

PROJECT MANAGEMENT UNIT

Uttarakhand Public Financial Management Strengthening Project (UkPFMS)

PDU- CTRFA

Dehradun (Uttarakhand) PIN – 248 007

Ref: UkPFMS/2022

Date: September 2022

To,

1. The Director,
Directorate of Audit,
Uttarakhand,
Dehradun

2. The Director,
Directorate of Panchayati Raj
Uttarakhand,
Dehradun.

Subject:- Selection of Chartered Accountant firms for conducting Financial Attest Audit of Gram Panchayats for the Government of Uttarakhand

Sir,

Under the UkPFMS Project, Directorate of Audit has been given a mandate to improve the Financial Audit of the Annual Financial Statement with books of accounts of Urban and Rural Local Bodies with a wider coverage area as well as improve the timeliness of issuance of audit reports to be sent to audit units.

The 15th Finance Commission has laid down the mandatory conditions of timely preparation of accounts as well as publish audited accounts (to be uploaded on Public portal) for the release of untied Grants. As per the Guidelines of 15th Finance commission, 100 percent accounts of Urban local bodies and Rural local bodies are to prepared for previous year and the cent percent accounts to be audited for the year preceding the previous year. The untied Grant for the Financial year 2022-23 shall be released only after the financial audit for 2020-21 is completed and audited report are published in the portal for the public (25% audit by 31st October 2022 and hundred percent audit before 31st March 2023) and the Grant for financial year 2023-24 shall be released after 100 percent financial audit of Gram Panchayats for the financial year 2021-22 is completed and published in a portal for the public by 30th June 2023.

Similar conditions are for the release of XV Finance Commission Untied Grant for the Financial Audit of Urban Local Bodies i.e. for year 2022-23, 50%

Percent of financial audit of ULBs of 2020-21 and 100% of financial audit of all the ULBs for the year 2021-22. To achieve 100 percent audit, it shall be necessary to complete the arrear audited accounts.

Below mentioned table contains the details about Chartered Accountant firms selected for Seven different packages for the Financial Attest Audit. In Kumaon region Package -I of Almora is not allocated to any of the CA firms

Package Name	Number of audit entities	Auditable RLBS for 18-19	Auditable RLBS for 19-20	Auditable RLBS for 20-21	Total units to be audited	
Package 1- Gram Panchayat: Dehradun, Uttarkashi, Haridwar	1253	600	697	1253	2550	ANSHUL AGARWAL & CO
Package 2 - Gram Panchayat: Tehri	1015	630	731	1015	2376	SHYAM LAL DADICHI & Co
Package 3 - Gram Panchayat: Pauri	1206	945	945	1206	3096	HEMANT ARORA & LLP
Package 4: Gram Panchayat: Chamoli and Rudraprayag	969	479	630	969	2078	SINGH AGARWAL AND ASSOCIATES
	4443	2654	3003	4443	2078	

The year of the Audit to be conducted for remaining Gram Panchayats be 2018-19 and 2019-20 & for all the Gram Panchayats for 2020-21.

Package Name	Numb	Audita	Audita	Audita	Total	
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	<i>er of audit entiti es</i>	<i>ble RLBS for 2018- 19</i>	<i>ble RLBS for 2019- 20</i>	<i>ble RLBS for 2020- 21</i>	<i>units to be audit ed</i>	
Package 1- Gram Panchayat: Almora	1168	870	869	1168	2249	
Package 2 - Gram Panchayat: Bageshwar and Pithoragarh	1093	571	568	1093	1778	<i>Habibulla h and Associate s</i>
Package 3 - Gram Panchayat: Nainital , Champawat and US Nagar	1170	669	735	1170	2084	<i>KASG & Co.</i>
	3431	2110	2172	3431	4027	0

The complete audit cycle shall be conducted as per the Uttarakhand Financial Attest Audit Manual 2021, a brief detail for the DOA and CA firms are annexed in Annexure - A

The period of assignment of audit of the above units shall be Six months i.e. a tentative date of i.e.1st October 2022 to 28th February 2023 and deliverables are as follows for the payment after approval by the committee. The committee is expected to submit its report within four weeks of submission of report by coordinating officer.

S.No	Particular	Timelines from project start date	Payment after Approval of Audit Report
1	submission of 25% of Auditee audit report	T + 4 weeks	20%
2	submission of further 25% of Auditee audit report	T + 8 weeks	20%
3	Submission of further 25% of Auditee audit report	T + 12 weeks	20%

4	Submission of further 25% of Auditee audit report	T + 16 weeks	20%
5	Completion of Audit with presentation to Client with final report of assignment	T+20weeks	20%

The CA Firms can complete the audit task before the above-mentioned period, but the quality of the audit should not be affected in any way.

- a. Each CA firm shall nominate a Task leader for the purpose of coordinating and linking the chain between Officers of DOA, PMU and the audit teams. The PMU and DOA shall coordinate for meetings, audit plans, execution issues (if any) in audit or for any correspondence through this task leader only.**
- b. DOA shall appoint two officers from each Zone. These officers are the Co ordinating Officers. These officers shall finalize the draft report with the Nodal and Sub Nodal Officers of PMU**
- c. The CA firms have to provide the complete details of Key Experts and Non-Key Experts to the PMU Office. This includes**
 - latest Passport Size Photograph**
 - Details of Task Team Leader. The task team leader shall be either the partner of a firm or a CA of a minimum of 10 years of experience in auditing. In case the task team leader is not the partner of a firm, a declaration from the authorized representative of the firm shall be required on INR 100 Stamp Paper duly notarized (original notarized declaration to be submitted to the PMU Office and copy to DOA).**
 - ID Proofs with the Permanent Residential Address**
 - In case of member CA or perusing CA, the enrollment number (the SAME NO. SHALL BE ID NO. FOR OAMS)**
 - E-mail Id of each Key /non-key expert separately (E-Mail IDs may be created by the firm for each key/non-key expert separately)**
 - Mobile Number of each Key and Non-Key Expert**

- Composition of the team of at least three or four (One Key Expert and two or three non-key experts for each audit party), separately for each package

These details are uploaded in Online Audit Management System for both Directorate of Audit and Directorate Panchayati Raj

- d. All the details are necessary as these shall be entered into Uttarakhand Online Audit Management System and audit online for creation of audit parties, allocation of auditee accounts, and information to auditee for audit. The auditee shall ensure the audit parties who have been allocated actually carries audit for this the photographs are uploaded on OAMS and the quarterly program depicts the pictures of all the audit team members.
- e. PMU and DOA shall ensure that all financial audits shall be carried out through the Online Audit Management System only with scheme audits of XIV/ XVth Finance Commission and other grants received under any scheme.
- f. Audit firms have been allocated audit program as per accounts appended.
- g. Audit firms shall be allocated an audit program by the PMU, UKPFMS, as per the Gram Panchayats appended in the final contract, from 1st October 2022 to 28th February 2023 and in case remaining, it shall be extended up to 31st March 2023. The reports are to be approved by 30th April 2023. The CA firms have to ensure that the number of audit parties should be at least three with one Key expert and two Non-Key Expert and audit plan to be framed in such a manner that the audit is completed by 28th February 2023
- h. The Key Expert shall have to mandatorily sign the Independent Audit Report, even if the audit has been conducted by his team members, with UDIN generated for audit of financial statement of each financial year separately.
- i. The UDIN shall be generated when authorized officer of DOA confirms that the report can be issued to the auditee unit and other offices. But the authorized officer must ensure the timeline of minimum of thirty-six days of exit meeting and the maximum time shall be forty-five days of exit meeting.
- j. It is ensured by the TTL that he himself/ herself as well as all the audit team members in the package sign the declaration of code of ethics and independence as per the regulations of ICAI and case of non-CA declaration of code of ethics and independence as per the**

INTOSAI standards. A copy of the same for both the CA firms as well all the officers and personnel shall be submitted to the PMU office within seven days of the issue of the audit plan by DOA. The format is annexed in Annexure H.

