. These ongoing and periodic assessments comprised of rigorous and comprehensive supervision; testing the quality of the Financial Attest Audit report issued by the audit parties are in compliance with the regulatory requirements and standards set out in this Financial Attest Audit manual.
303. The quality assurance and improvement program within the department will consist of the following.
- a. Execution of Financial Attest Audit in accordance with the mandate and in compliance with the regulations, manuals, instructions, and guidelines of the Finance Department.
 - b. Standards for independence, competence, due care, field standards relating to planning, supervision and review, evidence, reporting, and follow-up.
 - c. Organization of audit work with clearly defined responsibilities for staff, audit officers and Supervisory Officer.

-
- d. Qualification and competency of the staff members, continuing skill development, training and quality assurance review programs.
 - e. Internal quality control system including the guidance on technical and administrative aspects of quality control.
 - f. The Quality Assurance and Improvement Program (QAIP) would be done by the officer authorised by Director, Audit.

9.2 Quality Review Supervising Officer

- 304. The Supervising Officer would be responsible for **quality review** of all the Financial Attest Audit reports prepared by the audit team. The weakness noted in audit reports would be reported in its '**Quarterly Progress and Performance Report**' as mentioned in clause no. **8.2.1 under chapter 8**.
- 305. The Director, Audit, based on the recommendation received in '**Quarterly Progress and Performance Report**' would prepare the annual training calendar in accordance with procedures laid down in the **Training Need Assessment (TNA)** Report.
- 306. A requisite number of training would be conducted every year to train the audit staff. Additionally, each audit team is required to complete requisite number of hours of training in every year as mandated by the Finance Department.
- 307. The Director, Audit may formulate **Quality Review Audit Committee** for review of the Financial Attest Audit report in order to improve the quality of the Financial Attest Audit function.
- 308. An illustrative checklist for quality review of the Financial Attest Audit report is provided below in the table:

| Sr No | Checkpoint | Response |
|-------|---|----------|
| 1. | Details of entry meeting and exit meeting are documented on OAMS on real time basis | Yes / No |
| 2. | Verification of items selected for audit has been done | Yes / No |
| 3. | Documentation of items verified on the basis of professional judgment. | Yes / No |

| Sr No | Checkpoint | Response |
|--------------|---|-----------------|
| 4. | Sufficient and appropriate audit evidence has been obtained | |
| 5. | Documentation of working papers as per prescribed in this manual has been done | Yes / No |
| 6. | The structure of the report is as per the template provided in this Manual (refer chapter12) | Yes / No |
| 7. | The audit opinion has been arrived in accordance with the guidelines provided in this Manual. (refer chapter 12) | Yes / No |
| 8. | If any scope limitation was observed whether that has been clearly brought out in the Financial Attest Audit report | Yes / No |
| 9. | The Financial Attest Audit report was issued in time so as to facilitate initiation for appropriate remedial action | Yes / No |
| 10. | The Financial Attest Audit report was reviewed and approved by competent authority as per the process outlined in this audit manual before issuing it to the auditee. | Yes / No |
| 11. | Detailed audit report has been issued, wherever applicable (Refer Chapter 7) | Yes / No |
| 12. | The Financial Attest Audit report was signed by authority designated for this purpose | Yes / No |
| 13. | The Financial Attest Audit Report has been addressed to the correct authority | Yes / No |
| 14. | The explanation for basis of opinion has been clearly provided in the auditors' report | Yes / No |
| 15. | Significant audit observations that require immediate action been highlighted | Yes / No |
| 16. | The report contains the date of audit, period of audit and date of issue of Financial Attest Audit Report | Yes / No |
| 17. | Overall, in the opinion of the reviewer, the Financial Attest Audit report is meeting the following: a. Accurate b. Objective c. Clear d. Concise | Yes / No |

| Sr No | Checkpoint | Response |
|-------|-------------|----------|
| | e. Complete | |

Table 48: Illustrative checklist for quality review of Audit Report

Chapter 10: Using the Work of Other Auditor/ Internal Auditor and Experts

309. There can be areas where it is both effective and efficient to use the work of others as a source of audit evidence. Responsibility to provide audit opinion and the determination of audit procedures to support the audit opinion would continue to be vested on the auditor. Hence, before placing reliance on such audit evidence, it is necessary to ensure that it is adequate for audit purposes and is consistent with other sources of evidence. Following are examples where the work of others can be used by the auditor.

