



Audit Manual – Part-2 / Vol-4
Local Self Government Institutions

Kerala State Audit Department



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Kerala State Audit Department

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73. Audit of Local Self Government Institutions

73.1. Local Self Government Institutions in Kerala

1. The Local Self Government Institutions (LSGI) in Kerala comprises of Village Panchayats, Block Panchayats, District Panchayats, Municipalities and Municipal Corporations. Village Panchayats, Block Panchayats and District Panchayats are governed by the Kerala Panchayat Raj Act, 1994 (KPR Act) and Municipalities and Municipal Corporations are governed by the Kerala Municipality Act, 1994 (KM Act).
2. Consequent to the 73rd and 74th Constitution amendments, Kerala State Government have entrusted LSGIs with such powers, functions and responsibilities to enable them to function as true Local Self Governments in respect of the matters entrusted with them. As per the provisions of the KPR Act, and the KM Act, it shall be the duty of LSGIs to prepare plans and implement schemes for economic development and social justice, including those included in the Eleventh and Twelfth Schedules of the Constitution. The Acts also envisaged transfer of functions of various Departments of the Government to LSGIs together with the staff to carry out the functions transferred. Appendix I of the Eleventh Schedule of the Constitution contains 29 functions pertaining to the Panchayat Raj Institutions and Appendix II of the Twelfth Schedule of the Constitution contains 18 functions pertaining to Municipalities. These functions were being transferred to LSGIs in a phased manner. As of now, 26 functions have been transferred to the Panchayats and 17 functions have been transferred to Municipalities.
3. In addition to the functions mandated under the Constitution and the Kerala State Acts, the LSGIs also undertake projects with the funds provided by Central and State Governments as well as other agencies such as World Bank, Asian Development Bank etc. As part of administrative or functional decentralization, Government have transferred public service delivery institutions such as schools, dispensaries, public health centers, hospitals, anganwadis, district farms, veterinary institutions etc., to the LSGIs vide GO(P)No.189/ 1995/ LSGD dated 18th Sept 1995. Several poverty alleviation programs and welfare pension schemes are also implemented through the LSGIs. The services of the concerned officers were also transferred to the LSGIs.
4. Each Village Panchayat (or Gram Panchayat), Block Panchayat and District Panchayat (or Jilla Panchayat) will elect a President from out of their elected representatives. Each Municipality will elect a Chairperson and each Municipal Corporation (or Corporation) will elect a Mayor from out of their respective elected representatives. The President/ Chairperson/ Mayor will be the Chief Executive Authority of the LSGI. Each LSGI has a Secretary who appointed by the State Government, will be its Chief Executive Officer.
5. As per the KPR Act and KM Act, each LSGI will have to constitute Standing Committees from among the elected members of the respective LSGI. The said Acts have also prescribed the powers and functions of the Standing Committees. Each LSGI will also constitute a Steering Committee to co-ordinate and monitor the functioning of the Standing Committees. At present, there are four Standing Committees for each Village Panchayat and Block Panchayat, five Committees for each District Panchayat, six committees for each Municipality and eight committees for each Corporation. Every resolution passed by the Standing Committee needs to be placed in the next meeting of the Panchayat Committee/ Municipal Council of the LSGI for consideration and approval.
6. At the State level, the LSGIs are presently under the Local Self Government Department (LSGD). There are officers such as Additional Chief Secretary/ Principal Secretary, Secretary, Director of Urban Affairs, Director of Panchayats, Commissioner of Rural Development, Chief Town Planner, Chief Engineer (LSGD), State Performance Audit Officer, etc., in the LSG Department.

7. The LSGIs in Kerala are to prepare every year a development plan for the succeeding year based on the guidelines issued by the Government and submit the same to the District Planning Committee (DPC) before the date prescribed. The DPC scrutinizes and approves the plan prepared by the LSGIs. In the decentralized planning set up, ward level Working Groups, Grama Sabhas, Standing Committees, DPCs, Implementing Officers etc., are the institutions/ groups involved in the plan formulation process and its implementation.
8. The LSGIs in Kerala have thus assumed a very important role in the formulation and implementation of developmental programs at the grassroot level which involve active participation of all sections of people. While the Constitution and the Acts confer autonomy and independent status to the LSGIs within the functional domain, the LSGD of the Kerala State Government is empowered to issue general guidelines to LSGIs in accordance with the National and State policies.

73.2. Kerala Panchayat Raj Act, 1994

1. The functions of the Panchayats in Kerala are regulated by the Kerala Panchayat Raj Act, 1994, the various Rules prescribed under the Act and the amendments thereto. As per Kerala Panchayat Raj Act 1994, 'Panchayat' means a Village Panchayat, a Block Panchayat or a District Panchayat. As on date, there are 941 Village Panchayats, 152 Block Panchayats and 14 District Panchayats in Kerala. It is also provided in Section 187 of the KPR Act, that the administrative set up of panchayat in the State shall consist of Village Panchayats, Block Panchayats, District Panchayats and Grama Sabhas.
2. Chapter XV of the KPR Act (sections 161 to 178) contains the Powers, Functions, Duties of Panchayats. Chapter XIX of the Act (sections 195 to 217) contains the provisions relating to Taxation and Finance, which inter alia includes preparation of Budget and its approval (section 214) and Accounts and Audit (section 215). As per section 215 (3 & 4) of the Act, the Examiner of Local Fund Accounts (now renamed as Director, Kerala State Audit Department) and his nominees shall be the auditors of the Panchayat and that the auditors shall conduct a continuous audit of the accounts of the Panchayat and shall after completing the audit for a year or for any shorter period or for any transaction or series of transactions, send a report to the Panchayat concerned and copies thereof to the officer authorised by the Government in this behalf.

73.3. Kerala Municipality Act, 1994

1. The functions of Municipalities in Kerala are regulated by the Kerala Municipality Act, 1994, various Rules prescribed there under and the amendments thereto. As per the KM Act, 1994, the Urban Local Bodies are classified as Town Panchayats, Municipal Councils and Municipal Corporations, which are collectively called as Municipalities. As on date, there are 87 Municipal Councils and 6 Municipal Corporations in Kerala, there is no Town Panchayat at present.
2. Chapter XIV of the Kerala Municipality Act (sections 230 to 309) contains the provisions relating to Taxation and Finance, which inter alia includes the preparation of Budget and its approval (sections 285 to 293), Annual Financial Statement (section 294) and Accounts and Audit (section 295). As per section 295(3) of the Act, the Examiner of Local Fund Accounts (now, renamed as Kerala State Audit Department) shall be the Auditor of the Municipality. According to section 295(4), the Auditors shall carry out continuous audit (concurrent audit) of the accounts of the Municipality and shall, after completing the audit, send a report to the Municipality concerned and a copy thereof to the Government.

73.4. Kerala Municipality (Accounts) Rules, 2007

1. As per GO (P) No.100/07/LSGD dated 30th March 2007, Government had issued Kerala Municipality (Accounts) Rules, 2007, which was made applicable to all Municipalities in Kerala with effect from 1st April 2007.
2. Chapter II, Clauses 3 to 13 of the Kerala Municipality (Accounts) Rules contain the details of Books of Accounts that are to be maintained by a Municipality and Clause 14 contains the coding principles followed in the Chart of Accounts. Chapter III describes the Accounting of Income and Chapter IV describes the Accounting of Expenditure. Chapter V is on the Accounts Rules to be followed in the case

of Investments, Specific funds, Retirement benefits and Other Special items used. Chapter VI explains Period End and Reconciliation Procedures to be followed and Chapter VII prescribes the methods of preparation of Financial Statements, Annual Reports and Budgets. Clauses 60 and 61 of this Chapter are on Audit and Audit Report, and Chapter VIII contains the general provisions.

3. As per clause 3 of the said Accounts Rules, the Municipalities shall maintain their books of account on 'Accrual' basis under the double entry system of book-keeping. Accordingly, the Municipalities have adopted the Accrual Accounting System, whereby the financial transactions are recorded based on accruals, i.e., on occurrence of claims and obligations in respect of Incomes or Expenditures, Assets or Liabilities, they are accounted for based on the happening of any event, passage of time, rendering of services, fulfilment (partially or fully) of contracts, diminution in values, etc., even though the actual receipts or payments of money may not have taken place.

73.5. Kerala Panchayat Raj (Accounts) Rules, 2011

1. As per GO (Ms) No.83/11/LSGD dated 28th March 2011, Government had issued Kerala Panchayat Raj (Accounts) Rules, 2011, which was made applicable to all Panchayat Raj Institutions in Kerala with effect from 1st April 2011.
2. Chapter II, Clauses 4 to 9 of the Kerala Panchayat Raj (Accounts) Rules contain the details of Books of Accounts that are to be maintained by a Panchayat and Clause 14 contains the coding principles followed in the Chart of Accounts. Chapter III describes the Accounting of Income and Chapter IV describes the Accounting of Expenditure. Chapter V is on the Accounts Rules to be followed in the case of Investments, Specific funds, Retirement benefits and Other Special items used. Chapter VI explains Period End and Reconciliation Procedures to be followed and Chapter VII prescribes the methods of preparation of Financial Statements, Annual Reports and Budgets. Clauses 63, 64 and 65 of this Chapter are on Audit of Financial Statements, Issue of Audit Certificate and Audit Report. Chapter VIII contains miscellaneous provisions.
3. As per clause 3 of the Accounts Rules, the Panchayats shall maintain their books of account on accrual basis under the double entry system of book-keeping.

73.6. Kerala Municipality Accounts Manual

1. As per GO (MS) No.130/07/LSGD dated 17-5-07, Government had issued orders approving the Kerala Municipal Accounting Manual (KMAM) to be followed in all the Municipalities in the State, which contains detailed procedure to be followed while accounting for transactions and preparing the accounts of a Municipality.
2. Part I of the Manual contains the Accounting Concepts & Accounting Conventions, Significant Accounting Principles, Codification Structure & Chart of Accounts and General Accounting Procedures. Part II contains the procedures for accounting for various transactions in a Municipality, and Part III contains the procedure to be followed in the case of Period-end Requirements, Period-end Procedures, Reconciliation Procedures and preparation of Financial Statements. Part IV covers Guidelines for preparation of Opening Balance Sheet.
3. The 'Coding Structure' stipulated in Chapter 4 of the Manual applies uniformly to all the Municipalities of Kerala. The Coding Structure contains the following main groups, viz. (1) Fund (2) Function (3) Functionary (4) Field and (5) Account Head. In addition, there is a secondary account code for each Account head, and a Municipality code for each Municipality. Changes to the codes can be made only as per the Guidelines/Rules prescribed in this regard

73.7. Kerala Panchayat Raj Accounts Manual

1. Even though Clause 3 (2) of the Kerala Panchayat Raj (Accounts) Rules 2011 stipulates that the Panchayats shall follow the Accounting Policies prescribed in the Kerala Panchayat Raj Accounts Manual, the Government has not so far prescribed separate Accounts Manual for the Panchayats. The Panchayats are now following the procedures given in GO (MS) 152/11/LSGD dated 26.07.2011.

2. The coding structure for Panchayats slightly differs from the coding structure prescribed for Municipalities. As per Clause 14 of the Kerala Panchayat Raj (Accounts) Rules, the accounting entries shall be recorded using a uniform codification structure consisting of (1) Fund (2) Function (3) Functionary and (4) Account Head. There is no provision at present for capturing data at field (ie ward) level as required for Municipalities. Changes to the codes shall be made as per the guidelines/ rules prescribed in this regard.

73.8. Functions assigned to the LSGIs

Sections 166, 172 and 173 of the KPR Act have assigned various functions to the Grama Panchayat, Block Panchayat, District Panchayat respectively and Section 30 of the KM Act has assigned various functions to the Municipalities. The auditor should examine that the programs and schemes undertaken by the LSGI fall within the scope of the assigned functions. The lists of these functions are given below for ready reference:

73.9. Functions of Village Panchayats

73.9.1. Mandatory Functions

1. Regulating building construction
2. Protection of public lands against encroachment
3. Maintenance of traditional drinking water sources
4. Preservation of ponds and other water tanks
5. Maintenance of waterways and canals under the control of Village Panchayats
6. Collection and disposal of solid waste and regulation of liquid waste disposal.
7. Storm water drainage
8. Maintenance of environmental hygiene
9. Management of public markets
10. Vector Control
11. Regulation of slaughtering of animals and sale of meat, fish and other easily perishable food stuffs, etc.
12. Control of eating places
13. Prevention of food adulteration
14. Protection of roads and other public properties
15. Street lighting and its maintenance
16. Adopt immunization programs
17. Effective implementation of National and State level strategies and programs for prevention and control of diseases.
18. Establishment and maintenance of burial and burning grounds.
19. Issue of licences to dangerous and offensive trades.
20. Registration of births and deaths.
21. Providing bathing and washing ghats
22. Provision for ferries.
23. Provision for parking spaces for vehicles.
24. Construction of waiting sheds for travellers.
25. Provision for toilet facilities and bathing ghats at public places.
26. Regulate the conduct of fairs and festivals.
27. Issue licence to domestic dogs and to destroy stray dogs.