ROLE OF DIRECTORATE OF AUDIT AND PROJECT MANAGEMENT UNIT DURING EXECUTION AND REPORTING OF AUDIT BY THE CA FIRMS

- k. The Directorate of Audit and Project Management Unit shall ensure that as per the audit plan decided with the audit firms the records shall be made available to the firm. The Panchayati Raj Department has to nominate a nodal officer from each district separately who shall coordinate during the audit execution.
- l. CA teams are not allowed physical verification of Cash. In case of physical verification of cash, the firm must request DOA for the verification. The Director Audit, if thinks suitable may direct an officer of DOA to visit and carry out Physical Verification with the firm as per procedure laid down in the Manual. In case of assets / valuable properties/ machines or equipment at the auditee premises, the firm may carry out physical verification as laid down in the manual. But in case of assets, equipment or machinery are outside the premises of the auditee, the same condition is applied as laid down for physical verification of cash.
- m. The CA firm, as a sample, shall submit a set of five draft independent financial audit reports of each audit party of Gram Panchayats. The audit reports shall be reviewed by the officials of Directorate, Joint Secretary Audit Cell, PMU, and the World Bank Team and shall provide suggestions for improvement in the audit reports.**
- n. The task team leader shall be responsible for submission of an Independent Audit Report for each Financial Year. The TTL shall submit the Independent Financial Audit Report of each Gram Panchayat to the coordinating officer for review and approval.
- o. The audit reports to be submitted by the Task Team Leader to the PMU and DOA

- Within 10 days from the date of exit conference meeting in case the number of Gram Panchayats are up to 60 Gram Panchayats
 - Within 12 days in case more than 60 up to 100 Gram Panchayats
 - Within 15 days in case more than 100 Gram Panchayats
- p. The DOA and PMU will review the reports of all the Gram Panchayats. There shall be a weekly meeting with the nodal officer, sub nodal officers and the Officers nominated for each zone by DOA to discuss the audit reports and the timeliness of submission and a sample of reports.
- q. The report reviewed by the Nodal officer of PMU shall be sent for final approval to the officer designated by the Director of audit. The nominated officer is expected to approve the set of audit report within seven days of being provided by Coordinating officer.
- r. DOA shall provide the minutes of approval of audit reports to the PMU as per the deliverable and period as mentioned above.
- s. The World Bank shall also review some of the audit reports to check the implementation of the new audit manuals The Banks queries are to be answered and resolved. The CA firm and DOA shall ensure such comments of the bank are answered within 03 days of receiving the same
- t. The timeline is strictly to be adhered to as audit reports are to be issued to the auditee within a minimum of thirty-six days of exit meeting and the maximum time shall be forty-five days. In no case more than that time period should be taken for issuance of report.

INSTRUCTIONS FOR AUDITORS

In conducting financial audit, special attention should be given to the following (but not limited to).

- The accounts of the RLBs (Rural Local Bodies) have prepared following the consistently applied accounting standards/ Rules and give true and fair view of the financial position for the financial year ending on March 31 and receipts and payments for the year ended on that date.
- Verify whether accounts of RLBs are properly prepared and complete in all respects and presented with adequate disclosures and are following the applicable laws, rules, and regulations.
- All funds spent and received by RLBs have been used following the condition laid down.
- All expenditure including works and procurement of goods and services have necessary supporting documentation and have been incurred by the Government rules
- Physical verification of inventory and fixed assets would have been done by the auditor as considered
- All own sources of revenue have been levied and collected and disclosed in the financial statement

Audit Report

- u. The Online Audit Management Unit will generate an independent audit report. The Independent Audit report would include the following:
- Independent Auditors' Report with expression of opinion on the financial statement of RLBs
 - Management Letter, where applicable
- v. The Draft Audit report must be generated from OAMS and provided to the Audit Directorate within fifteen days from the date of exit meeting with the auditee. Once the audit of the entire package is completed, the auditor will make a presentation to the Directorate on the key findings of the audit report, and any challenges faced during the audit.
- w. The Scheme Audit report must be generated from Audit Online for XVth Finance Commission and provided to the Audit Directorate within three days from the date of exit meeting with the auditee. The selected Chartered Accountant firms shall be provided access to the Audit Online system. The use of Audit online shall be strictly restricted for specific audit engagements.
- x. The audit report shall be issued in the letter headed by the CA Firm and with a proper UDIN No. Also, the audit report should have a copy of the Financial Statements which have been audited and based on which the auditors have made their opinion.
- y. Each report should be for one financial year. In case the financial audit is conducted for audit of annual financial statement i.e., 2019-20, 2020-21, 2021-22. Then the firm shall issue three different independent audit reports for each year respectively.
- z. The Receipts and Payments Account and Notes to Accounts should accompany the audit report which should be duly signed by the Panchayat Secretary of the Gram Panchayat
- aa. The auditor should specifically report on the adequacy or otherwise of maintenance of books and records by the RLB (Rural Local Bodies). The C&AG has mandated that the following records should be maintained by the RLB.
- Receipt and Payment Account.
 - Receipt Vouchers.
 - Payment Vouchers.
 - Bank Reconciliation Statement
 - Register of Immovable Property
 - Register of Movable Property

- Inventory Register
 - Demand Collection and Balance Register
- bb. List of Observations provided in OAMS/Audit Online format will be a report separate from the Independent Auditor's Report in the form of a Management Letter.

OTHER MAJOR POINTS

- cc. The DoA, Project Director/ Deputy Project Director PMU UKPFMS has the right to seek a replacement of a Key /Non-Key Expert found involved in a case of misconduct or inappropriate Corruption or Bribery immediately.**
- dd.** The CA firms shall bear all the expenses of travelling, food and lodging of their audit teams during the audit. Neither the DOA nor the auditee reimburse any fee or travelling or residential allowances. The auditee shall be expected to provide a room with the basic amenities required for audit at the auditee premises only.
- ee.** The audit team shall not carry out any original file or documents in the name of the audit outside the auditee premises. All necessary documents or records such as audit working papers shall be scanned and uploaded on OAMS which is a compulsory task for the teams.
- ff. The CA firms can change a non-key expert during an audit, but such change shall have corresponded to PMU and DOA within 24 hours without any delay with an assurance that the CA firm has taken all the requisite audit documents from the Non-Key Expert, and the ID created in OAMS is deactivated

MEETINGS AND ESCALATION MECHANISM

- gg. The Project Coordinator shall be nodal of the Consultancy from the Project Management Unit, UKPFMS.
- hh. There shall be a fortnightly online meeting between the PMU office, DOA, and the CA firms to discuss the progress of the audit. There shall be a meeting every month at the PMU office to be attended by DOA and Task Team leader for the progress of the consultancy and any issues during audit
- ii. The PMU shall conduct a meeting with the senior officials of the auditee department to brief about the complete process with the introducing the team, auditee to be audited. The DOA shall also request the auditee

department to nominate a nodal officer from the department who shall coordinate during the audit execution.

(Bhupesh Chandra Tiwari)
Deputy Project Director,
UKPFMS

No: UKPFMS/2022: Date September 2022

Copy to: -

- a. Senior Personal Secretary, Secretary Finance, Government of Uttarakhand.
- b. Senior Personal Secretary, Secretary Panchayati Raj Department, Government of Uttarakhand.
- c. Joint Secretary, Finance Audit cell.
- d. Finance Controller, Directorate of Panchayati Raj Department. Uttarakhand, Dehradun.
- e. Deputy Director, Directorate of Audit, Uttarakhand, Dehradun with a request as per the directions of Directorate of Audit nominate Coordinating Officers before 1st October 2022.
- f. All the District Panchayati Raj Officer for necessary cooperation and coordination.
- g. Concerned Chartered Accountant firms to contact the Directorate of audit and carry out all necessary formalities to be completed to start the audit timely and within timelines.

(Bhupesh Chandra Tiwari)
Deputy Project Director,

ANNEXURE- A

Detail of Checkpoints for Directorate of Audit for Conducting of Financial Attest Audit of Gram Panchayats through Chartered Accountant Firms for Different packages

The following are the major activities or activities to be checked while executing the audit by the audit teams of CA firms this include pre-audit activities, audit execution, audit reporting and completion of assignment as per the contract. The Guidelines are per the extent of applicability of the Uttarakhand Financial Attest Audit.