- ▶ Documentation of systems internal auditor and testing carried out by the internal auditors.
- ▶ An audit conducted by the Comptroller & Auditor General of India.
- ▶ Work done by any other expert.

10.1 Using the Work of Internal Auditor

310. Internal auditor is considered to be part of an organisation's overall internal control system. This function may be provided in house by staff in full time employment or by a third party (for example an audit firm).

311. It is the responsibility of the auditee to establish appropriate internal audit arrangements in the organisation. The auditor should carry out a general assessment of the effectiveness of the internal audit function to assess if reliance can be placed on the work of the internal auditor. This assessment should be done in accordance with the size and complexity of the auditee unit.

312. In the planning phase of the audit, the activities of the audited entity's internal audit function should be considered, and a sufficient understanding has been obtained to develop an effective audit plan. The internal audit may provide audit evidence on:

- ▶ The overall financial control environment.
- ▶ The operation of the systems of internal control, including those established to ensure regularity and propriety and the achievement of those objectives.
- ▶ Specific account balances, which were subject to investigation.

313. While assessing the internal audit function following points should be considered:

- a. The status of the internal audit function:
 - was the internal audit conducted in accordance with a well-defined term of reference?
 - Does it report to senior management?
 - Can it directly approach Director Urban Development or Director Panchayati Raj or equivalent level of management or Audit Committee if any?
 - Did management regularly respond to the internal audit findings?
 - Effectiveness of management's response to the recommendations of internal audit?
 - Is it empowered to carry out a full range of assignments, or are there some significant restrictions on the scope of its work?
- b. The resources available to the internal audit function – whether there are sufficient staff of suitable calibre to manage and carryout the function?
- c. The coverage of internal audit work – whether it includes all major areas of operations of the auditee
- d. Quality of internal audit work and its documentation – whether the internal audit work is properly planned, supervised, reviewed and documented?

314. It is common practice to use a questionnaire while assessing the internal audit function. Where the internal audit function is assessed to be of sufficient, it is necessary to evaluate such work to reach a conclusion on its adequacy. Such evaluation should be done on the basis of:

- the proficiency of the internal audit staff who have carried out the work and of their supervisors/managers.
- the level of internal audit management reviewed the work carried out by the internal auditor; and
- the adequacy of the evidence to support the conclusions reached.

315. Depending on the results of the audit procedure, the audit team may decide to carry out some limited testing or reperformance of the internal auditors 'work.

10.2 Using the Work of the Comptroller & Auditor General of India

316. The Financial Statements of the ULBs/ RLBs are subject to audit of Comptroller & Auditor General of India (CA&G). Therefore, while conducting the Financial Attest Audit, the auditors may refer the findings reported by the CA&G as an evidence while framing an opinion on the Financial Statements.

10.3 Using the Work of Other Experts

317. Prior to the identification and assessment of the risk of material misstatements, the auditor need to consider the matters that require the involvement of experts because the auditors are experts in accounting and auditing matters, but they are not reasonably expected to be experts in any other fields also.

318. If the preparation of an entity's financial statements is required input from an expert, then the competence of the expert and appropriateness of the work carried out are important considerations when assessing the risk of material misstatement.

319. However, in certain situations, auditors do need to employ their own expert in order to decrease the risk that material misstatement will not be detected. Such expertise may be required in relation to such matters e.g. valuation of land and building, plant and machinery, jewellery, intangible assets (such as patents and trademarks etc.)