73.9.2. General Functions

1. Collection and updating of essential statistics.
2. Organise voluntary workers and make them participate in collective activities.
3. Organise campaigns for thrift.
4. Awareness building against social evils like drinking, consumption of narcotics, dowry, abuse of women and children
5. Ensuing maximum peoples participation at all stages of development.
6. Organise relief activities during natural calamities.
7. Inculcating environmental awareness and motivating local action for environmental upgradation.
8. Promotion of co-operative sector.
9. Enhancing communal harmony.
10. Mobilisation of local resources in cash or in kind including free surrender of land for developmental purposes.
11. Campaign on legal awareness among weaker sections.
12. Campaign against economic offences.
13. Organising neighbourhood groups and self-help groups focusing on the poor.
14. Awareness building on civic duties.

73.9.3. Sector-wise functions

1. Agriculture
2. Animal Husbandry and Dairy farming
3. Minor Irrigation
4. Fishing
5. Social Forestry
6. Small scale Industries
7. Housing
8. Water Supply
9. Electricity and Energy
10. Education
11. Public Works
12. Public Health and Sanitation
13. Social Welfare
14. Poverty Alleviation
15. Scheduled Caste-Scheduled Tribe Development
16. Sports and Cultural Affairs
17. Public Distribution System
18. Natural calamities Relief
19. Co-operation

73.10. Functions of Block Panchayats

73.10.1. General Functions

1. Utilise Governmental-non-Governmental technical expertise at block level.
2. Provide technical assistance to Village Panchayats.
3. Prepare schemes taking into consideration the schemes of village panchayats in order to avoid duplication and to provide backward, forward linkage.

73.10.2. Sectorwise functions

1. Agriculture
2. Animal Husbandry and Dairy Farming
3. Minor Irrigation
4. Fisheries
5. Small Scale Industries
6. Housing
7. Electricity and Energy Development of conventional energy sources.
8. Education
9. Public Works
10. Public Health and Sanitation
11. Social Welfare
12. Poverty Alleviation
13. Scheduled Caste/Scheduled Tribe Development
14. Co-operation

73.11. Functions of District Panchayats

73.11.1. General Functions

1. Mobilisation of the technical expertise available from Government non-Government institutions.
2. Provide technical assistance to Block Panchayats, Village Panchayats and Municipalities.
3. Prepare schemes after taking into account the schemes of the Village Panchayat and the Block Panchayat to avoid duplication and to provide forward-backward linkage.

73.11.2. Sectorwise Functions

1. Agriculture
2. Animal Husbandry and dairy Farming
3. Minor Irrigation
4. Fisheries
5. Small Scale Industries
6. Housing
7. Water Supply
8. Electricity & Energy
9. Education
10. Public Works.
11. Public Health & Sanitations
12. Social Welfare
13. Poverty Alleviation
14. Development of Scheduled Caste-Scheduled Tribe
15. Sports and Cultural affairs
16. Co-operation

73.12. Functions of the Municipality

73.12.1. Mandatory Functions

1. Regulating building construction.
2. Protection of public land from encroachment.
3. Conservation of traditional drinking water sources.
4. Preservation of ponds and other water tanks.
5. Maintenance of waterways and canals under the control of the Municipality.

6. Collection and disposal of solid waste and regulation of disposal of liquid waste.
7. Storm water drainage.
8. Maintenance of environmental hygiene.
9. Management of public markets.
10. Vector control.
11. Regulation of slaughtering of animals and sale of meat, fish and other easily perishable food stuffs, etc.
12. Control of eating houses.
13. Prevention of food adulteration.
14. Maintenance of roads and other public properties.
15. Street lighting and its maintenance.
16. Adopt immunisation measures.
17. Effective implementation of National and State level strategies and programmes for prevention and control of diseases.
18. Establishment and maintenance of burial and burning grounds.
19. Issue of licences to dangerous and offensive trades and industries.
20. Registration of births and deaths.
21. Providing bathing and washing ghats.
22. Arranging ferries.
23. Providing parking spaces for vehicles.
24. Construction of waiting sheds for travellers.
25. Providing toilet facilities and bathing ghats at public places.
26. Regulating the conduct of fairs and festivals.
27. Issue licence to domestic dogs and destroy stray dogs.
28. Providing basic facilities in slum areas.
29. Amenities including foot path and road crossing facilities for pedestrians.
30. Preparation of detailed town planning and action plan for implementation in a phased manner.

73.12.2. General functions

1. Collection and updating of essential statistics.
2. Organising voluntary workers and make them participate in collective activities.
3. Organise campaign for thrift.
4. Awareness building against social evils like drinking, consumption of narcotics, dowry and abuse of women and children.
5. Ensuring maximum people's participation in all stages of development.
6. Organise relief activities during natural calamities.
7. Inculcating environmental awareness and motivating local action for its upgradation.
8. Development of Co-operative Sector.
9. Promoting communal harmony.
10. Mobilising local resources in cash or in kind including free surrender of Land for developmental purposes.
11. Propagating legal awareness among the weaker sections.
12. Campaign against economic offences.
13. Organising neighbourhood groups and self-help groups with focus on the poor.
14. Awareness building on civic duties.

73.12.3. Sector-wise distribution of functions

1. Agriculture
2. Animal Husbandry and Dairy Farming
3. Minor Irrigation
4. Fisheries:
5. Social Forestry
6. Small Scale Industries
7. Housing

8. Water Supply
9. Electricity and Energy
10. Education:
11. Public Works
12. Public Health and Sanitation
13. Social Welfare
14. Eradication of poverty
15. Development of the Scheduled Caste/Scheduled Tribe
16. Sports and cultural affairs
17. Public Distribution System
18. Natural Calamity relief
19. Co-operation

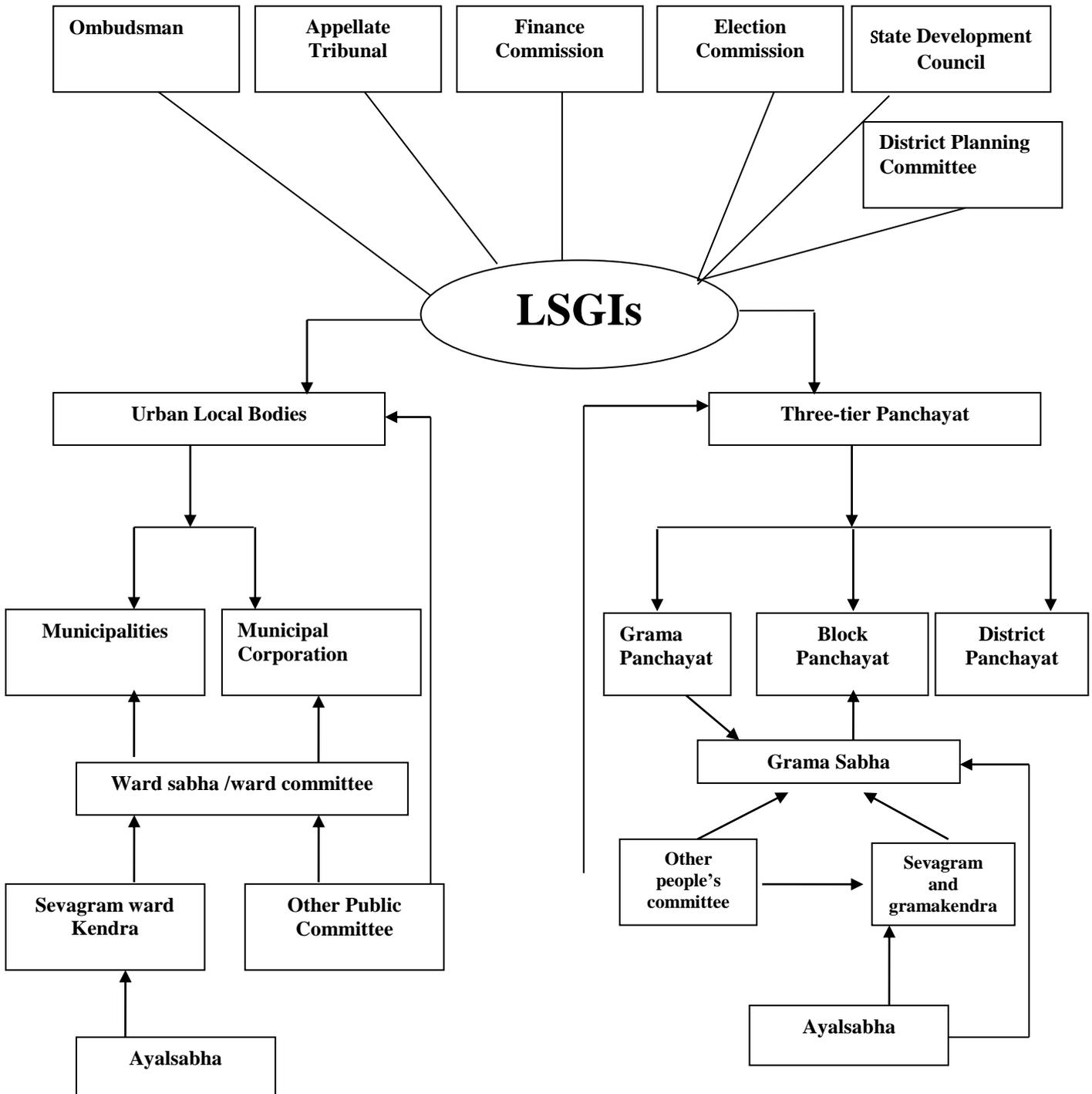
73.13. Transferred Institutions

Local Self Government institutions do their functions through the institutions, elected members and officials. All the institutions including transferred institutions are under the control of Local Self Government Institutions (Circular no. 6184/DP1/2003 LSGD dated 06.02.2003). The important GOs relating to transferred institutions are as follows:

1. GO(P) No.189/95 LSGD dated 18.09.1995 (Institutions and Officials)
2. GO(P) No.184/99 LSGD dated 27.09.1999(District Hospitals)
3. Go(P) No. 186/2000 LSGD dated 04.07.2000(Engineers)
4. GO(P) No.187/2000 LSGD dated 07.07.2000(Ministerial staff)
5. GO(P) No. 188/2000 LSGD dated 04/07/2000(Development Department)

The LSGIs perform their duties and responsibilities entrusted to them through an established official mechanism. The LSGI's office works as a central point of administration as a Local Self Government along with other offices having different related functions. Both the LSGI's employees and those in various other offices are required to perform their specific duties as per Section 181(4) of the Panchayat Raj Act and Section 52(2) of Kerala Municipalities Act Moreover these institutions and officers are complete by under the control of LSGIs.

73.14. Formation of LSGI at different levels



73.15. Grama Sabha / Ward Sabha/Ward Committee

Grama Sabhas are referred in section 3 of Kerala Panchayat Raj Act, 1994. As per article 243[a] of Constitutions of India, Grama Sabhas and its roles are defined. Formation of ward sabhas are referred in section 42[a] of Kerala Municipality Act, 1994. Localities where the population is below 1 Lakh, have Ward sabha. However, localities where the population exceeds 1 lakh, it is a Ward committee.

73.16. Computerization in LSGIs

1. As per GO (Ms) No 23/10/LSGD dated 4th February 2010, the Accounts of all Municipalities in the State have been fully computerized from 1st April 2010, using “Sankhya”, which is a dedicated software application developed by Information Kerala Mission (IKM). All accounting processes from preparation of vouchers to preparation of Annual Finance Statements are handled by “Sankhya”. The system also provides for on line transfer of data to any location decided by the Municipality. In the same manner, as per GO (Ms) No 128/2011/LSGD dated 6th July 2011, the Accounts of all Panchayats in the State also have been fully computerized from 1st April 2011.
2. IKM has also developed (or in the process of development) the following application software for the exclusive use of the LSGIs in Kerala

1.	Sevana	Civil Registration - Births, Deaths and Marriages
2.	Sanchitha	Repository of acts and rules relating to local bodies
3.	Sanchaya	The Revenue & License System
4.	Sthapana	Payroll, PF accounting (Municipal and Panchayat employees PF accounts)
5.	Samvedhitha	LSGD web portal for all local governments and the Department
6.	Sachithra	Map suite (GIS) and asset register for local governments
7.	Sevana Pension	Disbursement of social welfare pensions, with electronic money order (eMO) integration
8.	Sakarman	Handling of council/committee agenda, minutes, etc.
9.	Sugama	Cost Estimation tool for public works
10.	Sanketham	Ensures transparency in granting Building Permits
11.	Subhadra	Financial Management System
12.	Samoohya	Citizen database
13.	Saphalya	Human resource package
14.	Soochika	Work flow application. Status Monitoring over web, and eSMS integration
15.	Sulekha	Plan monitoring for decentralized planning at local level

74. Method of Audit

74.1. Audit of Accounts

The accounts of the local authorities whose accounts are subject to audit under section 4 and 5 and the schedule to the Act shall be audited by the auditors of the Kerala State Audit Department who are empowered to perform the functions of an auditor clause (a) of Section 2 of the Act, under the direction and control of the Director, Kerala State Audit Department (Rule 3 of Kerala Local Fund Audit Rules 1996). The Audit of accounts of local authority/local fund shall be a detailed audit unless otherwise decided by the Director (Rule 7(2)). Auditor shall conduct the audit annually and at such intervals as may be decided by the Director or may conduct concurrent audit of such of those local authorities as are found necessary under the provisions of any law governing them or as may be decided by the Director in consultation with government (Section 7 of Kerala Local Fund Audit Act 1994).