A. PRE-AUDIT ACTIVITIES

1. The approved annual Financial Attest Audit plan is being shared with Directorate of Audit and Panchayati Raj Department and all the District Panchayati Raj Officer that shall be nodal with for each Block ADPRO for audit.
2. A meeting has also been conducted by the PMU, UKPFMS with the DPRO and Directorate Panchayati Raj. The following details of audit parties are in Uttarakhand Online Audit Management System
 - a) Details of the time of audit.
 - b) Name of the CA firm and Team Leader and audit staff assigned for the Financial Audit as decided between DOA and the CA firm
 - c) Scheduled date of entry meeting for all the Gram Panchayats in a block
 - e) Period of accounts to be audited.
 - f) Number of working days allotted for completion of Financial Audit.
 - g) List of common documents and information required for Financial Audit.

B. FORMATION OF AUDIT PARTIES AND INTIMATION OF AUDIT

3. The selected Chartered Accountant firms have constituted audit parties; each audit party shall have two audit members and a team leader CA or State. The list of the auditee has been annexed the same shall be shared with the CA firms. The Audit Plan is annexed for the DOA, Directorate of Panchayati Raj, District Panchayati Raj Department. The Directorate Panchayati Raj shall also communicate the audit DPRO and VDOs. The first audit can be requested to be started after three days of the issue of this letter and audit planning memorandum.

C. OBJECTIVE OF FINANCIAL ATTEST AUDIT FOR GRAM PANCHAYATS

4. 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 RLBs are free from material misstatements and depicts a true and fair view of the state of the affairs and their financial position.
5. 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 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 following the applicable laws, rules, regulations, and accounting principles prescribed by the appropriate authorities.
 - ▶ Completeness of the books of accounts and financial records maintained by RLBs
 - ▶ 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.

The primary objective of the planning process is to ensure that audit is carried out in an effective, efficient and timely manner and to reduce the audit risk to an acceptably low level.

D. AUDIT PROCEDURE FOR GRAM PANCHAYATS

6. The audit procedures that are required to be carried out against each of the main planning activities comprise the following

- 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 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 rig

E. CASH BASIS OF ACCOUNTING

7. Type		Reference Material	Features
Rural Bodies	Local	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.
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F. ENTRY CONFERENCE MEETING

8. 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 at the commencement of actual audit work at the field. One entry conferee shall be held for one block in which the DPRO should ensure that all Panchayat Secretary are present for the entry Conference. The entry conference meeting will be held among the audit team members, audit unit's head and key officials of the audit unit.

G. FINANCIAL REPORTING FRAMEWORK OF RLBS

9. 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	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	<p>The Financial Statements would comprise of:</p> <ul style="list-style-type: none"> ▶ Format I - Annual Receipts and Payments Account
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.
7.	Mode of preparation	To be prepared by RLBs through e-Gram Swaraj application
8.	Signing of the Financial Statements	<p>The Financial Statements shall be signed by the appropriate authority :</p> <ul style="list-style-type: none"> ➤ Gram Panchayat: Panchayat Secretary.

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

Form at 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 based on 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.
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.

H. SALIENT FEATURES OF ACCOUNT CODE SPECIFIED IN SIMPLIFIED FORMAT OF ACCOUNTS

11. 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 I. Alpha-numeric sub heads for state schemes.

I. SALIENT FEATURES OF ACCOUNTING FRAMEWORK SPECIFIED IN SIMPLIFIED FORMAT OF ACCOUNTS FOR RLBS

12. 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, at once 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 based on 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.

J. SALIENT FEATURES OF E-GRAM SWARAJ PORTAL (I.E. ACCOUNTING AND REPORTING SOFTWARE FOR RLBS)

13. To strengthen e-Governance in RLBs across the country, the Ministry of Panchayati Raj (MoPR) has launched e-Gram Swaraj, a user-friendly web-based portal. The e-Gram Swaraj 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-Gram Swaraj 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-Gram Swaraj portal are as under:

- a. Profile: Maintain the basis 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 duplicity 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).

14. The following reports can be generated from e-Gram Swaraj:

- a. Annual Receipts and Payments Account.
- b. Consolidated Abstract Register.
- c. Monthly Reconciliation Statements.

15. The following are the features of e-Gram Swaraj:

- 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. 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.

K. RISK PROFILING OF THE ENTITY RISK CAN BE BUSINESS RISKS (ENTITY RISKS AND PROCESSES RISKS) OR AUDIT RISKS;

- 16. Barring a few entities, it can be generalized all most all Gram Panchayats which are subject to the audit by the DOA are Risk Naïve” i.e. there is no formal approach of risk management. Therefore, audit planning in such organizations and risk assessment by auditors assumes more significance.
- 17. In assessing the risk, the following risk indicators may be used as a general guidance.

Risk at Entity Level	Risk at transaction level.
1. Gram Panchayat has internal controls	1. Complex regulation or an accounting

<p>and accurate record keeping and error free financial reporting.</p> <p>2. Risk is lower if there exists competent and experienced Staff with adequate commitment and training.</p> <p>3. Risk is lower where there is adequate supervision on the staff, operations and transaction</p> <p>4. Risk is lower if the accounting system (manual or computerized) is reliable and tested; generally speaking manual systems carry high risk.</p> <p>5. Modification to accounting systems and changes to accounting policies increase the risk.</p> <p>6. Any performance targets (for schemes/ programmes) put pressure and can result in higher risk in those areas as the RLBs tries to achieve those targets.</p>	<p>policy can result in higher risk in an account area or in a transaction.</p> <p>2. Works carried through contractors/third parties with no day to day control can result in higher account area/transaction level risks.</p> <p>3. Transactions recorded against goods and services may have lower risk than transactions recorded against specific claims.</p> <p>4. Transactions not in the normal course and/or exceptional transactions may carry higher risk.</p> <p>5. Accounting estimates carry higher risk</p> <p>6. Multiple sources of funds (e.g. budget from central government and state government) can increase the risks of misstatement/error.</p> <p>7. Reconciliations not timely done</p>
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L. RELEVANT CONTROLS FOR AUDITS

18. The firms can determine risks and controls are to gain an understanding to assess their impact on the financial statements and reporting, controls that are particularly relevant for auditors are those related to transactions, account balances and disclosures in the financial statements. Auditors are expected to identify and assess the risks of material misstatement at:

- a) The financial statement level and
- b) The assertion level for transactions, account balances and disclosures.

19. Risks at the financial statement level are those that have a pervasive effect on the statements and therefore will potentially affect many transactions. These risks may not be identifiable with single or class of transactions or an account balance or group/set of balances. In general, the source of such risks is the following

a) A weak control environment overall weakness may be present in several local funds/authorities requiring auditors' appropriate interventions

b) Concerns about the integrity of the auditee may be so high that auditors may have to conclude that risk of misrepresentation may be so high that audit cannot be concluded or if done only an adverse certificate or a disclaimer could be issued.

20. The reliability and accuracy of accounting records may be so poor that auditors may fail to collect appropriate audit evidence to support their opinions and resultantly auditor may have to issue an adverse opinion or a disclaimer.

Assertion about Transaction	Assertion about Balances
1. Occurrence	1. Existence
2. Completeness	2. Rights and Obligations
3. Accuracy	3. Completeness
4. Cut-off	4. Valuation and Allocation
5. Classification	

M. MATERAILAITY

21. ISSAI 2320 'Materiality "Information is material, if its misstatement (i.e. omission or erroneous statements) could influence the economic decision of users taken based on 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

Planning Materiality	Low Risk	Medium Risk	High Risk
	GPs	GPs	GPs
Gross Expenditure	1.5 %	1.0 %	0.5%

22. 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 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 enough 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

N. PERFORMANCE MATERIALITY

23. 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 procedure

O. FOR RURAL LOCAL BODIES

24.