320. In both the above situations, if any information to be used as evidence that has been prepared using the work of expert, the auditor should ensure with the following:

- Evaluate the competence, capabilities and objectivity of that expert
- Obtain an understanding of the work of an expert
- Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion

321. If the experts do not fulfil with the above attributes, the risk of error or inaccuracy in the work carried out is increased and therefore, the auditors need to review their further auditor procedure in order to minimise the risk of material misstatements.

Chapter 11: Appointment of Chartered Accountant Firms

322. This chapter explains the provisions for engaging the Chartered Accountants Firms for carrying out the Financial Attest Audit of ULBs and RLBs. This chapter elucidates the legal mandate and roles and responsibilities of Chartered Accountant firms while performing the Audit of ULBs and RLBs.

11.1 Legal Mandate

323. As per Section 3(6) of the Uttarakhand Audit Act,2012, the State Government may permit to conduct audit through outsourcing from any eligible Firm, Company or Institution, Society.
324. Considering the nature of work, the external agencies to be considered for Financial Attest Audit shall be Chartered Accountant Firms registered with ICAI and empanelled with CAG for not less three years.

11.2 Roles and Responsibilities of the External Agency (CA Firm)

11.2.1 General Points

325. The External Agencies engaged to conduct the Financial Attest Audit would be governed under the points given below:
- strictly work in accordance with the provisions of Uttarakhand Audit Act, 2012 and guidelines mentioned in the Financial Attest Audit Manual.
 - strictly comply with the clauses of confidentiality, data protection and intellectual property rights which shall be included in their contract
 - complete the audit work in accordance the plan given to them.
 - provide the progress of work to the concerned Supervising Officer on regular basis.
 - It must not involve in audit follow up work with the auditee

- f. should not directly or indirectly have any association with the auditee for a period for which audit is to be carried on and undertaken or undertake no accounting activity for one year after conducting the Financial Attest Audit.
- g. ensure that no changes in the proposed audit team would be entertained except in the exceptional circumstances and with written permission of DoA
- h. would attend all the training programs scheduled for external agencies by DoA from time to time
- i. provide support to quality review committee in carrying out quality control of audit work carried out by them
- j. strictly adhere to guidelines and notifications issued by DoA and Finance Department from time to time.
- k. follow the audit process and methodology elaborated in this audit manual for conducting the Financial Attest audit with respect to the execution of audit, reporting, incorporating the responses provided by the Supervising Officer.
- l. continuously comply with the terms and conditions mentioned in their respective Contract
- m. carry out the Financial Attest Audit function through OAMS and e-GramSwaraj or other accounting and reporting software used by the UIBs and RLBs only for which they would be provided separate user ID and password

11.2.2 Standards

- 326. The external agency would conduct the Financial Attest Audit in compliance with this Financial Attest Manual in all respects including conduct of audit and submission of their report through OAMS or any other audit management software as mandated by the Finance Department
- 327. The external agency would follow the code of ethics and independence as described in this audit manual along with separate undertaking to follow code of ethics of ICAI.

11.2.3 Audit Reporting and Documents

- 328. The CA firm shall be provided the assignment through an engagement letter with the scope of audit and reporting requirement.
- 329. The CA firm shall carry out the audit as per the terms of engagement provided by the DOA. They would be carrying out this audit on behalf of DOA and shall be reporting to the DOA.

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- 330. The external agency would submit the Financial Attest Audit Report to the Supervising Officer for review and approval.
 - 331. The Financial Attest Audit Report will be reviewed Supervising Officer, and any corrections/suggestions in it will be carried out by the respective CA firm.
 - 332. After that Financial Attest Audit Report shall be finally reviewed by the respective officials mentioned in ***clause no. 7.3.3. and 7.3.4 under Chapter 7***. The process flow for submission, review, approval and issuance of Financial Attest Audit Report for individual audit is explained below:

The final audit report would be signed by the officials of DoA as outlined below.