KSAD is empowered to perform audit as per the following:

1. As per Kerala Local Fund Audit Act, 1994
2. Kerala Local Fund Audit Rule, 1996
3. Kerala Panchayat Raj Act, 1994, section 215[3]
4. Kerala Municipality Act, 1994, section 295

The necessity of audit is for evaluation of the general activities of LSGIs with special emphasis on the financial aspects, punctuality achievement of goals / schemes, etc. within the parameters prescribed. Audit enhances the credibility of accounts. The defects in the accounts, loss in receipts, extravagant expenses, avoidable expenditure, etc., are reflected in the audit report. The report shall be prepared with clear documentation and shall be convincing to all concerned. Audit is being conducted for the sake of the Government, LSGIs and for the people at large. The reports compiled by the auditor shall be timely, accurate, constructive, concise, objective, clear and complete. Instead of being a system for fault finding, it has to be for fact finding. The report shall be discussed in the committee/Council/grama sabha/Ward Sabha/Ward Committee.

74.2. Preparation of accounts and presentation of Financial Statements for audit

The procedure for the preparation of accounts and other Financial Statements and presenting the same for audit are provided under the following provisions:

- (i) Section 9 of KLFA Act
- (ii) Rule 15 of KLFA Rules
- (iii) Section 294 of the KM Act
- (iv) Section 215 of the KPR Act
- (v) Rule 11 of the Municipality (Manner of Inspection & Audit Systems) Rules 1997
- (vi) Rule 11 of the Panchayat Raj (Manner of Inspection & Audit Systems) Rules 1997
- (vii) Rule 62 of the Panchayat Raj (Accounts) Rules, 2011 and
- (viii) Rule 58 of the Kerala Municipality (Accounts) Rules, 2007.

1. The requirements of the LSGI in the preparation of accounts and presentation of Financial Statements for audit as per the above provisions of the Act and Rules are given below:
 - (i) The LSGIs should prepare the accounts and other financial Statements consisting of the following statements [Rule 58 of the Kerala Municipality (Accounts) Rules, 2007/ Rule 62 of the Kerala Panchayat Raj (Accounts) Rules, 2011].
 - (a) Balance Sheet
 - (b) Income and Expenditure Statement
 - (c) Statement of Cash flows
 - (d) Receipts and Payments Statement
 - (e) Notes to Accounts
 - (f) Key financial Ratios as prescribed in the respective Accounts Manuals.

- (ii) The following statements shall be obtained as per Rule 15(1)(6) of KLFA Rules
- (i) Statement of grants received and utilized
 - (ii) Statement of loans availed and utilized;
 - (iii) a statement showing the details of public works undertaken during the financial year concerned, amount expended for each work and balance of fund, if any, available;
- The statement of grants and statement of loans shall be prepared in Form VI and VI (A) appended to these rules.
- (iii) The Annual Financial Statements shall be approved by the Panchayat and the same shall be signed by the Secretary and the President after which it shall be submitted to the Auditor, on or before 15th May of the succeeding year [Rule 62 of Kerala Panchayat Raj (Accounts) Rules]
- (iv) In the case of Municipality, the Annual Financial Statements shall be approved by the Council and the same shall be signed by the Secretary and the Chairperson after which it shall be submitted to the auditor, within two months from the close of the year [Rule 58 of Kerala Municipality (Accounts) Rules]
- (v) In case the LSGI fails in preparing and adopting the Annual Financial Statements within the time limit prescribed by the rules, action shall be initiated under Section 9(2) of the Kerala Local Fund Audit Act 1994 and any other action as the Government may deem fit.
- (vi) The financial statements prepared by the LSGI shall be submitted within four months after the completion of the financial year to the Auditor authorized to conduct the audit of the accounts of the LSGI [Section 9(1) of KLFA Act]
- (vii) The Secretary, LSGI shall be responsible for submitting the financial statement for audit in accordance with the rules, and within the time limit as above and on default, action shall be taken against the Secretary under sub- section (2) of Section 9 of the Kerala Local Fund Audit Act, 1994 and the provisions of the rules made thereunder [Rule 11 of the Municipality (Manner of Inspection & Audit Systems) Rules 1997 and Rule 11 of the Panchayat Raj (Manner of Inspection & Audit Systems) Rules 1997]
- (viii) As per Rule 15(6) of KLFA Rule 1996, the Director shall have authority to require the preparation and presentation any further statement of accounts which he considers necessary for the proper conduct of audit of accounts of a particular local authority/local fund

74.2.1. Preliminary scrutiny of AFS

- Auditor shall ensure whether the closing balance of previous year is same as the opening balance of the current year
- Whether AFS has been passed by the Administrative Committee/Municipal Council
- Whether the President/Secretary signed the AFS
- Whether the AFS/Demand collection balance has been reconciled
- Whether the Balance Sheet, Income and Expenditure statement, Cash flow statement, receipt and payment statement, Notes to accounts, key ratios are attached with the AFS
- In case the Panchayat /Municipal Council fails in preparing and adopting the AFS within the time limit prescribed by the rules, action shall be initiated under section 9(2) of the LFA Act 1994. Also as per Manner of Inspection Rules 1997(11) action can be taken against Secretary. As per KLFA Act 9(3), show cause notice will be issued, for failure to submit the accounts within the prescribed time limit.

74.2.2. Return of defective AFS

The Auditor shall return the annual financial statement, submitted for audit, if it is not prepared in accordance with law or not having sufficient details or having other defects, within 15 days, citing such defects and the annual financial statement shall, after rectifying the defects be resubmitted to the auditor immediately. It shall be deemed, until such renewed statement is submitted, that the concerned Secretary has not produced the statement. It is further provided that the Auditor shall not after the expiry of fifteen days from the date of receipt return the financial statement of the LSGI and shall collect necessary details by requisition in writing. [Rule 17 of KLFA, Rule 11 of the Municipality (Manner of Inspection & Audit Systems) Rules 1997 and Rule 11 of the Panchayat Raj (Manner of Inspection & Audit Systems) Rules 1997]

74.2.3. Delay in submission of accounts

In case the annual financial statement is not furnished to audit, show cause notice is issued under KLFA Act 9(3), and KLFA Rule 16(2) in Form No.VII. Filing of cases in the matter is as per Rule 16(1) and fine upto Rs.3,000 can be imposed on auditee institutions for default vide subsection 2 of section 9 of the Act.

74.3. Entry / Exit meeting

The dates of the audit shall be intimated 14 days before the commencement of audit in Form no. I/IA, which should be acknowledged. Discussions and decisions in the entry meeting are to be minuted and documented. The date of entry meeting should be intimated sufficiently early to the secretary. List of documents to be produced for audit should also be forwarded along with audit intimation. All the audit observations (including those that could not be cleared during the course of audit) shall be incorporated in the draft audit report. This shall be presented before the exit meeting and the matters explained in detail. If defects can be got rectified even at this stage, the same has to be fulfilled adequately. The draft audit report should be shown to the executive authority and proper acknowledgement to this effect should be obtained in the draft audit report itself.

75. Accounting Policies followed in the LSGIs

1. Chapter 3 of the KMAM contains a compilation of significant accounting policies to be followed in preparation of the accounts of Municipalities in Kerala. General policies in respect of Taxes recognized on accrual basis are also provided therein. These Accounting Policies govern the recording, accounting and treatment of transactions relating to the various activities in both the Municipalities and Panchayats.
2. Chapters 6 to 24 of KMAM contain the procedure for accounting the transactions. While the Accounting Policies, in principle, apply to all the Municipalities in Kerala, their applicability will depend on the specific nature and the materiality of activities performed by individual LSGIs. The main accounting policies as stipulated in KMAM to be followed by these institutions as per the Kerala Municipal Accounts Manual are given below:
 - (i) Revenue in respect of property and related taxes shall be recognized in the period in which they become due and demands are ascertainable.
 - (ii) In case new assessment differs from the earlier assessment, the changes shall be calculated from that month onwards
 - (iii) Interest and penalties shall be considered as own revenue
 - (iv) Provision for non-receipt of taxes shall be made as per the rules in force
 - (v) Revenues in respect of profession tax from commercial establishment shall be recognized in the year to which it pertains when demands are ascertainable. Revenues from individual employees shall be recognized when received
 - (vi) Expenditure on salaries and other employee related benefits shall be recognized as and when they are due for payments
 - (vii) Expenditure on Stores shall be recognized when the bill is admitted by the LSGIs in relation to goods delivered
 - (viii) In respect of public works, the expenditure on projects shall be shown as “Capital Works–in–Progress”
 - (ix) The cost of fixed assets shall include cost incurred/ money spent in acquiring or installing or constructing fixed asset, interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets and other incidental expenditures incurred up to that date
 - (x) General Grants shall be recognized as income when received. Grants received in advance shall be treated as a liability until the expenditure for the particular grant is incurred
 - (xi) Grants received for capital expenditure shall be treated as capital receipts and shall be transferred from the specific grant account to capital contribution
 - (xii) Interest on borrowing shall be recognized on accrual basis. Interest on borrowing for purchase of assets or construction of assets up to the date of commissioning of that asset shall be capitalized
 - (xiii) Special fund shall be treated as liability on their creation. Income and expenditure relating to the special fund shall be charged to respective special fund.
 - (xiv) Investment shall be recognized at cost. Cost includes amount incurred in acquiring investment and other incidental expenditure incurred for its acquisition.
 - (xv) All fixed assets shall be carried at cost less accumulated depreciation. The cost shall include money spent on acquiring or installing or constructing fixed assets, interest attributable to the fixed assets up to their commissioning and other incidental expenditure incurred up to that date.
 - (xvi) Depreciation shall be provided at rates as may be applicable and charged on Straight Line Method on all fixed assets except Land.
 - (xvii) Interest on loans given shall be recognized as and when due

76. Specific matters relating to the audit of LSGIs

1. Section 215 of the KPR Act and Section 295 of the KM Act provided the manner in which the LSGIs should maintain the books of accounts and prepare the annual statement of accounts and that the Examiner of Local Fund Accounts (now Director, Kerala State Audit Department) and his nominees shall be the auditors of the LSGIs. It is further provided that the auditors shall conduct a continuous audit of the accounts of the LSGI. The sections also contain the contents of the report and the powers of the auditor for summoning and enforcing the attendance of any person and examining him on oath etc.
2. Rule 11 of the Kerala Municipality (Manner of Inspection & Audit Systems) Rules 1997 and Rule 11 of the Panchayat Raj (Manner of Inspection & Audit Systems) Rules 1997 provide the manner in which Annual Audit is to be conducted, submission of audit reports, etc. It is pertinent to note that as per Rule 13 of both these Rules, the auditor conducting the detailed annual audit shall inspect all the matters regarding the administration and financial control of the Municipality concerned give special attention in the following matters:
 - (i) Annual budget on receipts and expenditure;
 - (ii) Records supporting expenditure;
 - (iii) Whether re-appropriation made;
 - (iv) Assessment of tax;
 - (v) Collection of tax;
 - (vi) Grants and Contributions
 - (vii) Non-Plan expenditure;
 - (viii) Plan expenditure;
 - (ix) Inevitable functions and expenditures;
 - (x) Appropriation of special funds;
 - (xi) Whether the expenditure is in accordance with sanction;
 - (xii) Whether the amount has been spent in accordance with procedure;
 - (xiii) Financial discipline
 - (xiv) Administrative efficiency;
 - (xv) Whether there is loss, wasteful expenditure and misappropriation of money and if so, the details of liabilities;
 - (xvi) Defects and mistakes of public works;
 - (xvii) Debts and details of refund;
 - (xviii) Whether the amount directed to be earmarked for each development sector has been allotted to that sector and whether it has been spent accordingly;
 - (xix) Whether the amount earmarked for Special Component Plan and Tribunal Sub-Plan has been spent for that item;
 - (xx) Objection/disallowance of expenditure and surcharge items;
3. The following are the important rules relating to LSGIs which the auditors must familiarize themselves before commencing the audit of LSGI.
 - i. Kerala Panchayat Raj Act 1994
 - ii. Kerala Municipality Act 1994
 - iii. KLFA Act 1994
 - iv. KLFA Rules 1996
 - v. Kerala Panchayat Raj (Accounts) Rules, 2011
 - vi. KPR & KM Buildings Rules
 - vii. KPR (Distress Relief Fund) Rules
 - viii. Kerala GST Rules 2017
 - ix. Kerala Municipality (Manner of Inspection & Audit Systems) Rules 1997 / Kerala Panchayat (Manner of Inspection & Audit Systems) Rules 1997