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 year as compared to previous year.	Where there is a variation in the tax receipts 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 tax receipts up to 10% in the current year as compared to previous

		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 but not maintained in the prescribed Forms and Format.	year. Subsidiary register (receipt books, collection files etc.) are maintained and updated as per prescribed Forms and Formats.
1. 2.	Own Source Receipts - 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 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's audit report	Demand and Collection register maintained in the prescribed Forms and Format and all demand and receipts till last FY has been updated.
		Where current year's Own Sources Non-Tax receipts for selected head is more than 15% of the Total Receipts of RLB.	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.	Where current year's Own Sources receipts Non-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 variation in the	Where there is a variation in the	Where there is a variation in the

		selected non- receipts head by more than 30% in the current year as compared to previous year.	selected non-tax receipts head by more than 10% but not more than 30% in the current year as compared to previous year.	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
1.4	Grant in Aid	Grant Register as prescribed under rules is not maintained as per Previous Year audit	Grant Register maintained but not in accordance in the prescribed Forms and Format as per	Grant register maintained in the prescribed Forms and Format and all

		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.	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 per previous years audit report.	Subsidiary register (receipt books, expenses register, Utilisation certificate etc.) updated but not maintained in the prescribed forms and formats	Subsidiary register (receipt books, expenses register, Utilisation Certificate etc.) are maintained and updated in the prescribed forms and formats
2. Payments				
2.	Payment	Variation in selected	Variation selected	Variation

1	s under Grant-in-Aid, Capital Outlay or Other Payments	payment head by more than 30% in current year as compared to previous year.	payment head by more than 10% but not more than 30% in current year as compared to the previous year	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 delayed as 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 expenditure by more than 30% as compared to the previous year expenditure	Variation in the procurement expenditure by more than 10% but not more than 30% as compared to the previous year expenditure	Variation in works/ procurement 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 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	Related records/ registers maintained and updated as per prescribed forms and format.

			of records like overwriting, strike off, etc. found in Previous Year audit report.	
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 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	There was irregularity under non-serious	There was no irregularity noted

		paras noted as per Previous Year audit report.	audit paras noted as per Previous Year audit report.	as per Previous Year audit report
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25. 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.

26. While the contents of an audit planning memorandum depend on the specific circumstances attending for a 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 peroneal 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).

27. 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. **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.

28. 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.

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

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

Step-1: Take the Receipts and Payments Account of RLB.

Step-2: Determine the performance materiality

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.

30. 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.

P. SELECTION OF TRANSACTION TO BE AUDITED

31. 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. T

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

Step 1: Extraction of Transactions Report

33. The audit team will first extract the total expenditures report of the audit unit from the -Gram Swaraj and PFMS of Government of India
34. 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

35. Based on the classification of significant accounting transactions as high, medium, and low as mentioned audit team will select the transactions to be audited based on the random sampling.
- ▶ **For High-Risk Significant Account Balance and for Inherent Risk Item 80 % value shall be selected for audit**
 - ▶ **For Medium Risk Significant Account Balance: 70% value shall be selected for audit**
 - ▶ **For Low-Risk Significant Account Balance: 50% value shall be selected for audit**

36. The above extent of checking is indicative which the auditors may increase based on their professional judgments and findings during 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.

37. 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.

38. The audit team will carry out the audit of sampled transactions which involves an examination of supporting documents and occurrence of transactions. The auditor must 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 assertion

Q. ISSUANCE OF HALF MARGIN MEMO

39. 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
40. 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.
41. 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.
42. HMM created by the team leader/member shall be sent directly to the audit unit.
43. . 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 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 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 un-resolved and shall be converted into audit para.

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

Activities	Timelines	Responsibility
Exit Conference Meeting	On or before the last date of field work	Team Leader
Conversion of HMM into Audit Para	Within same or working day from the date of exit conference meeting	Team Leader along with Team Member
Preparation of Financial Attest Audit Report in set of financial audit reports of Gram Panchayat	Within 10 days from the date of exit conference meeting in case the Gram Panchayats in number are up to 60 Gram Panchayats In case more than 60 up to 100 Gram Panchayats than 12 days in case more than 100 Gram Panchayats within 15 days	Team Leader. Task team leader shall review the report parallely but shall submit to coordinating officer within 02 days of complete submission of the set of report
Review of Financial Attest Audit Report by Coordinating officer and Nodal officer	Within 10 days from the date of submission of report by coordinating officer including a meeting with the nodal officers from UKPFMS with a the reports submitted	
Final Review, Approval and Issuance of Financial Attest Audit Report to the Auditee after ado		Director, Audit shall authorise officers at least one rank above the Coordinating officer, shall approve within seven days of submission by

Activities	Timelines	Responsibility
		Coordinating officer but in no condition more than 45 days of exit meeting

R. CONVERSION OF HALF MARGIN MEMO (HMM) INTO AUDIT PARA

45. 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 two working days from the date of the exit conference meeting.
46. 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.

S. CATEGORIZATION OF AUDIT PARA

47. 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.

T. TYPES OF FINANCIAL ATTEST AUDIT REPORT

48. 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. This report will be issued for all Gram Panchayats each separately for each financial year
2.	Management Letter	Team Leader	The Management Letter to be issued along with the Financial Attest Audit report The Management Letter shall include an Executive Summary .

U. EVALUATION OF MATERIAL MISSTATEMENTS AND SELECTION OF BASIS FOR OPINION

49. 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.

50. 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).
51. 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 classes of transactions, account balances or disclosure and on the Financial Statements and the 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.
52. 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.
53. Broadly two types of audit opinion will be given by the Independent Auditors.
- (a) Unmodified opinion.
- (b) Modified Opinions (Qualified, Disclaimer and Averse).
54. 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

55. 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.
56. 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.
 - The result of finding is material but not pervasive of the Financial Statements then the auditor will choose the Qualified type of Opinion.
 - The result of finding is material and pervasive of the Financial Statements then the auditor will choose the Adverse type of Opinion.
 - 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.

V. FORM AND CONTENT OF INDEPENDENT AUDITOR'S REPORT

57. 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)

58. The detailed format of **Independent Auditors’ Report** is as under:

I. TITLE

59. 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

II. Addressee

60. 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 Addressed to To

Gram Panchayat	Panchayat Secretary
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III. AUDITORS OPINION

70. 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.

71. 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.
- Whether the Financial Statements are free from material misstatements whether due to fraud and error. This conclusion should be based on the following:

72. 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.

I. UNMODIFIED OPINION

73. 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 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 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].”

74. 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

II. MODIFIED OPINION

75. 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 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.

76. 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.

77. 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 Modification	Material but not Pervasive	Material and 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 1: Effect of pervasiveness on Opinion

QUALIFIED OPINION

78. Where the auditor is uncertain or disagrees with one or more 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]."*

79. **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.

80. 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.

III.A ADVERSE OPINION

81. 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*

82. **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.B DISCLAIMER OF OPINION

83. 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”.

- 84. 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.

IV. BASIS FOR OPINION

85. 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”.

V. EMPHASIS OF MATTER PARAGRAPH (ONLY IF APPLICABLE)

86. 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 matte

VI. RESPONSIBILITIES OF MANAGEMENT OF (NAME OF THE RLB) FOR THE FINANCIAL STATEMENTS

87. 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.
88. 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.

VII. AUDITORS RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

89. The auditor’s report shall include a section with the heading **“Auditor’s Responsibilities for the Audit of Financial Statements”**.
90. 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.

VIII. NAME ADDRESS AND SIGNATURE OF AUDITOR

91. 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 Audit Report	First Level Review of	Final Review, Approval and Signature*
Gram Panchayat	Team Leader	Nodal officer and Sub-Nodal Officer from Project Management Unit and the Coordinating officers of respective	Deputy Director, Audit

	Zone	
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Table 2: Matrix for signature of the Independent Auditor’s Report.

in case of fraud, 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.

92. The auditor’s report shall be dated not earlier than the date on which the auditor has obtained enough appropriate audit evidence to form an opinion on the Financial Statement

IX. APPENDIX TO INDEPENDENT AUDITOR’S REPORT

93. 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.