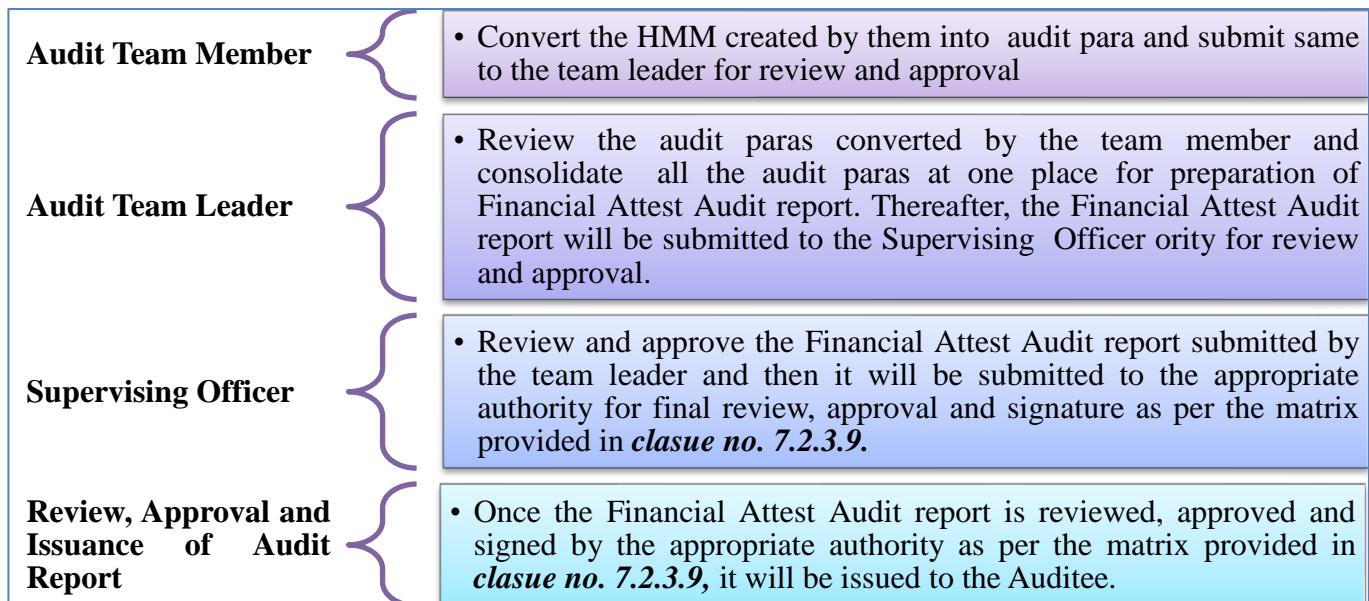


Figure 14: Process of Review, Approval & Issuance of reports

| Independent Audit Report Relate To | Preparation & Submission of Audit Report | First Level Review | Final Review, Approval and Signature* |
|------------------------------------|--|---|---------------------------------------|
| Gram Panchayat | Team Leader | Officer Authorized by the Director, Audit not below the rank of Assistant Director, Audit | Deputy Director, Audit |
| Kshettara Panchayat | Team Leader | Officer Authorized by the Director, Audit not below the rank of Deputy Director, Audit | Joint Director, Audit |
| Zilla Panchayat | Team Leader | Officer Authorized by the Director, Audit not below the rank of Deputy Director, Audit | Director, Audit |
| Nagar Panchayat | Team Leader | Officer) Authorized by the Director, Audit not below the rank of Deputy Director, Audit | Joint Director, Audit |

| | | | |
|---------------------|-------------|--|----------------------------|
| Nagar Palika | Team Leader | Officer Authorized by the Director, Audit not below the rank of Deputy Director, Audit | Additional Director, Audit |
| Nagar Nigam | Team Leader | Officer Authorized by the Director, Audit not below the rank of Deputy Director, Audit | Director, Audit |

Table 49: Matrix for signature of audit reports

333. The external agency would upload all the working papers, documents and audit evidence collected during the audit on OAMS or any other audit management software as mandated by the Finance Department.