- x. Kerala Municipality (Employees Death cum retirement benefit) Rules 1996
- xi. Kerala Municipality (Execution of Public Works & Purchase of Materials) Rules 1997
- xii. Kerala Municipality (Employees Medical Attendance) Rules 1998
- xiii. Kerala Municipality (Grant of Remission of Kist to lessees, licencees & Contractors) Rules 1998
- xiv. Kerala Municipality (Writing off irrecoverable amounts) Rules 1999
- xv. Kerala Municipality (Use & maintenance of Motor Vehicles) Rules 2000
- xvi. Kerala Municipality (Profession Tax) Rules 2005
- xvii. Kerala Municipality (Accounts) Rules 2007
- xviii. Kerala Municipality (Property Tax & service sub tax and service charge) Rules 2011
- xix. Kerala Panchayat Raj (Profession Tax) Rules 1996
- xx. Kerala Panchayat Raj (Contract) Rules 1996
- xxi. Kerala Panchayat Raj (Taxation Levy & Appeal) Rules 1996
- xxii. Kerala Panchayat Raj (Slaughter House & Meat Stalls) Rules 1996
- xxiii. Kerala Panchayat Raj (Investment & withdrawal of Panchayat Fund) Rules 1996
- xxiv. Kerala Panchayat Raj (Execution of Public Works) Rules 1997
- xxv. Kerala Panchayat Raj (Writing off irrecoverable amounts) Rules 1998
- xxvi. Kerala Panchayat Raj (Granting of remission to Contractors & Lessees) Rules 1998
- xxvii. Kerala Panchayat Raj (Subordinate service) Rules 1994
- xxviii. Kerala Panchayat Raj (Special Rules for Kerala Panchayat Service) Rules 2006
- xxix. Kerala Panchayat Raj (Property Tax & service sub tax and service charge) Rules 2011
- xxx. Kerala Panchayat Raj (Extraordinary expenses) Rules 2011
- xxxi. Kerala Conservation of paddy land and wet land Act 2008

76.1. Specific Audit Procedures

General verification

1. Verify the minutes of the meetings of the Committee/Council, Standing committees, Steering committee, etc., to see whether
 - (a) minutes book and minutes of all meetings are properly maintained
 - (b) there are no unauthorized corrections in the minutes book
 - (c) minutes are approved by the competent authority
 - (d) decisions recorded in the minutes are consistent with the rules, regulations, orders, etc.
 - (e) decisions taken are implemented properly etc.
 - (f) decisions taken are entered in the decision register
2. Examine whether a proper internal control system exist, particularly in the following aspects:
 - (a) Functioning of the Internal audit system
 - (b) Collection of receipts and accounting for receipts and payments
 - (c) Avoidance of loss due to negligence, delayed action etc.
 - (d) Sanctions to expenditure and the progress of expenditure vis- a- vis budget allocation
 - (e) Purchase, issue, accounting, utilization, and physical existence at the year-end of stores and stock.
 - (f) Utilization of Grants/Stocks/ development fund, etc., for the specified purposes
 - (g) Execution of Government Schemes, Construction programs etc.
3. The auditor should also verify the following:
 - (a) Whether a Citizen Charter is published and revised every year
 - (b) Whether the Gram Sabha / Ward Sabha has convened meetings as provided in the relevant Acts
 - (c) Whether the Committee/ Council has evaluated and recorded the performance of transferred institutions
 - (d) Whether the Council has evaluated the plan implementation and monitoring system of the LSGI

4. Audit procedures are given under the following:
 - (a) Budget
 - (b) Income & Receipts: Taxes
 - (c) Income & Receipts: Non-tax
 - (d) Government Grants and funds
 - (e) Audit of Expenditure & Payments
 - (f) Establishment (Employee-related)
 - (g) Interest and finance charges
 - (h) Repairs and maintenance of vehicle
 - (i) Public works
 - (j) Plan expenditure

77. Preparation and Passing of Budget

1. The Budget is a statutory document for a LSGI. Sections 285 to 293 of the KM Act, and Section 214(1) of the KPR Act provides for the procedure for the preparation of Budget. Accordingly, the Standing Committee for finance shall prepare a budget estimate of the receipts and expenditure of a LSGI for the next financial year which shall be laid before the Committee/ Council for its approval before the end of the first week of March at a special meeting of the Committee/ Council.
2. As per Section 293 of the Kerala Municipality Act, the Budget shall be prepared in the prescribed form and manner, and got approved with modifications as it deems fit. The working balance shown in the budget should not be less than 5% of the current year's estimated receipts excluding the receipts from endowments Government grants, contributions and debt heads. The estimated receipts should be detailed and real and apparent differences, if any, from the actual receipts of the last year should be accompanied by detailed notes and explanations. It shall include necessary provision for all fixed charges and discharge of debts. The Standing Committee shall, if it is found necessary during the course of a year that the estimates relating to its receipts or the expenditure in respect of the various services undertaken by it as shown in the Budget require modifications, prepare a supplementary or revised Budget and lay it before the Council for approval. While incurring expenditure, no amount other than those included in the current budget estimates shall be expended except under unavoidable emergent circumstances. No expenditure, out of the amount granted by the Government for the implementation of any Scheme, project or plan entrusted and delegated to the Municipality under this Act shall be incurred for any other purpose including the implementation of any other scheme, project or plan.
3. Likewise, Section 214 of the Panchayat Raj Act provides the procedure for the preparation and sanction of Budget of a Panchayat. As per sub-section 1 of the Act, the budget proposals containing detailed estimate of income and expenditure expected for the next year including the expenditure on the development plans prepared and sanctioned under section 175 shall be prepared by the respective standing committee considering the estimates and proposals submitted by Secretary and the officers dealing with the respective subjects, before the 15th January every year and the same shall be submitted to the standing committee for finance. Sub section 1A provides that the standing committee for finance, after considering the proposals submitted under sub-section (1) and all the requirements under this Act shall prepare a budget showing the income and expenditure of the Panchayat for the ensuing year and the Chairman of the said standing committee shall, not later than the first week of March, in a special meeting of the Panchayat after the introductory declaration therein by the President regarding the development and welfare works that are proposed to be taken up by the Panchayat, present the same before the Panchayat for its approval.
4. Apart from the programs of the LSGI envisaged for the next financial year, the Budget will have the details of the actual expenditure for the previous financial year, the original and revised budget estimates for the current financial year and the budget estimates for the next financial year for the various heads of account.
5. As per GO (Rt) No 3291/ 2016 LSGD dated 2nd December 2016, Government have approved the "Manual on Finance Management: Budget for Grama Panchayats in Kerala" which contains in very detailed form, the manner in which the Panchayats should prepare their annual Budget. The process involved in the preparation of Budget are given below:
 - i. (i)Section 175(1) of the Kerala Panchayat Raj Act stipulates that the Panchayat shall prepare every year an annual development plan for the next year. As per Section 214(1), Annual Development Plan is to be incorporated in the Budget.
 - ii. The Finance Standing Committee shall prepare a draft budget, by compiling the plan and non-plan proposals.
 - iii. In case of non-preparation of Annual Development Plan, draft Budget is to be prepared on the basis of allocation as per LSGI resolution.
 - iv. If the Plan Document is not approved before the Budgeting, LSGI can proceed with the Budgeting based on the submitted Plan Document and the Revised Budget should be prepared later upon the approved Plan Document. The Revised Budget has to be approved by the LSGI.

- v. The Budget shall be prepared by the Finance Standing Committee by adhering to the content of Budget Document, which is detailed in chapter 3 of the Budget Manual.
- vi. The draft budget along with other documents - Budget Document - is presented in a special meeting of the Panchayat/Municipal Council, convened by the President/Chairman in the first week of March for discussion.
- vii. The President/Chairman shall issue a notice before three complete days, excluding the date of receipt of notice and date of meeting.
- viii. The meeting shall be presided by the President of the Panchayat/Chairman of the Municipality. In the absence of President /Chairman in the meeting, the Vice President/Vice Chairman shall preside as per section 161 (2) section 214(1A) of the Panchayat Raj Act/Section 287 of the Municipality Act 1994.
- ix. All Heads of Institutions and Implementing Officers shall be invited to the meeting.
- x. Access of the public and media to the meeting, shall be allowed. Separate seating shall be arranged for them.
- xi. The meeting commences with a Budget Speech by the President/Chairman of the Council, followed by the presentation of budget by the Chairperson of the Finance Standing Committee (i.e. Vice President of the Panchayat/Vice chairman of the Municipality).
- xii. The budget document is to be issued to all members after the presentation of the budget.
- xiii. The budget shall be passed only after a detailed discussion.
- xiv. The budget presented in the special meeting shall be finally approved and passed by the Panchayat/Municipal Council in another special meeting convened for that purpose.
- xv. The Panchayat/Municipal Council shall pass the Budget on or before 31st March, after due deliberations.
- xvi. The budget as passed by the Panchayat/Municipal Council shall be published in the notice board of the Panchayat, Institutions of Panchayats/Municipal Council, the Kendras/Ward Kendras and website of the Panchayat/Municipal Council.
- xvii. Revised budget/supplementary budget has to be passed if necessary.

77.1. Procedure of verification

- i. Verify whether the budget has been prepared in approved format
- ii. Whether the budget has been passed and recorded in the minutes book
- iii. Whether passed in a special meeting
- iv. Whether given due publicity
- v. Whether ensured the role of the department heads and the role of other committees in the matter
- vi. Verify whether the income has been reckoned in respect of all sources
- vii. Verify whether the assessment of income is realistic
- viii. Whether Government funds and plan expenditure have been included.
- ix. Whether there is adequate provisions for inevitable expenses
- x. Verify whether correct figures have been shown in respect of deposit works
- xi. Verify whether revised budget/supplementary budget has been passed when needed.

78. Income and Receipts

78.1. Audit of tax receipts

It has to be ensured that all income has been assessed and see whether all the taxes and fees have been realised. Check whether postings have been done properly in the demand register. Verify whether the direct collection, collection from service centres, direct remittance to bank and its various branches, money orders, collection through internet, credit and debit card collection, real time gross settlement, etc., have been properly accounted and receipts issued. Verify whether double side carbon has been used while issuing manual receipts. Verify whether the original receipts are retained in the office and duplicate only given to the recipient. The computer accounting system has to be verified with the receipts. The amounts received by the implementing officer are also to be verified. Income by way of cheque / demand draft also needs to be checked. If the amount of collection in cash, money order, cheque / demand draft or any other means is above Rs.500, verify whether the amounts have been remitted to bank / treasury on that day itself or on the very next day. The directions related to panchayat / municipal accounts have also to be verified.

The major categories of tax revenue for local bodies include the following:

- a) Property Tax
- b) Profession Tax

Property tax is levied under the provisions of the Kerala Municipality (Property Tax & service sub tax and surcharge) Rules 2011 and Kerala Panchayat Raj (Property Tax & service sub tax and sub-charge) Rules 2011. The Profession tax is levied under the Kerala Municipality (Profession Tax) Rules 2005 and Kerala Panchayat Raj (Profession Tax) Rules 1996. This section contains the audit steps for the above categories of revenues and may be used as overall guidance in carrying out audit of other income transactions, if any.

Items	Kerala Panchayat Raj Act-Section	Items	Kerala Municipality Act-Section
		Property tax	233
Property tax	203	Profession tax	245
Profession tax	204	Animals and vessels	261
		Timber tax	277
		Service Tax	230(4)
		Land conversion cess	230(3)

78.2. Verification of tax income

78.2.1. Property tax

1. Whether DCB statement has been prepared and reconciled with AFS.
2. Whether the guidelines regarding rates have been followed and assessment made.
3. Check whether demarcation of zone is correct.
4. Ensure that all assessments during the year has been posted to assessment register and then to demand register, except those which are specifically exempted from tax by law.
5. Verify whether any building other than those admissible as per rules have been exempted
6. Verify whether remission of tax is based on applicable report
7. In case of loss by way of tax, whether steps have been taken to realise the same from the officer responsible
8. Verify whether a register has been maintained for unauthorised constructions and their tax assessment
9. Verify whether the decisions on revision petitions and appeal petitions are as per the orders

10. Verify whether arrear collected are recorded in the arrear demand register and reconciled with balance sheet and receipt and payment statement.
11. Verify arithmetic accuracy of assessment.
12. Check whether different basic property tax has been fixed for different types of occupancy.
13. Verify whether measures are taken to identify and assess the buildings which have been structurally changed.

78.2.1.1. Important registers / files to be verified:

Assessment register, property tax demand register, property tax arrear demand register, property tax appeal register, write-off register, vacancy remission register, property tax registers as per rules / acts pertaining to assessment of building / property, etc.

78.2.1.2. Exemption from Tax, Cess, etc (KPR Act Section 207, KM Act Section 235)

(1) The following buildings and lands shall be exempt from the tax, cess or duty leviable under section 207, namely places set apart for public worship, and either actually so used or used for no other purposes, buildings including hostels under the ownership and use of educational institutions recognised by Government, public buildings used for charitable purposes of providing shelter to destitutes and animals and libraries and playground open to public, such ancient monuments protected under the law relating to the protection of ancient monuments for the time being in force, or parts thereof as are not used as residential quarters or as public offices, burial and burning grounds, building or land belonging to the Panchayats and such property of the Government not being buildings as may from time to time, be notified by the Government in the Gazette and Residential building constructed by a person, who belongs to an economically weaker section, using Government subsidy and having a plinth area of less than sixty sq. metres.

(2) The Government and with sanction of Government, a village panchayat may exempt any person or class of persons wholly or in part from the payment of any tax, cess or duty to which he or they may otherwise be liable under the provisions of this Act. But nothing in this section shall be deemed to authorise the exemption of any, person solely on the ground that he is a member of the Panchayat.