W. MANAGEMENT LETTER

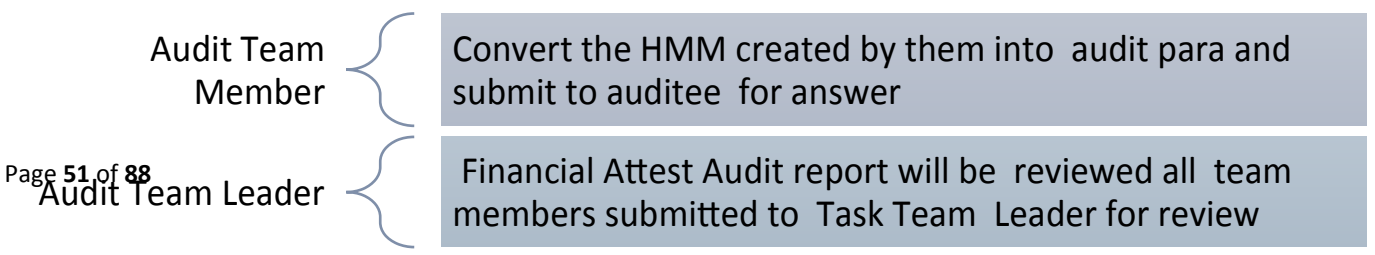
94. The outcome of the Financial Attest Audit is not only to express an opinion on the Financial Statements but also to add value in improving the financial management and controls. The Management Letter shall be issued along with the Financial Attest Audit report at the discretion of the Auditor and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

95. 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 Observations

X. REVIEW, APPROVAL, AND ISSUANCE OF FINANCIAL ATTEST AUDIT REPORT

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



Task Team Leader,
Nodal Officer and
Coordinating
officer

1/67132/2022

review and approve the Financial Attest Audit Report submitted by the team leader and then it will be submitted to the appropriate authority for final review, approval and signature as per matrix provided

Y-AUDIT TEAM MEMBERS

Review, Approval

97. The Nodal Officer and
of the Financial Attest

Once the Financial Attest Audit report is reviewed, approved and signed by the appropriate authority as per the matrix provide.

for their review, approval and signature as provided

98. In case the appropriate authority has any comments/ suggestions which need to be addressed, the same shall be communicated to the Task Team Leader for necessary correction. On receipts of the comments and suggestions, the task team leader shall carry out the necessary correction as suggested and then resubmit the Financial Attest Audit Report within three working days, but the opinion shall not be asked to be changed.
99. However, in case of fraud, adverse 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
100. 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.

W. ROLES AND RESPONSIBILITIES OF THE EXTERNAL AGENCY (CA FIRM)

W.I GENERAL POINTS

101. 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 Nodal and Co-ordinating Officer on regular basis.

- e. 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 PMU
- h. would attend all the training programs scheduled for external agencies by the PMU 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 the Finance Department from time to time.
- k. follow the audit process and methodology elaborated in this Office order for conducting the Financial Attest audit with respect to the execution of audit,
- l. continuously comply with the terms and conditions mentioned in their respective Contract
- m. Carry out the Financial Attest Audit function through OAMS, Audit Online and e-Gram Swaraj or other accounting and reporting software used by the RLBs

W.II . STANDARDS

102. The external agency would conduct the Financial Attest Audit in compliance with this Financial Attest Manual and Office Order 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

103. 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.

W.III Audit Reporting and Documents

104. The CA firm shall be provided the assignment through an engagement letter with the scope of audit and reporting requirement.

105. The CA firm shall carry out the audit as per the terms of engagement provided by the PMU. They would be carrying out this audit on behalf of Finance Department and shall be reporting to the PMU and DOA.
106. The external agency would submit the Financial Attest Audit Report to the Coordinating officer.
107. The Financial Attest Audit Report will be reviewed by Nodal and Co-ordinating Officer.
108. After that Financial Attest Audit Report shall be finally reviewed by the respective authorised officer.

DECLARATION REGARDING ADHERENCE TO THE CODE OF ETHICS

(This declaration is required to be signed separately by each member of the audit team once in every year. A signed copy of the declaration should be given to the DOA and PMU .)

I, Shri/Smt./MS _____ (name), _____ (designation) hereby declare that:

- I have read and understood the DoA's code of Ethics.
- I will uphold and abide by the DoA's Code of Ethics.
- I do not have any personal or professional interest in the audited entity.

As a representative of the DoA, I undertake to adhere to the following:

- I will conduct the audit assigned to me in a fair, honest, timely and competent manner.

- I will maintain strict confidentiality of all information gathered in the course of audit.
- I will not behave or conduct myself in an inappropriate manner with any official of the audited entity
- I will not accept any kind of inducement from the audited entity

Name and Signature: _____

Date: _____

R

Format of Audit Planning Memorandum

1. Name of ULB/RLB	XXX
2. Date	DDD/MM/YYYY
3. General	
3.1 Description of ULB/RLB	
3.2 Details of any significant changes	
3.3 Period and scope of Audit	Describe the scope of Audit and the authority under which it will be conducted including other reporting requirements, if any.
3.4 Internal/ External Environment affecting to ULB/RLB	e.g. parliamentary/ Legislative directive, relevant laws and regulations effecting the entity, organisational set-up and sources of funding, Core function or nature of entity
3.5 Understanding of Auditee's financial situation	Sources of funding
4. Assessment of Significant and Non-Significant Areas/Accounting Area	
As part of Financial Attest Audit of Financial Statements, we discussed the significant and non-significant areas (financial and non-financial) and then categorized as High, Medium and Low Risk.	<p>Summary of specific risks identified any major problems likely to be met and other items in the financial statements which are likely to require specific attention. This should be cross referenced to the account areas/audit objectives affected; more detailed information where appropriate; relevant audit programmes;</p> <ul style="list-style-type: none"> • A brief assessment of the general

	<p>control environment and mitigating controls, and whether they are to be relied on. This should be cross referenced to more detailed information where appropriate;</p> <ul style="list-style-type: none"> • A brief overview of the audit approach to be adopted, that is to say the degree of compliance and substantive procedures (including analytical procedures); • Details of the nature and extent of use to be made of the work to be carried out by internal auditor or other auditors and specialists. This should include names, contact addresses, timing and nature of work
5. Significant Areas	Level of Risk
Human Resource	High/Medium/Low
Procurement	High/Medium/Low
Grants.	High/Medium/Low
.... Etc.....	High/Medium/Low
For each of the accounting areas identified as above, the audit team will select the items or key transactions to be audited as per instruction/ guidelines mentioned in point no. 6.3.4 “Selection of Transaction to be Audited.”	
6. Understanding of control environment:	
4. Detailed audit approach	

Prepared by:	
Name:	Reviewed by:
Designation:	Name:
Date:	Designation:
	Date:

FORMAT OF WRITTEN REPRESENTATION LETTER

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the Financial Statements of for the year ended, for the purpose of expressing an opinion on whether the Financial Statements exhibit a true and fair view in accordance with the applicable financial reporting framework in Uttarakhand.

We confirm that (to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves):

Financial Statements

- ▶ We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the Financial Statements in accordance with (applicable financial reporting framework); in particular, the Financial Statements are fairly presented (or give a true and fair view) or prepared in all material respects in accordance therewith.
- ▶ Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- ▶ All events subsequent to the date of the Financial Statements and for which 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. requires adjustment or disclosure have been adjusted or disclosed.

- ▶ The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Financial Statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.
- ▶ [Any other matters that the auditor may consider appropriate]

Information Provided

- ▶ We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- ▶ All transactions have been recorded in the accounting records and are reflected in the Financial Statements.
- ▶ We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.
- ▶ We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the Financial Statements.
- ▶ We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's Financial Statements and communicated by employees, former employees, analysts, regulators or others.
- ▶ We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, the effects of which should be considered when preparing Financial Statements.
- ▶ [Any other matters that the auditor may consider necessary]

Name & Signature of authorised official

Instructions for auditors

1. The audit report is to be issued on the letter head of the firm
2. Each page of the report should be signed and stamped
3. Each report should be for one financial year. If 3 years are audited then 3 separate reports are to be submitted.
4. UDIN has to be generated for each report.
5. In case a combined UDIN has already been generated earlier then same number can be used across the reports.
6. Receipts and Payments Account and Notes to Accounts should accompany the audit report.
7. The auditor should specifically report on the adequacy or otherwise of maintenance of books and records by the RLB. The C&AG has mandated that the following records should be maintained by the RLB.
 - i. Receipt and Payment Account.
 - ii. Receipt Vouchers.
 - iii. Payment Vouchers.
 - iv. Bank Reconciliation Statement
 - v. Register of Immovable Property
 - vi. Register of Movable Property

- vii. Inventory Register
 - viii. Demand Collection and Balance Register
8. The List of Observations provided in OAMS/Audit Online format will be a report separate from the Independent Auditor's Report in the form of a Management Letter.

Unmodified Opinion

Independent Auditor's Report

To,

of RLB/ Head of the RLB

Full address

Opinion:

We have audited the accompanying Financial Statements of the ***{insert name of the RLB}***, which comprise Annual Receipts and Payments Account for the year ended 31 March 20....., and Notes to Financial Statements, including a summary of Significant Accounting Policies {state if applicable}.

In our opinion, the accompanying Financial Statements give a true and fair view, in all material respects, of the cash flows of the ***{insert name of the RLB}*** for the year ended 31 March 20....., in accordance with Simplified Formats Accounts for Panchayati Raj Institutions, 2009.

Basis for Unmodified Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further

described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of{**insert name of the RLB**} in accordance with our Code of Ethics together with ethical requirements that are relevant to our audit of the Financial Statements in India and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

To be reported wherever applicable. {The auditor should describe the matters on which they wish to draw emphasis}

We draw attention to Our opinion is not modified in respect of this matter.

Responsibilities of Management of {insert name of the RLB} for the Financial Statements

Management of {**insert name of the RLB**} is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Simplified Formats Accounts for Panchayati Raj Institutions, 2009. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Uttarakhand Panchayati Raj Act, 2016 (as in force and as amended in 2019) for safeguarding of the assets of the {**insert name of the RLB**} and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. The Management of {**insert name of the RLB**} is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report on Legal, Regulatory and Other Requirements

To be reported wherever applicable.

Signature of the auditor

Date:

Place:

Appendix to Independent Auditor's Report

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud and error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the organization's internal control.
- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosure made by

the management.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves true and fair view.

We communicate to Management of **{insert name of RLB}** regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide to Management of **{insert name of RLB}** a statement we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationship and other matters that may reasonable be thought to bear on our independence, and where applicable, related safeguards.

Instructions for auditors

1. The audit report is to be issued on the letter head of the firm
2. Each page of the report should be signed and stamped
3. Each report should be for one financial year. If 3 years are audited then 3 separate reports are to be submitted.
4. UDIN has to be generated for each report.
5. In case a combined UDIN has already been generated earlier then same number can be used across the reports.
6. Receipts and Payments Account and Notes to Accounts should accompany the audit report.
7. The auditor should specifically report on the adequacy or otherwise of maintenance of books and records by the RLB. The C&AG has mandated that the following records should be maintained by the RLB.
 - i. Receipt and Payment Account.
 - ii. Receipt Vouchers.
 - iii. Payment Vouchers.
 - iv. Bank Reconciliation Statement
 - v. Register of Immovable Property
 - vi. Register of Movable Property
 - vii. Inventory Register
 - viii. Demand Collection and Balance Register
8. The List of Observations provided in OAMS/Audit Online format will be a report separate from the Independent Auditor's Report in the form of a Management Letter.

12.1.11.2 Qualified Opinion

Independent Auditor's Report

To,

Governing Body of RLB/ Head of the RLB

Full address

Qualified Opinion:

We have audited the accompanying Financial Statements of the ***{insert name of the RLB}***, which comprise Annual Receipts and Payments Account for the year ended 31 March 20....., and Notes to Financial Statements, including a summary of Significant Accounting Policies {state if applicable}.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying Financial Statements give a true and fair view, in all material respects, of the cash flows of the ***{insert name of RLB}*** for the year ended 31 March 20....., in accordance with Simplified Formats Accounts for Panchayati Raj Institutions,, 2009

Basis for Qualified Opinion

{The auditor should describe the matters due to which the audit opinion is qualified}

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of***{insert name of the RLB}*** in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in India and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

To be reported wherever applicable. *{The auditor should describe the*

matters on which they wish to draw emphasis}

We draw attention to.....

However, we have not qualified our opinion in respect of this matter.

Responsibilities of Management of {insert name of the RLB} for the Financial Statements

Management of {**insert name of the RLB**} is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Simplified Formats Accounts for Panchayati Raj Institutions , 2009. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Uttarakhand Panchayati Raj Act, 2016 (as in force and as amended in 2019) for or safeguarding of the assets of the {**insert name of the RLB**} and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. The Management of {**insert name of the RLB**} is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report on Legal, Regulatory and Other Requirements

To be reported wherever applicable.

Signature of the auditor

Date:

Place:

Appendix to Independent Auditor's Report

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud and error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the organization's internal control.
- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosure made by the management.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves true and fair view.

We communicate to Management of **{insert name of the RLB}** regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control

that we identify during our audit.

We also provide to Management of{**insert name of the RLB**} a statement we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationship and other matters that may reasonable be thought to bear on our independence, and where applicable, related safeguards

Instructions for auditors

1. The audit report is to be issued on the letter head of the firm
 2. Each page of the report should be signed and stamped
 3. Each report should be for one financial year. If 3 years are audited then 3 separate reports are to be submitted.
 4. UDIN has to be generated for each report.
 5. In case a combined UDIN has already been generated earlier then same number can be used across the reports.
 6. Receipts and Payments Account and Notes to Accounts should accompany the audit report.
 7. The auditor should specifically report on the adequacy or otherwise of maintenance of books and records by the RLB. The C&AG has mandated that the following records should be maintained by the RLB.
 - Receipt and Payment Account.
 - Receipt Vouchers.
 - Payment Vouchers.
 - Bank Reconciliation Statement
 - Register of Immovable Property
 - Register of Movable Property
 - Inventory Register
 - Demand Collection and Balance Register
7. The List of Observations provided in OAMS/Audit Online format will be a report separate from the Independent Auditor's Report in the form of a Management Letter.

Adverse Opinion

Independent Auditor's Report

To,

Governing Body of RLB/ Head of the RLB

Full address

Averse Opinion:

We have audited the accompanying Financial Statements of the ***{insert name of the RLB}***, which comprise Annual Receipts and Payments Account for the year ended 31 March 20..., and Notes to Financial Statements, including a summary of Significant Accounting Policies *{state if applicable}*.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not give a true and fair view of the cash flow of the ***{insert name of the RLB}*** for the year ended 31 March 20....., in accordance with Simplified Formats Accounts for Panchayati Raj Institutions, 2009.

Basis for Adverse Opinion

The auditor should describe the matters due to which the audit opinion is adverse}

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of ***{insert name of the RLB}*** in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in India and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we

have obtained is sufficient and appropriate to provide a basis for adverse opinion.

Emphasis of Matter

To be reported wherever applicable. {The auditor should describe the matters on which they wish to draw emphasis}

We draw attention to.....

However, we have not qualified our opinion in respect of this matter.

Responsibilities of Management of {insert name of the RLB} for the Financial Statements

Management of **{insert name of the RLB}** is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Simplified Formats Accounts for Panchayati Raj Institutions , 2009. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Uttarakhand Panchayati Raj Act, 2016 (as in force and as amended in 2019 for safeguarding of the assets of the **{insert name of the RLB}** and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. The Management of **{insert name of the RLB}** is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on

the basis of these financial statements.

Report on Legal, Regulatory and Other Requirements

To be reported wherever applicable.

Signature of the auditor

Date:

Place:

Appendix to Independent Auditor's Report

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud and error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the organization's internal control.
- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosure made by the management.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial

Statements represent the underlying transactions and events in a manner that achieves true and fair view.

Instructions for auditors

1. The audit report is to be issued on the letter head of the firm
2. Each page of the report should be signed and stamped
3. Each report should be for one financial year. If 3 years are audited then 3 separate reports are to be submitted.
4. UDIN has to be generated for each report.
5. In case a combined UDIN has already been generated earlier then same number can be used across the reports.
6. Receipts and Payments Account and Notes to Accounts should accompany the audit report.
7. The auditor should specifically report on the adequacy or otherwise of maintenance of books and records by the RLB. The C&AG has mandated that the following records should be maintained by the RLB.
 - i. Receipt and Payment Account.
 - ii. Receipt Vouchers.
 - iii. Payment Vouchers.
 - iv. Bank Reconciliation Statement
 - v. Register of Immoveable Property
 - vi. Register of Movable Property
 - vii. Inventory Register
 - viii. Demand Collection and Balance Register
8. The List of Observations provided in OAMS/Audit Online format will be a report separate from the Independent Auditor's Report in the form of a Management Letter.
9. If no records are provided by the PRI, then the issue should be raised to the appropriate authority. A disclaimer audit report cannot be issued in such a case as audit has not been conducted.