78.2.2. Profession tax

1. Ensure that DCB register has been prepared and reconciled with AFS.
2. Verify the file of demand notices issued.
3. Verify the trader's list/institution list.
4. Verify whether 100% demand is done in the case of Individuals, officers, contractors, professionals, organisations and demand details are completed.
5. Check the arithmetic accuracy in the returns to ensure the proper collection of tax as per the income slab.
6. Verify the returns submitted by the institutions, traders, etc.

78.2.2.1. Registers to be verified:

1. Profession tax (institutions/ traders)
2. Demand register,
3. Profession tax (arrear) demand register

78.2.3. Other items

Auditor has to verify:

1. Tax on animals, vessels, etc. (for municipalities only)
2. Verify whether the tax levied on animals and vessels is correct
3. Verify whether register has been maintained for the purpose

Verify the returns filed by the tax payers, to see whether timber tax has been realised. Verify if this has been given on auction, verify the registers, verify whether there are any court procedures remaining, verify the number and amount to be realised, assess the position of the cases and the steps taken.

78.2.4. Risks and Implications-Tax receipts

Risks	Implications
<ul style="list-style-type: none"> ▪ Defective maintenance and not updating the relevant Registers like Property Tax Register, Profession Tax Register, , Arrear Register, ▪ Unauthorised changes to demand ▪ Erroneous and illegal Tax write off and remissions ▪ Unauthorised access to Demand/ Assessment Registers and other Registers ▪ Delays in issuing in demand notices/overdue notices ▪ Poor follow up and consequent delays in collection of taxes and receipts ▪ Delay in assessment, bringing properties to assessment ▪ Under assessment of tax. ▪ Wrong classification of properties, and hence lower demand. ▪ Non-compliance of relevant rules & orders ▪ Collections not deposited timely in bank accounts. ▪ Direct appropriation of revenues without depositing the same into respective bank accounts 	<ul style="list-style-type: none"> ▪ Loss of revenue to the Local body. ▪ Mis-utilisation of government money

78.2.5. Principal Registers to be verified

Account Books/Statements	Registers to be sought for verification
<ol style="list-style-type: none"> 1. Cash Book 2. Bank Book 3. General Ledger 4. Collection Deposit Slips 5. Day book 6. Register of Tax exemption 7. Building Permit Register 8. Demand Register 9. Register of unauthorized building 10. Appeal/revision register 11. Register of write off 12. Turn over return statement 13. Demolished buildings register 14. Prosecution register 	<ol style="list-style-type: none"> 1. Property Tax Register 2. Assessment Register 3. Profession Tax, and such other Tax Registers 4. Arrear Demand Register 5. Register of vacancy remission 6. Register of demolished building 7. Institution Register 8. Ticket seal register 9. Registers relating to each tax item 10. Demand, Collection & Balance Register 11. Bill Collection Register 12. Assessment Lists (all taxes) 13. Receipts issued to parties 14. Building Permit Files (where necessary) 15. Profession Tax files (where necessary)

78.2.6. Audit Procedures

As it is neither practical nor feasible to verify and examine 100% of tax receipts in reaching an assurance on the “true and fair” view for the purpose of certification or even conducting a performance audit for assurance on economy and efficiency of the process the auditors may choose to take samples from different tax categories and apply the audit procedures on the sample transactions as detailed below:

1. Receipts on account of Taxes
<p>a) Examine the relevant supporting documents to check and ensure that the Property & other Taxes are accounted as per the accounting principles laid down</p> <p>b) In case of property taxes (building taxes), verify the assessment procedures as per the Assessment Register and Property Tax Register; examine if the tax assessed is as per the state government’s rule in force; check that the assessment and fixation is properly authorised and approved as per the rules in force.</p> <p>c) In examining the records relating to levy of taxes or duty, verify to ensure that the provisions in the relevant act and rules have been properly complied with.</p> <p>d) The Registers such as Building Permit Register, Property Tax Register, Property tax files and other relevant supporting documents should be examined to ensure:</p> <ul style="list-style-type: none"> • That the opening balances are correctly carried forward from previous year. • Revision in taxes is made once in 5 years as required by the Act & Rules. • That the property tax is appropriately apportioned as General Purpose Tax, Water and Drainage Tax and Lighting tax and surcharge and library cess in respect of each assessment have been correctly and properly filled up. • That the current demand matches with the previous half year/annual demand, after allowing for necessary alterations made during the half year as shown in the mutation register. • If a general revision has been given effect to during the half year, the total demand should be verified with the totals of the assessment lists and the alterations as shown in the mutation register; • That the demand registers are updated timely and notices are issued in time. • That collections as per Cash Book are correctly updated in the DCB and other registers, and the balances are correctly carried forward to the arrears registers. <p>e) From other category of taxes, examine tax assessments done in the year of audit and verify to ensure that assessments are correct and in accordance with respective rules and procedures.</p> <p>f) Take collection transactions from Cash Book and trace them to the respective tax registers (like Property Tax Register, Profession Tax Register, etc.). Ensure that the daily collection totals as per cash book and the subsidiary registers agree with each other.</p> <p>g) Verify that the daily collections total as per cash book is properly and correctly posted to respective tax accounts in the General Ledger; if there is any misclassification or other error .</p> <p>h) Take receipts either from the Bill Collection Register maintained by Bill Collectors or other computerised records for front office counters at local body (issued to customers) and trace them to cash book and DCB and GL; while verifying them ensure that taxes paid in arrears are adjusted as (i) penalty (ii) interest (iii) arrear demand and (iv) current demand, in that order.</p> <p>i) Take tax receipts in the GL accounts and vouch them with the supporting documentation like the demand notice, entries in the cash book, receipts issued and verify the relevant realisation entry in the bank statements in which such collections are deposited.</p> <p>j) Trace transactions from DCB to respective registers and the GL.</p> <p>k) Verify that a periodical reconciliation is carried out by local body in respect of amounts collected and the year wise amount outstanding between the respective GL accounts and sub ledgers like the DCB, Property Tax Register, Assessment Register and Assessment Lists and any difference are investigated and corrected.</p> <p>l) Perform reconciliation as above for the last month of the financial year (March) to ensure that the balances are correctly carried over and collections are correctly accounted for</p> <p>m) Verify if the rules require issuance of a demand notice to the public/assesseees; examine the DCB and the copy of the notice issued, to ensure such notices are issued timely.</p> <p>n) Verify the DCB and relevant ledger accounts to ensure that the taxes are accrued by properly journalising</p>

- the demands as per DCB at each month end are atleast twice every year, in April and October.
- o) Verify the cash book with the DCB, that the collections made are posted and the balance arrived at on a monthly basis for all types of taxes.
 - p) Verify to ensure that the total receivables as shown in the assessee-wise DCB statement tallies with the receivables shown in the balance sheet.
 - q) Verify to ensure that the access to DCB and Tax Registers are restricted to the authorised personnel in the accounts and revenue sections/departments of the local body.
 - r) Verify if the entries in the DCB and Tax Registers are properly authenticated by the authorised personnel and that any changes, overwriting, etc., are properly authorised and supported by documentary evidence.
 - s) In case of remissions and write offs, verify if the same are properly authorised by the personnel and reasons for such write offs and remissions are recorded and justified.
 - t) Revenue write offs require the authorisation of the highest authority of the local body; verify that all entries in the Register of Write off and Remissions are covered by the requisite sanction of that authority. Verify the corresponding entries in the GL accounts to ensure such write offs/remissions have been properly deducted from income/receivables as the case may be.
 - u) For the revenue not collected during the year, verify if a provision as per the relevant Act and Rules is required to be made in the accounts; verify the journal vouchers for such provision; re-compute the provision and ensure that the provision as accounted is correct.

2. Verification of Vacancy Remissions and refund of Property Tax

Vouching/Tracing/Verification should consider the following

- a) that a notice of vacancy under the Act will be effective till the expiry of the half year succeeding that in which notice is given or till the building is occupied in that half year whichever is earlier,
- b) that notice of vacancy has been received during the half year in which the building has been vacant or during the preceding half year mentioning the continuance of vacancy,
- c) that remission is calculated only from the date of receipt of the notice of vacancy or the date of commencement of actual vacancy, whichever is later,
- d) that the vacancy of the building has been verified and the fact of verification recorded by the outdoor officer concerned;
- e) that the remission is granted only if the building has been vacant or unlet for 30 or more consecutive days in the half year concerned and that the remission granted is proportionate to the number of days during which the building has been vacant and does not exceed one half of the tax due in respect of the building alone,
- f) that refund is made, only if it is claimed during the half year in which the remission is sought for or in the succeeding half year, and
- g) that all notices of vacancy have been noticed in the register of vacancy remissions as well as the amount of refund, the number and the date of voucher on which the refund was made.

3. Remissions on account of Construction or Reconstruction and Demolition or Destruction of Buildings

Verify the remission entries to examine the following:

- a) That necessary entries regarding the construction, reconstruction or demolition of the buildings have been made in the Mutation register, as it involves permanent changes;
- b) That in the case of constructions or reconstructions, full remission is granted in respect of buildings only in cases where the notice thereof was given within the last 2 months of the half year concerned,
- c) That when notice is given within the first 4 months of a half year, remission is granted for so much not exceeding a half of the tax, payable in respect of the building for that half year as is proportionate to the number of days in that half year preceding such date,
- d) That in the case of demolition or destruction of the buildings, full remissions is granted in respect of the buildings, only in cases, where the notice thereof was given within the first 2 months of the half year concerned, and
- e) That when the notice of demolition or destruction is given within the last 4 months of a half year, remission is granted for so much not exceeding a half of the tax payable in respect of the building for that half year as is proportionate to the number of days in that half year succeeding such date.

4. Remission on account of Inclusion in or Exclusion from the Corporation of Particular Area

It should be seen that:

- a) When a fresh area is included in the city, the owner of every building or land in such area is granted a remission of only so much not exceeding a half of the tax payable in respect thereof for that half year as is proportionate to the number of days in that half year preceding such date, if such date falls within the first 4 months of a half year. If such date falls within the last 2 months of the half year, no property tax is leviable for that half year and
- b) When an area is excluded from the City, remission of the property tax payable for that half year in respect of every building or land in such area is granted only when such date falls within the last 4 months of the half year and that the remission granted does not exceed half of the property tax payable for that half year in respect thereof as is proportionate to the number of days in that half year succeeding such date. If such date falls within the first 2 months of a half year, the owner is entitled to a remission of the whole of the property tax payable for that half year.
- c) The grant of the remission is subject to the condition that an application for such remission is made to the Secretary within 3 months from the date of exclusion of the area.

78.3. Audit of Non-Tax Receipts & Income

The receipts and income from the non-tax component of revenue broadly comprises of the following:

1. D&O Licence Fee
2. Building permit and Land development fees
3. Public and Private Market Fee
4. Public & Private Houses and Butcher licence fee
5. Registration fee for Tutorial Institution
6. Rental Income from LSGIs
7. Fees & User charges like licence fees, fees for grant of permit, development charges, etc.
8. Sale & Hire Charges
9. Halting places and Bus stand fee
10. Places of Public Resort licence fee
11. Dog licence fee
12. Cinematograph licence
13. Registration fee for Private Hospital & Para medical institutions
14. Birth and Death Registration fee
15. Live Stock farm fee
16. Marriage Registration fee and Certificate fee
17. Sand receipts
18. Other income, rent from land, bus stand, taxi, lorry stand, boat jetty, trees and comfort station, etc.

Licence fee	Sections in Kerala Panchayat Raj Act	Licence fee	Sections in Kerala Municipality Act
D & O trades	232	D & O trades	447
Licence for factories and installation of machineries	233	Licence for factories and installation of machinery	448
Private market	222	Private market	460
Private parking space	228	Private parking space	475
Private slaughter house	230	Slaughter house	469
Solid Waste management	219	Solid Waste management	334
Banning construction at public space	223	Cinema licence	Cinema regulations act and rules
Building Permit	235(B)	Building permit	387
Tutorial	266	Tutorial	507
Private hospitals, para medical institutions	270	Private hospitals, para medical institutions	311
Bus stand	227	Bus stand	472
Public market	221	Public market	457
Public slaughter house	229	Public slaughter house	452

78.3.1. D & O Licence

Verify the details regarding the business establishments and factories, wardwise in respect of D&O trades and as per rules in statement, the rates as per the statement, the application for the licence, the formalities for granting licence, licence fee for machines above 5 HP, etc. Verify whether the rate has been revised and the steps taken for realisation of arrears; verify the D&O licence register, licence fee demand register, trader's register, etc.

1. Trade list in each ward in respect of previous year shall be verified first
2. Timely renewal of licence
3. Reason for non-renewal
4. Application received for non-renewal
5. Action taken for non-renewal
6. Loss of renewal, if any
7. Verification of penal action initiated by local body
8. Complaints and grievances if any received and its progress of disposal
9. Correctness of licence fee, late fee, penalties with reference to the licence rule, by laws prevailing at that time

78.3.2. Building Permit

- a) Verify whether the building permit register is maintained properly
- b) Whether application for development permit submitted in prescribed form with supportive documents (Rule 6).
- c) Whether prior sanction from District Collector has been obtained for the development plan of religious purpose
- d) Whether sanction from District town planner / chief town planner has been obtained where such sanctions are required (Rule 5(8))
- e) Ensure that site plan, other documents have been verified by secretary or other officers responsible
- f) Ensure that site verification for the proposed construction has been conducted before issuing permit.
- g) Whether stop memo has been issued against unauthorized construction.
- h) Verify that whether occupancy certificate is issued within 15 days of receipt of completion certificate.
- i) Ensure that the limit prescribed for coverage under schedule-II did not exceed
- j) Verify the calculation of FAR
- k) Ensure that additional fees collected for FAR beyond the limit prescribed in schedule-II.
- l) Ensure that separate rate for each occupancy has been imposed for building having more than one occupancy.
- m) Verify whether the construction has been completed as per the permit.

78.3.3. Markets

Verify whether public / private markets are functioning based on sanction. Verify the auction process, Verify public market / private market fees collection register, Market licence register, Licence fee demand register, etc.

78.3.4. Slaughter house

Verify whether slaughter houses are established as per rules, verify the public slaughter fees collection, verify public / private slaughter register, licence register, meat shop licence register and files etc

78.3.5. Mining of sand

Verify whether the Kadavu committees, kadavu protection committees constituted timely; whether the sanction is as per rules, whether the pass from the geological department has been obtained, retention of counter foils, etc. Verify the kadavu register, minutes book, pass issue register, unauthorised sand mining register, DCB register, etc.

78.3.6. Tutorials and Para medical institutions

Verify the registration of the para medical institutions, tutorial colleges, etc., in the locality, list, and its renewal of registration, details of registration fees, fine, etc. Check the fines imposed on hospitals, clinics, etc., functioning unauthorisedly.

Verify birth and death registration, marriage registration, related registers and receipts, etc. Verify the registers and receipts related to the licence for domestic dogs, pigs, etc. Verify the details of tenants of shopping complexes, vacant shops, buildings, agreement register, auction register, auction diaries, sale register, unserviceable articles, etc.

78.3.7. Rent / Auction

Verify the register of shopping complexes in the Municipality/Panchayat, number of rooms in each shopping complex, the number for which auction process completed and the vacancies, whether rooms are allotted through auction or they have been handed over without the same; agreement has been executed, and they have remitted security deposit. Auction register/diary and rent demand register have been kept, collection form it are proper and action has been taken against violation of rules.

78.3.8. Risks and Implications

Risks	Implications
<ul style="list-style-type: none"> ▪ Incorrect information in assessment registers ▪ Demand Notices not sent or sent with substantial time delays. ▪ Changes to demand/remissions/write-offs not authorized and approved by competent authority. ▪ Demand and Assessment Registers not updated timely. ▪ Delay in collections ▪ Not serving notices for delay in payment ▪ Noncompliance with Bye-laws/standing orders etc for fixing up rent and other user charges. ▪ Improper agreement 	<ul style="list-style-type: none"> ▪ Loss of revenue to the Local Bodies ▪ Delay in preparation of demand, collection, balance (DCB) Register/Statements ▪ Deletion of dues to Local Body resulting in financial loss to the Local Body

78.3.9. Books and Records for verification

Books & Statements	Records
1. Cash Book	1. Rent Registers
2. Bank Book	2. Rent Agreements
3. General Ledger	3. Auction Register/Notices/Auction Meeting Minutes / Records
4. Bank statements	4. Demand Collection Balance Statement
5. Collection Deposit Slips	5. Licence Register/s and files and schedule of rates
6. Duplicate copy of chalans	6. Assessment orders/standing orders/Bye-laws
7. Building permit register	7. Arrears Demand Register
8. Agreement Register	8. Collection Register and Receipts
9. Building permit files	9. Demand Register
	10. Register of miscellaneous articles

78.4. Audit Procedures

1. Verification of Non-Tax Receipts
a) Enquire and Verify to ensure that all the accounting procedures prescribed with regard to Rental and other income are followed.
b) Verify if Bills/Demands are raised as per the relevant agreements/standing orders or applicable rules and regulations.
c) Take new licences issued during the year of audit from licence register/s and verify the same with respective licence files, schedule of rates, licence register and Cash Book to ensure proper rate is applied and received and correctly accounted.
d) For renewals, verify the previous year's licence register and compare the same with the registers.
e) Verify the DCB register with the respective receivable accounts in General Ledger to ensure the accrual entry for income and receivables is correctly passed and General Ledger and DCB balances agree with each other; for differences noted, issue an audit enquiry for reconciliation of differences and correction of General Ledger and DCB as may be required.
f) Take transactions of receipts from Rent and examine (i) if the rent was fixed in accordance with the decision of the Council/Competent Authority and in accordance with the Auction proceedings (where applicable) and collected in advance by verifying corresponding entries in the cash book.
g) Where auction was conducted for renting, verify to ensure that auction procedures followed comply with the relevant rules and Regulations.
h) Verify the relevant office notes, newspaper advertisements, auction register and approval of the competent authority for fixing the rent; trace them to the Rent Agreements to ensure rent and other terms are properly carried into the Agreements.
i) Ensure that collections made are posted and the balance arrived at least on a monthly basis for all types of non-tax revenues
j) Verify to ensure that the respective officers in the local bodies reconcile the balance at the beginning of the accounting year in respect of the year-wise Receivables (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded in the Demand Register.
k) Verify that a half yearly reconciliation is carried out by the respective officers in respect of the amount collected and the year-wise amount outstanding between the balance in the Ledger Accounts and the Demand Registers.
l) In case of changes to demand like remission or additional demand, verify that the changes are appropriately authorised by the competent authority and entries are made in the relevant registers, and journalised in the General Ledger to reflect the change. Seek clarifications for differences and issue audit enquiry for corrections where required.
m) In case of write offs, verify those transactions to ensure they are properly authorised and justified in the circumstances.
n) Obtain a list of overdue receivables and check if provision is made in accounts for the same as per applicable norms and rules; re-compute the provision required and ensure that the accounts are corrected for differences.
o) Check the control accounts in GL are reconciled monthly with the respective registers like DCB.

79. Government Grants and Funds

The Local Bodies receive grants/ funds from the state and/or central government for either to meet the revenue shortage (General Purpose) and to meet expenses on specific programmes/schemes/projects of the government/local body. As per GO (P) No 177/2006 Fin dated 12/4/2006 and amendments issued thereto, Government have issued guidelines for drawal of funds by LSGIs from consolidated fund and public accounts of the State. The different category of funds under the disposal of LSGIs are given below:

Category of fund	Description
A	Category 'A' funds renamed as 'Development Expenditure Fund' provided to Local Self Government Institutions as per 3 rd S.F.C recommendations for the implementation of schemes prepared by them under the Decentralised Planning Programme. Development fund includes general, SC category (SCP) / ST category (TSP) / grants from finance commission, World Bank aid, etc.
B	Category 'B' funds consist of both Plan and Non-Plan funds for specific purposes, also released to Local Self Government Institutions, through various Departments for the implementation of transferred schemes/functions.
C	Category 'C' funds for Maintenance Expenditure (Road Assets) as per State Finance Commission (SFC) recommendations are the funds for meeting the expenditure in connection with maintenance of Roads under the control of Local Self Government Institutions. Funds for Maintenance Expenditure (Non-Road Assets) as per 3 rd S.F.C recommendations are the funds intended for the maintenance of assets of transferred institutions under the control of LSGIs.
D	Category 'D' funds earmarked as per 3 rd S.F.C recommendations for general expenditure including traditional functions of Local Self Government Institutions. These funds can also be used for any other expenditure viz. salary, honorarium, wages, rent, electricity and water charges, telephone charges, printing etc. . subject to budget provision and sanction by the LSGI.
E	Category 'E' funds consists of funds received from Government of India through /District Collector, Director of Urban Affairs, Kudumbasree, etc. for the implementation of Centrally Sponsored Rural and Urban Sector Schemes like, SGSY, PMAY, Total Sanitation, IHSDP, NREGS etc. Funds received from World Bank, Asian Development Bank, UNDP, etc., through the State Government, Funds received from District Collector for Drought Relief/ Flood Relief, Funds from Literacy Mission, etc., shall be deposited and utilised according to the guidelines issued by Government of India and other funding agencies from time to time.
F	Category 'F' funds consists of beneficiary contribution, own funds of the Local Self Government institutions consisting of tax and Non-tax revenue, EMD, Security Deposit, Retention Money, etc., can also be deposited into this account.
G	Category 'G' funds consists of other funds received by LSGIs like loan from KURDFC, HUDCO etc. not coming under any of the other categories which will be governed by instructions/guidelines issued by the competent authority from time to time.

The auditors must have a fair knowledge of accounting of grants received, expenditure incurred on schemes and guidelines of the government for incurring expenditure from grants.

Drawal of Funds in respect of Local Self Government: The financial transactions of the funds of LSGIs are regulated by GO(P)119/2015/Fin dated 23.3.2015, GO(P)187/2015/Fin dated 19.5.2015 and Go(Ms)213/2015/LSGD dated 29.6.2015, GO(P) 419/2015 dated 19.9.2015

Verification of fund – letter of authority: Verify the allotment letter, requisition, authorisation, etc., the monthly expenditure for each project total expenses for the month, receipts, treasury bill book, cash book, grant in aid book, proceedings, etc.

It has to be verified whether allotments, orders, files, appropriation register, etc., have been maintained for each fund utilisation and see whether the projects have been formulated as per the guidelines. Check whether the reconciliation of both receipts and expenditure in respect of each fund has been done.

79.1. Risks and Implications

Audit Risk	Implications
<ul style="list-style-type: none"> ▪ Grant may have been utilised for purposes other than for which it was granted. ▪ Grants may not have been properly accounted and could be misclassified. ▪ Violation of Plan guidelines and subsidy norms 	<ul style="list-style-type: none"> ▪ Diversion of funds resulting in objectives not being met. ▪ Appropriation Control Registers not updated properly resulting in loss of control on utilisation of grants.

79.2. Books and Records

Books and Statements	Registers and other Records
<ol style="list-style-type: none"> 1. Cash Book 2. Bank Book 3. Ledger 4. Grant Registers 5. Treasury Bill book 6. Bank pass book/ statement 	<ol style="list-style-type: none"> 1. Appropriation Control Register 2. Expenses Ledger Accounts 3. M Book and other Registers 4. Vouchers, Invoices, Bills and Statements 5. Expenditure Statements 6. Annual closing balance certificate 7. Reconciliation statement

79.3. Audit Procedures

1. Revenue and Capital Grants
<ol style="list-style-type: none"> a) Verify all receipts in Grants Registers with the allotment letter and trace them to the receipt entries in bank statements and respective GL accounts to ensure they are correctly accounted for. All unutilised grants should be shown as a liability. b) Verify to ensure that all revenue grants are posted to Income in the GL on their receipt. In respect of other grants, verify that receipts are posted first to a liability account in GL and then transferred to Income account or Asset Account or Specific Expenditure Account only when the expenditure is actually incurred. c) Examine the Grant Registers, bank pass books and relevant GL accounts to ensure that there are no diversion of grants from grant account to local body's own bank account or another grant account d) Verify the transactions relating to the construction of assets/acquisition of assets are first posted to the capital work in progress (CWIP) account of the respective Fund and then transferred to the Asset upon commissioning of the Asset/s. CWIP balances at the end of the year should be shown in the Fixed Assets of the Balance Sheet. e) Assets received as a grant (free of cost) should be recorded at Rs.1/- in the GL and the Asset Register should be updated with all such assets. All such assets should be verified physically and also their transactions should be vouched by the respective journal voucher with letter received from donor/government and any agreement signed with the government for that purpose. f) Trace grant receipts to the Summary of Daily Collections statement and Cash Book and seek clarifications for any errors observed. g) Ensure that specific central government scheme grants are deposited in separate bank accounts if required by those grant conditions; similarly, ensure that all expenditure related to that scheme should be disbursed from that bank account. h) Expenditure transactions from the Grant Registers should be checked with supporting documentation like the project estimates, work order, contract, M Book (where relevant), invoice/bill from the contractor/supplier, Treasury Voucher, etc., and to ensure the accuracy, completeness and occurrence of those transactions. i) Where found necessary, visit the project site to verify the work in progress with the M Book entries and

actual measurements to ensure work completed is actually certified and billed and there are no over/under billing.

- j) Verify if Appropriation control register is periodically reconciled with the books of accounts by the Accounts Officer; obtain the reconciliation statement for the beginning of the period and end of the period and verify the reconciliation and adjustment of entries.
- k) Check if transactions in Appropriation Control Register are reconciled with the Treasury. Obtain and verify the reconciliation statement.
- l) Verify that the Accounts of Implementing Officers have been quarterly reconciled with the expenditure met out of grants as per the respective GL accounts and Grant Registers and the relevant supporting records. (Form GEN-1 and GEN-3).
- m) Reconcile the grants received and receivable from their respective GL accounts to Grant Registers and that such reconciliation is done at least on a quarterly basis.
- n) In case of category C fund, verify whether any asset has been created out of this fund.

80. Audit of Expenditure & Payments

An expense is a cost relating to the operations of an accounting period. The expression “cost” means the amount of expenditure incurred on or attributable to a specified article, product, or activity.”¹ Cost or expenses may be directly related to the revenue recognized (like the consumption of materials or carriage in, carriage out, etc.) or indirectly related such as salaries, telephones, printing and stationery, etc. The audit of expenditure and payments shall happen at two levels (i) verification of individual transactions through vouching and tracing and (ii) scrutiny of Expense Ledger/s. The extent of audit procedures depends upon the strength of internal controls in the entity.