12.1.11.4 Disclaimer Opinion

Independent Auditor's Report

To,

Governing Body of RLB/ Head of the RLB

Full Address

Disclaimer of Opinion:

We were engaged to audit the accompanying Financial Statements of the ***{insert name of the RLB}***, which comprise Annual Receipts and Payments Account for the year ended 31 March 20....., and Notes to Financial Statements, including Significant Accounting Policies {state if applicable}..

We do not express an opinion on the accompanying Financial Statements of the ***{insert name of the RLB}***. Because of the significance of matter described in the Basis of Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these Financial Statements.

Basis for Disclaimer of Opinion

{The auditor should describe the matters due to which the audit opinion is disclaimer}

Responsibilities of Management and Administrative Department for the Financial Statements:

Management of ***{insert name of the RLB}*** is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Simplified Formats Accounts for Panchayati Raj Institutions , 2009. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Uttarakhand Panchayati Raj Act, 2016 (as in force and as amended in 2019) for safeguarding of the assets of the ***{insert name of the RLB}*** and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and

maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. The Management of **{insert name of the RLB}** is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to a conduct audit of **{insert name of the ULB}** in accordance with ISSAIs to issue and auditor's report. However, because of the matter describe in the Basis of Disclaimer section of our report, we were not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion on these financial statements.

Report on Legal, Regulatory and Other Requirements

To be reported wherever applicable

Signature of the auditor

Date:

Place:

THE NOTES TO ACCOUNTS ARE TO BE PREPARED BY THE CLIENT (PRI) AND PROVIDED TO THE AUDITOR AS PART OF THE FINANCIAL STATEMENTS. ALONG WITH OPINION AND BASIS OF OPINION

The auditor will attach such notes along with the audit report as it will provide additional information on the Financial Statements.

Indicative Notes to the Annual Financial Statements of _____ Panchayat:

1. The _____ (***name of RLB***) is a Zila Panchayat/Panchayat Samiti/Gram Panchayat constituted under section xxx of Uttarakhand Panchayati Raj Act, 2016 (as in force in Uttarakhand)
2. The Financial Statements for the Financial Year 1st April _____ to 31st March _____ have been prepared on cash basis
3. The Financial Statements have been prepared in accordance with the Simplified Formats Accounts for Panchayati Raj Institutions, 2009 issued by Comptroller & Auditor General of India (C&AG) and as per the UP Panchayati Raj Act, 2016 (as in force in Uttarakhand and as amended to date).
4. The accounts of the RLB has been maintained in _____ (PRIASOFT/E-panchayat/Manual records).
5. The Receipts and Payments Account covers all known transactions of the RLB.
6. The [***Name of the RLB***] has _____ bank accounts of which _____ bank accounts have been reconciled as per list below.

Bank account name	Bank account number	Nature of Bank account (Receipt/Payment/Both)	Balance as per books of account	Balance as per bank statements	BRS completed

7. Status of maintenance of the books, records and reports during the Financial Year as mandated by the C&AG is as follows:

Format	Description	Maintained during the financial year (Yes/No)	Mode of Maintenance (PRIASOFT/ Panchayat/ Manual)
Format I	Receipts and Payment Account		
Format-II	Consolidated Abstract Register		
Format III	Monthly Reconciliation Statements		
Format IV	Statement of Receivable and Payable at the end of the year		
Format V	Register of Immovable Assets for the year		
Format VI	Register of Movable Assets for the year		
Format VII	Inventory Stock Register		
Format VIII	Register of Demand Collection and Balance		

8. All figures are in Indian Rupees.

Format of Management Letter for RLBs

A. Executive Summary

To

Head of the Audit Unit (RLB)

Address

In *{insert month & year}* Directorate of Audit (DoA), Government of Uttarakhand conducted a Financial Attest Audit of *{insert name of RLB}* for the period fromto.....

The audit covered, evaluation and assessment of the Financial Statements for the financial year *{insert the financial year for financial statement are audited}* prepared by the management for *{insert name of the RLB}* and some of the key findings are elaborated below:

B. Good Practice Noted

Good practices noted

{Highlight good practices observed here}

C. Key Analysis, Issues and Recommendations

During the audit, we raised *{insert number}* objections of which *{insert percent or number}* were categorized serious, (If the % of Serious Objections is substantial e.g. 60% then comment on the consequences of the same).

Among the high priority issues noted in this report, the most significant ones are presented below: {NOTE: Be selective. Only the most significant among the high priority issues must be highlighted in the Executive Summary. [Limit the number of issues to be highlighted to a maximum of 5.]

{Issues should be summarized and not presented verbatim from the main report. To the extent possible use only one paragraph per issue.

{Mention any recommendation to be provided to the management with regards to the preparation and maintenance of financial statement and records}

Based on our audit of the financial statement for the Financial Year *{insert the financial year for financial statement are audited}*, we have provided our opinion is Section-I (Independent Auditor's Report) of this report. {this shall be suitably changed in case of Disclaimer Opinion}

Based on our audit of the financial statement for the Financial Year *{insert the financial year for financial statement are audited}*, we have provided our opinion is Section-I (Independent Auditor's Report) of this report. {this shall be suitably changed in case of Disclaimer Opinion}

D. Audit Observations, Conclusions and Recommendations

Type of Para	
HMM No.	
HMM Type	
Para No.	
Document Reference (if any)	
Financial Amount (if Any)	
Observation:	
Documents Referred:	
Description Mentioned in HMM:	

Response from the Auditee on HMM:**Conclusion and Recommendation:****CHECK LIST FOR FINANCIAL ATTEST AUDIT OF A GRAM PANCHYAT**

	Whether the processes of accounting as per the CAG Simplified Accounting format	
	2(a) Whether the annual accounts have been prepared strictly in the prescribed form. (b) Whether the annual accounts have been approved by competent authority. If so, when (date). (c) Have the accounts been checked	
3	(a) Whether records such as cash book, subsidiary books and registers, etc., have been made available for audit. (b) Whether the stock & stores ledgers and register of assets have been properly maintained as prescribed.	
4	Number of Bank accounts maintained by the officer. Whether separate Bank account is maintained for each Centrally sponsored scheme.	
5	Whether arithmetical accuracy has been ensured in respect of all the Statements of Accounts.	
6	Whether the receipts figures in different Statements have been cross-checked and tallied with those in other statements.	
7	Whether the closing balance of the preceding year has been correctly carried forward as opening balance in respect of each item.	
8	a. whether each item of grants released by Government is traceable in the Register of grants. b. Whether, unspent grants refundable to Government or other agency are shown distinctly in the accounts and refunded, if so stipulated by the sanctioning authority. c. Whether utilisation certificates in respect of grants have been submitted as prescribed; if not, extent of arrears.	
9	Whether all the credits afforded to the PRI fund by the Bank have been classified under the final head of receipt. If not, extent of receipts not finally classified and reason therefor (i) Extent of Misclassification : (ii) Wanting Challans : (b) Whether transactions of receipts and payments have been correctly	

	<p>classified and whether there is any mixing up of funds under the fund accounts.</p> <p>(c) Whether any corrections in accounts or revision of accounts had to be resorted to at the instance of audit.</p>	
10	Whether the vouchers have been compiled monthly indicating details as prescribed.	
11	Whether classified abstract is posted with reference to the compilation sheets and the consolidated abstracts from the classified abstract.	
12	<p>Whether the accounts rendered by the cheque drawing officers (Engineering & Forest Divisions, Social Forestry Division etc.,) were, after ensuring their correctness, incorporated every month in the classified abstract, under the appropriate heads of accounts.</p> <p>b) Whether the Schedule of paid cheques received from the /bank has been incorporated in the monthly compiled accounts.</p> <p>c) Whether the Register of cheques is maintained properly and reconciled with monthly bank statement</p>	
13	Whether the consolidated abstract is correctly posted from month to month and progressive totals struck correctly	
14	<p>a. Whether balance(s) as per the Cash Book/ Books agree with the balance as per Annual Receipt and Payment Accounts.</p> <p>b. Whether Bank reconciliation is done every month.</p> <p>c. Whether the differences between Bank Accounts and those of PRI have been reconciled. If so, the results thereof. Extent of arrears, if any.</p>	
15	Whether the expenditure incurred under each unit of appropriation is regularly compared with the grant provided therefor and adequate advance action has been taken to limit the expenditure to the grant. Are there any cases of expenditure in excess of or without any budget provision? (
16	Whether expenditure is being correctly classified under Capital and Revenue.	