While auditing the expenses, the auditors should verify to establish the following:

- a) That all expenses are related to the audit period.
- b) That all expenses are fully recorded and that there are no unrecorded expenses.
- c) That all expenses are recorded in proper and correct amounts and have been properly classified based on their nature.
- d) That all expenses are sanctioned by appropriate authority of the entity; spent as per norms and guidelines of the Funds/Scheme/Programmes or Establishment Rules and Procedures; and the expenditure is justified in the circumstances as captured in the audit evidence collected.
- e) That all expenses incurred have been properly budgeted for and are within the budget limits and any inter budget heads transfers have been properly approved by the competent authority with reasons recorded in writing.
- f) That the expenses are recognized, classified and disclosed in accordance with the applicable accounting and financial reporting framework.

80.1. Audit of Establishment-related transactions

The service conditions of the employees of LSGI are regulated by Government Rules such as KSRs, KSSRs, Kerala Treasury Code, KFC except where the entity has made its own rules and the Auditor should be familiar with the same. The following audit steps apply for verification of employee-related transactions, which include processing and disbursement of salary & allowances, advances to staff and recoveries from salary, etc. The auditor shall audit the process followed, the controls in place and the accounting entries passed. Where necessary, the checklists may be modified by the auditors to suit the individual needs of a local body.

Auditor has to:

1. Verify whether there is sanctioned post
2. Verify the number of sanctioned posts in the office and vacancies if any.
3. Verify whether Pay fixation, increment, allowances, etc., are sanctioned in accordance with the rules
4. Verify whether government dues, salary recovery, pension contribution, etc., have been promptly realized.
5. Verify whether the TA, sitting fee and honorarium of the elected representatives are paid as per rules
6. Verify the details of employees due to retire within one year
7. Verify whether DA has been paid as per the related orders
8. Verify the income tax details of the employees
9. Verify particulars related to probation
10. Verify incumbent register, increment register, service book, pay bill register.
11. Verify TA advance has been adjusted. Verify whether ceiling limits of TA has been exceeded.

¹ Guidance Note on Audit of Expenses published by the Institute of Chartered Accountants of India.

80.1.1. Risk and Implications

Audit Risks	Implications
<ul style="list-style-type: none"> ▪ Non-compliance of laid down policies and procedures for pay fixation, preparation of salary, its disbursement and other related aspects ▪ Pay scales are not authorized by the competent authority ▪ Unauthorised updating of employee master records. ▪ Incorrect calculation of various salary components. ▪ Incorrect deduction and deposit of statutory dues. ▪ Non-recovery of loans and advances ▪ Salary disbursement to the wrong employee or non-employee 	<ul style="list-style-type: none"> ▪ Payment of incorrect/excess salaries; payment of salaries to non-existing employees ▪ Statutory penalties for defects, mistakes or errors. ▪ Payment of unauthorized / excess TA/DA; advances, leave encashment etc.

80.1.2. Audit Procedures

<p>1. General Verification Procedures</p>
<p>a) Verify whether the service books of all employees are properly maintained and updated in time</p> <p>b) Verify that:</p> <ul style="list-style-type: none"> ▪ Pay fixation of the employees is correctly done as per relevant pay revision orders and rules ▪ In case of new appointment/ promotion/ wage revision check, whether the same has been duly approved; Also verify the appointment order, pay scale, date of joining and joining report, date of increment and other conditions and see that these are correctly captured in the service books ▪ In case of a computerized system, ensure that the right to access the employee master data is available only with authorized personnel and that there is a system of crosschecking the updation of master data by an immediate senior official.
<p>2. Verification of Preparation, Disbursement and Accounting of Salary Bills</p>
<p>a) Trace the total salary and various deductions and recoveries from respective registers to the respective GL accounts to ensure arithmetical accuracy.</p> <p>b) Check the arithmetical accuracy of the salary sheets; verify all deductions and recoveries have been properly made and verify if the final pay bill/salary sheet is authorized and approved by competent authority before the salary is disbursed.</p> <p>c) Verify each voucher of the salaries (for one month) and trace it to GL accounts to ensure that the components are correctly accounted.</p> <p>d) Verify the following in the Salary Sheet/Pay Bill:</p> <ol style="list-style-type: none"> i. Check that the salaries and allowances are paid as per the prevailing rules and regulations and latest pay fixation. ii. Verify that all allowances like DA, HRA, etc., have been paid as per the eligibility norms and rules. iii. In case of increments earned by the employees, check whether the competent authority has duly sanctioned such increments. Verify the copies of letters of appointment or agreements, if necessary iv. Check whether deductions like PF, Profession Tax, TDS, ESI, and LIP under the scheme of LIC, advance, loan instalments are properly deducted from the salary of employee. v. Ensure that TDS rate is correctly applied. vi. Verify that attendance/ absentee data has been received for employees from concerned department and updated correctly in the relevant registers and included properly in the payroll sheet/pay bill, if any vii. Examine that Leave data has been received from the concerned departments/sections and updated correctly in the relevant registers and payroll computation viii. See that Pay scales have been correctly updated in the relevant registers/masters; check the Basic, DA and other components as shown in the pay bill and trace them to the relevant registers/masters ix. Verify that recovery of advances and interest thereon has been made. x. Check that voluntary contribution/ deposits, if any have been deducted (e.g. contributions towards PF). xi. Verify that other recoveries as applicable have been made. <p>e) Examine respective/relevant chalans and registers to ensure whether all deductions from salary to employees are duly deposited with competent authorities in time.</p>

- f) Verify the total of all the columns of salary register and compare with the entries in the cashbook/bankbook on the payment side and are posted corrected in the respective GL accounts.
- g) Ensure that the procedure adopted by pay section to cross check the attendance and leave data give reasonable assurance of data accuracy.
- h) Compare the gross pay as per the current month with that of the previous months and enquire about the reasons for variations, if any.
- i) Reconcile the total number of employees under various categories in the salary master and number of employees in latest final salary sheet.
- j) Verify to ensure that for each month of pay roll, (whether manual or computerized) the following documents are generated:
 - i. Final pay bill
 - ii. Schedules of payments and recoveries
 - iii. Pay slips
- k) For checking the actual disbursement of salaries, verify the following:
 - i. Verify the name of the bank and account number on the salary sheet and employee wise bank payment schedule/letter, etc., with the details captured in the Employee Master Data
 - ii. Verify that bank payment voucher along with bank schedule for transfer of pay to the employees account is forwarded to the cash and bank section on a timely basis.
 - iii. If salary is disbursed through cash or through cheques, verify if duly authorised pay slips are sent to respective departments for disbursement.
 - iv. Verify the receipt/acknowledgement received from employees (normally will be in the form of a sign in a register or on the voucher) for cash disbursements.
 - v. Trace cheques issued for salary to the bank statement and ensure the same were paid to the correct employee.

3. Verification of Payment of Arrears

- a) Verify if the arrears are based on orders passed by competent authority and calculated from retrospective date
- b) Verify if the arrears have been calculated under appropriate heads of payroll
- c) Verify that deductions on account of PF, etc., have been made and are duly accounted and deposited with respective authorities.
- d) TDS has been applied, tax deducted and deposited as per the prevailing IT rules.
- e) For a few cases test check the calculation of arrears and ensure that computations are correct.

4. Verification of Leave Encashment Benefit

Verify the following:

- a) Eligibility of the employee/s as per policy; leave available as per service records and encashed as per voucher and verify if that encashment comply with encashment rules.
- b) Leave records (whether manual or computerized) are updated after such encashment.
- c) Verify the voucher/s to ensure that the amount has been correctly calculated and posted to the respective GL accounts and it is supported by proper sanction of the competent authority.
- d) Ensure that the non – encashable earned Leave has not been paid during service period.
- e) TDS has been deducted from the payments made, if applicable.

5. Verification of Travel Expense Claims

- a) Verify to ensure that all travel expenses claims are supported by Tour Programs approved by competent authority.
- b) Verify the following:
 - i. Application for T.A advance (tour) has been duly approved/ countersigned by the Competent Authority.
 - ii. If any advance was outstanding at the time of the payment of advances, check if rules allow otherwise issue an audit enquiry and seek clarification.
 - iii. The advance amount has been determined based on relevant rules and regulations
 - iv. If the tour is cancelled subsequently, whether the advance has been returned immediately.
 - v. Check the voucher and trace the amount to respective advance registers and the GL accounts.

- c) Verify the following in respect of the TA claims:
- i. The TA bill submitted within the time allowed and is supported by original bills.
 - ii. The TA bill and the voucher are properly authorized and approved by the competent authority.
 - iii. The expenses claimed are as per the eligibility norms and guidelines
 - iv. The advance is properly adjusted or returned if unspent.
 - v. Trace the voucher to the respective entries in the relevant register and the GL accounts to ensure it is correctly accounted.
- d) Review the system and procedures for periodic review of TA advances remaining unsettled in the books and ensure if reminders are sent and timely action is taken.

6. Verification of Staff Advances and Recoveries

- a) Verify advance vouchers and Recovery vouchers for the following:
- i. That advances have been applied using the prescribed form and approved by a competent authority.
 - ii. That advances approved complies with relevant rules and procedures and paid as per the entitlement rules
 - iii. Trace the vouchers to the entries in relevant registers and GL accounts
 - iv. That the recovery of advances together with interest is properly recorded and accounted
 - v. That the interest has been properly computed; recompute the interest to check if auditors' calculation and the Voucher amounts tally.
 - vi. That the vouchers are properly authorized and approved.
- b) Verify there is a reconciliation process of advance outstanding as per GL accounts and the relevant Employee Advance Registers; Verify such reconciliation to ensure that the amounts including interest agree with each other; where there are differences, these are reconciled and adjustment entries are passed in the books.
- c) Verify that interest on such advances is properly credited to income account in the ledger by tracing the voucher to the respective GL accounts.

80.1.3. Municipal Employees Death cum Retirement benefit

Kerala Municipality (Employees Death cum Retirement benefit) Rules 1996 regulates the Death cum Retirement benefit of the employees of Municipalities. In the matter of death cum retirement benefits of an employee governed by the pension scheme, the same is regulated by the provisions in Part III of Kerala Service Rules. For the payment of pension the Municipality will contribute @15% of the emoluments of the employees. The contribution shall, in the first instance be credited to a central pension fund opened on the control and supervision of the Director of Urban Affairs. The amount necessary for the payment of pensionary benefits will be transferred from this fund from time to time to the Municipal Pension Fund operated by the Secretary of the Municipality.

80.1.4. Audit Procedure

1. Check whether the pension contribution at the stipulated rates are transferred to the central fund regularly.
2. Check that the expenditure is not met from own fund
3. Check whether the accounts and registers are maintained in the prescribed form.
4. Check whether the funds transferred to the Municipal Pension Fund is deposited in the TSB account or in a Nationalised Bank as per rules.

80.1.5. Pension fund of contingent employees

Every municipality is required to open a bank account with the nearest treasury to maintain an account to cater the pension funds for the contingent employees, as per section 7 of Kerala Municipality Contingent Employees Death Cum Retirement Benefit Act, 1997. The municipality will contribute @15% of the emoluments of the employees. The amount necessary for the payment of the pensionary benefits will be met from that account.

80.1.6. Provident fund account

The provident fund of panchayat employees are governed by Kerala Panchayat Employees provident fund rules. Kerala Municipal Pensionable Employee Central Provident Fund rules, 1981 provides the rules for the maintenance of provident fund of the municipal employees. The amount deducted from pay bills of the subscriber shall be remitted to the TSB accounts concerned maintained by Director of Urban Affairs (DUA) before 15th of the succeeding month. The DUA shall place at the disposal of the secretary concerned the funds required for payments of temporary advances to the subscriber from time to time. These are remitted in treasury savings bank (public account) and watched.

80.2. Audit of Administrative Expenditure

Administrative Expenditure generally consists of (i) Rent (ii) Electricity Expenses (iii) Office Maintenance Expenses (iv) Telephone Expenses (v) Printing & Stationery (vi) Advertisement etc.

80.2.1. Risks & Implications

Audit Risks	Implications
1. Non-compliance with laid down policies and procedures for sanction and payments.	1. Incorrect Financial Information
2. Misappropriation of funds	2. Expenditure not meeting end objectives
3. Non maintenance of required registers like Rent Register, Expenses Registers etc.	3. Infructuous expenditure
4. Unauthorized Expenditure/Authorisations not given in accordance with rules/delegation of powers in force.	
5. Payments made without adequate support documentation	
6. Delay in processing vouchers and recording expenses in the books of accounts	
7. Absence of internal control which may result in error and mistakes	
8. Incorrect allocation and booking of expenditure to various heads	

80.2.2. Audit Procedures

1. General Checks
a) Verify the authorization by competent authority; check if the limits are prescribed for each type of expenditure and verify to ensure those limits are not exceeded. b) Examine if the expenditure is in accordance with applicable financial rules and regulations c) Verify if all expenditure is entered in the relevant registers like the Appropriation Control Register, Rent Register etc., and ensure the balances as per these registers agree with the GL account balances; reconcile the differences, if any and ensure corrective action is taken for differences. d) Verify to ensure the classification of expenditure is correct. e) If the vouchers are missing, verify whether there is a certificate of payment with supporting documents which is properly authorized and approved by the competent authority.
2. General Verification of Expenditure Registers and GL Accounts
a) Verify if the registers are maintained in the prescribed form; b) Verify if all the columns are filled with appropriate and relevant expenditure data c) Verify if the vouchers entered therein are in chronological order d) Verify if the pages in the registers are correctly numbered and total page counting is recorded on the first page and attested by the controlling officer. e) Ensure there are no overwriting and all erroneous entries are properly marked and correct entries are inserted which are properly attested. f) Verify if the registers are verified/reviewed by competent authority at regular intervals and such review is shown by way a signature/initial on the page reviewed. g) Check if the budget amounts, utilisations amounts are properly mentioned in the relevant columns and that utilization does not exceed budgets.