PART II - COMMENTS ON ACCOUNTS AND RECEIPTS

Accounts, Registers & Periodicals Etc.,

Comments, if any, on the following points :

1. Whether the accounts of the Panchayat are prepared in the prescribed forms correctly and submitted by the due dates to designated authorities regularly as per rules, after approval by the competent authority.
2. Whether cash book, vouchers and other prescribed registers and records are maintained / closed properly.
3. Verify carefully the cheques, if any, drawn in the name of the President. Furnish a statement of irregular drawals, if any.
4. What is the cash balance available with the President on the date of audit? Whether the cash was physically verified. Whether it agrees with the balance in Panchayat accounts.
5. Whether proper accounts are maintained for the deposits remitted by contractors and employees.
6. Whether Register of Assets owned by the Panchayat is maintained as per Rules. Are steps taken to ensure proper maintenance and upkeep of assets?
7. Whether Stock Registers of Furniture Tools and plants, lights, books etc., are maintained as per rules.
8. Whether physical verification of cash, stores and assets is conducted regularly and proper action taken as per rules regarding shortages / discrepancies, if any, noticed.
9. Whether Bank reconciliation is being done regularl

Receipts

Comments, if any, on the following points :-

1. Whether

(a) taxes such as house tax (b) license fees; (c) fees for grazing on lands, sanitation, private toilets, drainage, street lighting, wells and pumpsets etc. ; (d) rents, rates and duties on markets, melas, , cattle / sheep pounds, avenue trees, fish ponds, Endowments / Trusts etc., and (e, auction sales of moveable or immovable

properties, unserviceable articles etc., are levied / raised in accordance with the State Panchayat Act and the rules / notifications issued thereunder and with appropriate approval of competent authority.

2. (a) Whether assessment has been made properly in each case, as prescribed.

b. Whether there is undue delay in finalising the demand of any tax, fees, rents, etc., and furnishing the demand list.

Whether any modification has been carried out in the levy of taxes etc., during the audit year. If so, are they in order and done under proper authority and whether they have been duly written up in the demand list.

(d) Whether any alteration has been made in the demand list in the middle of the audit year. If so, whether sanction of appropriate authority has been obtained

(e) Whether total demand has been written correctly in the Demand Register in respect of each item for each year.

(f) Whether periodical revision as prescribed has fallen due. Whether such revision has been made and enforced promptly.

3. Whether periodical lists of persons liable for paying taxes etc., has been written up as prescribed.

4. Whether any demand has become time-barred because of undue delay in raising it or in collecting it. If so, give details of such items with names and designations of persons responsible.

5. Whether auctions have been conducted as per rules and proper records maintained. Whether lease agreements are correctly executed and kept in safe custody. Whether adequate security deposits have been recovered from parties as prescribed.

Collections

(a) Whether all dues are collected regularly. Indicate lapses, if any.

(b) Whether proper receipts with printed serial number have been issued for all collected amounts duly signed by the official authorised to collect money.

(c) Whether receipt books (used and unused) are properly maintained and accounted for as per rules.

(d) Whether all collections have been duly credited in the Panchayat accounts and written up promptly Indicate cases of omission or commission.

(e) Whether collections are correctly and promptly recorded in Demand Collection & Balance Register. Whether this register is maintained and closed periodically as prescribed.

(f) Whether effective steps are taken to collect arrear demands.

(g) Whether the system of demand and collection of revenues in force is fool proof and does not give room for any short demand, misappropriation or leakage of revenue.

Expenditure

Comments, if any, on the following points:-

a) Whether all items of expenditure have been approved by the Panchayat and sanctioned by appropriate authority.

(b) Whether proper vouchers with the signature of authorised person for all items of expenditure are available.

(c) Whether the expenditure was incurred (i) as per relevant rules in public interest (ii) as per the provisions of budget estimate and (iii) the amount was paid to the person entitled to receive it with his acknowledgement.

(d) (i) Whether services rendered or supplies made by the payees have been properly placed on record and their quality and quantity have been ensured and there has been no overpayment

ii) Whether any wasteful / unprofitable or any avoidable expenditure was incurred.

iii) Whether there is any item of expenditure incurred excessively. Was payment made to an improper person or illegally. Furnish details of all items of irregular expenditure

2. Establishment

- Whether number of persons employed are in accordance with the rules and sanction given by the appropriate authority.
- Whether their pay and allowances are paid from time to time as prescribed.
- Whether there is Provident Fund scheme or bonus schemes for the employees? If so, whether accounts have been maintained properly. Indicate defects, if any.
- Whether Service records of employees are maintained correctly as prescribed.

3 . Works

- Whether proper estimate for each work has been prepared? Has competent authority approved it.
- Whether prescribed tender procedure has been followed, where necessary.
- If the work was entrusted on contract, whether proper agreement as per rules was obtained from the contractor. Has the payment been made to the contractor and penalty levied where necessary, as per the agreement?
- Whether proper officer took measurements before payment was made.
- Whether actual labour charges did not exceed the value of the work done.
- (i) Whether the Panchayat itself had taken up any Panchayat work. If so, whether their accounts have been maintained properly. (ii) Whether the Panchayat had taken up works with government grants. If so, whether proper accounts have been rendered for them.
- Whether there has been any time or cost over-runs and if so, reasons therefor and whether they were avoidable.
- N.B. : Furnish a statement of works executed in the audit year with details of

estimated value, actual expenditure incurred and irregularity, if any, noticed.

Schemes

- Whether schemes are being implemented effectively and proper records maintained and reports / returns submitted in accordance with the scheme guidelines and prescribed procedures. Whether completion certificates and utilization certificates have been sent for each project or scheme.
- Whether beneficiaries under each scheme have been identified and their names kept on record.
- Whether record of assets is maintained and their utility to the beneficiaries as per norms is ensured by the Gram Panchayat.
- Enclose list of Schemes in Operation in the Panchayat showing Physical and Financial targets and achievements. Comment on shortfalls, if any, after analysing the reasons therefor.

Financial Position of the Panchayat

- What is the financial position of the Panchayat?
- Enclose Receipts and Payments Accounts with audit certificate and item wise Demand, Collection and Balance statements for the year / years under audit.
- Findings of the audit.
- Comments on budgetary control to be included.

format for XIV/ XV FC Grant

Name of GP

Bank Account No:

Bank Account Name:

Particulars		
Opening Balance		Xxx
Add		
Receipt from GOI	Xxx	
Interest earned	Xxx	
Receipt for the year		Xxx
Less		
Expenditure for the year		XXX
Closing Balance as per cash book		XXX

Closing balance as per bank passbook

Provide BRS if there is a difference.

Check points for XIV/XVth Finance Commission to be used for Audit Online

- Whether the schemes have been selected as per guide lines and through Gram Sabha and subsequently duly approved by the Gram Panchayat. Whether the plans/estimates were prepared properly.

- Whether tender formalities for procurement of materials, as well as, execution were maintained properly.
- Whether the subsidiary registers/records were maintained as per requirement.
- Whether all the works taken under the scheme were included in the assets register after obtaining proper completion certificate.
- Whether there were cases of non-utilization/under-utilization of the grant and if so, the reasons thereof.
- Whether there was any case of incidence of expenditure on an item for which there was a specific grant through some other scheme
- Separate accounts including separate cash book, separate bank account and other subsidiary records are maintained and updated for each scheme as per the Scheme guidelines
- Grants sanctioned are received in full from state/central Governments/ other institutions
- Grants are received in time as per guidelines . Any cut in release of grants from central/state governments for having not fulfilled the conditions laid down in the guidelines of the schemes. for example: i) for not spending prescribed proportion of the grants within the stipulated time ii) for delay in sending U.Cs to state/central governments, is pointed out in the UC/Audit Certificate
- .On closure of the scheme balance, amounts available under the scheme are returned to the concerned authority or utilized in accordance with scheme guideline
- T he grant payable for each purpose has been correctly assessed in accordance with the guidelines;
- Conditions attached to the grants are duly fulfilled.
- The assets acquired out of grants are continued to be utilised for the intended purpose / purposes.
- The income expected to be realised by assets acquired is actually being realised