- h) Verify the voucher details like the amount, particulars, head, etc., are properly entered in the registers
- i) If treasury is involved, verify to ensure that money is withdrawn from the treasury only when required and for immediate disbursement and the drawn amount is recorded in accounts immediately, as prescribed.
- j) From each expenditure head, scrutinize the expenditure for its regularity, propriety and proper classification.
- k) Verify if there are any unusual entries in the Registers/Ledger accounts and seek explanations.
- l) Verify for the following from the GL:
 - i. Voucher number and Date on which expense was incurred and amount
 - ii. Particulars of the expenditure and if it was properly classified and recorded in the ledger; trace it to the cash/bank book and also the respective clearing entries in the bank pass book.
 - iii. Verify the sanction and approval
 - iv. Verify that the payment was actually received by the party.
- m) Review the recurring expenses ledger accounts (like rent and electricity) and verify these are complete and correctly classified.
- n) Carry out a ration analysis of expenditure – current period to previous period; expense to revenue proportion for the current and previous periods etc. to see if there are any unusual variations. Verify in detail the unusual variations if any. (for e.g. rent paid this year is twice that of last year)
- o) Check necessary accrual entries for the period ending March (expense provisions) have been made; check the calculations and unaccounted bills if any to justify the provisions.
- p) Verify that opening balance of provisions have been correctly brought forward in the GL accounts and the relevant registers; ensure there are no unauthorized changes to opening balances.
- q) Verify that the totals as per expense registers match with the respective GL accounts; reconcile all differences and ensure corrections are made in the books.
- r) Verify that all transactions for year-end adjustments appear only in March (last month of FY) and check their validity and correctness.

3. Vouching and other Verification of Expenses

- a) Verify expenditure vouchers for the following:
 - i. Verify if the voucher, bills and chalans (as applicable) are in prescribed format and all relevant supporting documents are attached to the voucher.
 - ii. Verify whether the amount paid as per voucher is the same as per receipt signed by the recipient.
 - iii. Examine the supporting documents like bills, invoices, work/service orders, contracts etc supporting the payments shown on vouchers. Check the taxes and duties accounted, if any.
 - iv. If there are any deductions from bills, verify the same are correct and accounted correctly.
 - v. Verify to ensure that the amount as per voucher is properly authorized and approved by the competent authority and is as per the sanction given.
 - vi. Verify whether the expenditure incurred is covered under the delegated powers of authority who has sanctioned such charges
 - vii. Verify the respective entries in Cashbook/Bank Book and the respective entries in the Expense Registers/Appropriation Control Registers and the GL accounts to ensure the amounts as recorded in the vouchers are correctly classified and accounted.
 - viii. Check the totaling in vouchers and Verify whether the totaling in the vouchers and chalans are correctly arrived at.
 - ix. Check the justification for expenditure and ensure it is not unnecessarily incurred to prevent the lapse of budget allotment.
 - x. Examine that the expenditure is committed and incurred with proper budget allocation, appropriate sanction by competent authority and with regard to principles of financial propriety..
 - xi. If the expenditure is processed through Treasury route, check that the detailed contingent bills were received within the specified period for all expenditure and particularly, for the amounts drawn on Abstract Contingent Bills; also verify if the total of detailed contingent bill equal the amount drawn as per Abstract Contingent Bill.
 - xii. Check if the expenditure is properly classified as revenue or capital and plan or non-plan.

80.3. Audit of Interest & Finance Charges

80.3.1. Risks and Implications

Audit Risks	Implications
<ul style="list-style-type: none"> ▪ Non-compliance with laid down policies and procedures for sanction and payments. ▪ Unauthorized Expenditure/Authorisations not given in accordance with rules/delegation of powers in force. ▪ Payments made without adequate support documentation ▪ Delay in processing vouchers and recording expenses in the books of accounts ▪ Absence of maker-checker control which may result in error, mistakes and is a source for fraud risk. ▪ Incorrect allocation and booking of expenditure to various heads 	<ul style="list-style-type: none"> ▪ Incorrect Financial Information ▪ Expenditure not meeting end objectives ▪ Infructuous expenditure

80.3.2. Audit Procedures

1. Interest Expenditure
<ul style="list-style-type: none"> a) Check all interest calculations on loans taken and ensure that the amount is correct and correct interest rate is applied; check them with relevant loan agreements. b) Check loan register entries and verify them with Cash/Bank book and respective GL accounts to ensure these are correctly recorded and posted. c) Check that interest relating to acquisition of assets is not charged to profit and loss account but capitalized with the concerned asset value. d) Verify the bank charges with bank advises if any and with the bank pass book and trace them to cash book/bank books and respective GL accounts.

80.4. Audit of Repairs & Maintenance of Vehicles

80.4.1. Risks and Implications

Audit Risks	Implications
<ul style="list-style-type: none"> ▪ Non adherence to procurement rules and regulations (if any) ▪ Absence of preventive maintenance schedules can lead to break down of equipment. 	<ul style="list-style-type: none"> ▪ Incorrect Financial Information ▪ Expenditure not meeting end objectives ▪ Infructuous expenditure

80.4.2. Audit procedure

<ul style="list-style-type: none"> a) As per GO Ms 170/07 dated 30th June 2007, guidelines have been issued for the maintenance of vehicles. The auditors should examine that the guidelines are followed. b) Verify if proper permission is obtained for undertaking repairs and maintenance work. c) Check whether the expenditure is duly approved by the competent authority having necessary delegation of power. d) Check whether contracts for repairs are given on the basis of quotations called for by the institution. e) Verify expenses with the bills and corresponding entries in the cashbook/bank book. Trace the entries to the respective registers/sub ledgers and GL accounts to ensure they were properly recorded and accounted. f) Check whether provisions of TDS are applicable on any contracts. If applicable, check whether TDS is deducted at appropriate rates. g) Check whether the tax deducted has been duly deposited with Government in time in correct chalan. h) Also verify whether necessary TDS. Certificate is issued and annual return for TDS is filed with competent authority.

- i) See whether the repairs have been got executed in approved workshops.
- j) Verify whether separate slot of pages are provided for recording repairs and maintenance of each vehicle to arrive at the total charges for each vehicle during the year.
- k) If the vehicles are covered by comprehensive Insurance check the correctness of the reimbursement from the Insurance Company
- l) Check if the entries in the R&M register are attested by competent authority.

81. Audit of Public Works

The term “Public Works” generally includes construction and maintenance of assets such as (i) Roads and Pavements (ii) Bridges and Flyovers (iii) Subways & Causeways (iv) Buildings (v) Street Lighting (vi) Storm Water Drains (vii) Traffic Signals (viii) Guest Houses. Repairs and Maintenance of these assets for operational purposes also constitute “Public Works”. As per the C&AG recommended Accounts Manual for Local Bodies, Public Works constitute the following:

- a) ‘Original Works’ includes all new constructions or additions and alterations to existing works. Repairs to newly purchased or previously abandoned buildings, which are required for bringing them into use, should be classified as Original Works. Where a portion of an existing structure is dismantled and replaced and if the cost of such replacement represents a genuine increase in the permanent value of the property as an asset, the work should be classified as ‘Original Works’.
- b) ‘Repairs and Maintenance’ includes works, other than those specified under Original Works, required to maintain buildings, roads, water work assets, drainage system and other works in proper condition for ordinary use.
- c) Deposit Work: In respect of certain works, which necessitates high level efficiency, the same can be entrusted to the related department or agency as per the mutually agreed conditions. The sanction of the DPC and the detailed plan estimates and Technical Sanction have to be obtained. The LSGI has to enter into an agreement with the department / agency. In respect of public sector undertakings such as KSEB, KWA, etc., funds can be paid in advance.

The public works executed by the LSGI are governed by Kerala Panchayat Raj (Execution of Public Works) Rules 1997, Kerala Municipality (Execution of Public Works) Rules 1997, KPWD Manual, KPWD Account Code, KPWD Code, etc. The auditors should familiarize themselves with above Rules and Codes. Auditor needs to verify whether estimates are prepared according to guidelines issued as per DSR, MORD and MORTH.

81.1. Risks and Implications

81.1.1. Audit Risks Implications

Risks	Implications
<ul style="list-style-type: none"> ▪ Commencement of works without having approved budget and technical and administrative sanctions in place ▪ Execution/Commencement of work without first obtaining the financial sanction for project/s ▪ Estimate/agreement/valuation ▪ Non-maintenance / non-updating of Budgetary Control Register and other relevant registers ▪ Award of work to ineligible contractors and non-compliance with prescribed procedures ▪ Mismatch between Contract Rate and Running Bill Rates and inadequate approvals on the RA bills. ▪ Incomplete details on RA Bills and wrong/incorrect estimation of works. ▪ Improper capitalisation ▪ Improper procedures and payments ▪ Not deducting statutory dues ▪ Improper accounting for materials issued to contractors 	<ul style="list-style-type: none"> ▪ Capital commitment without budget availability. ▪ Wrong classification of revenue item as capital, or vice versa ▪ Infructuous/wasteful expenditure

81.2. Audit Procedures

1. General Procedures and Preconstruction Checks

- a) Enquire and verify whether works such as site preparation, soil study and assessment of feasibility of services such as water supply, electricity, drainage and sewage etc. where required were done and duly approved by competent authority.
- b) Verify if the revisions (if any) suggested by the reviewing team were incorporated in the scope of work.
- c) Verify if a detailed estimate has been prepared and a Technical Sanction has been issued before executing the work.
- d) Examine the project estimates to ensure these were prepared on prescribed schedule of rates applicable for the local body (state PWD or central PWD or such other rules)
- e) Examine estimates to ensure they contain correct details with respect to :
 - i. Scope of Work Materials and cost estimates
 - ii. Technical specifications, Designs and Drawings
 - iii. Compensation for land (if any); environment impact and clearance required (if any),
 - iv. Materials and labour required for works
 - v. For road projects, a brief description, standard road map of the area with the position of the new road marked therein.
- f) Check if the following Registers are maintained:
 - i. Register of works/Agreement Register
 - ii. Stock Register of M Book
 - iii. Register of materials at site
 - iv. Register of Tender form
 - v. Register of Tenders
 - vi. Road Register
 - vii. Register of EMD
 - viii. Performance Guarantee Register
 - ix. Additional Performance Guarantee Register
 - x. Assets Register
 - xi. Register of stock and issue of departmental material
 - xii. Register of Estimate sanction
 - xiii. If the works are executed through beneficiary committees, cash book, pass book, etc., the Minutes of the Beneficiary Committee should also to be maintained
- g) Check that no work is started until an estimate for the same has been sanctioned and funds allotted
- h) Check whether the guidelines issued by the Government regarding procurement of materials and services are correctly followed.
- i) E-tender –Electronic tendering is carrying out the traditional tendering process in an electronic form using the internet

2. Budget Control and Sanction Checks

- a) Enquire and verify if the budgetary control is done at the stage of the commitment, and not only at the time of payment; verify if necessary funds for execution of works have been included in the annual budget of the Local Body.
- b) Verify if the administrative sanction for executing the work has been accorded by the competent authority on the estimate of every work to be undertaken.
- c) Verify Resolutions of the Local Body to check if works are to be undertaken in-house or through contractors; check if the decisions are adhered to.
- d) Verify that the administrative and technical sanctions are issued by the authority having competent powers under the delegation of powers in force.
- e) Verify the expenditure sanction, if any, from the competent authority to ensure that funds for the project have been provided, and liability can be incurred.
- f) Check how the works have to be executed: by the LSGI or by external contractors/vendors or beneficiary committees

- g) Verify approvals from third party consultants (if any) like architects, engineers etc., to ensure that Tenders have been prepared based on the latest designs and scope of work approved by the competent authority.

3. Verification Procedures

- a) For all external works, verify if the tenders/quotations were called as per the procedures laid down.
- b) Scrutinise work orders/agreements/contracts representing each of the above methods and conduct verification procedures:
- i. Examine the estimates and the administrative and technical sanction
 - ii. Check the Resolutions of the Local Body for execution of works
 - iii. Verify the budget allotment, appropriation and balance at beginning and at stage when work orders/purchase orders are issued and payments made.
 - iv. Check the tender notices for date of publication, date of tender , date of submission, scope of work and other full particulars as may be required.
 - v. Verify that the works tendered are justified in the circumstances in which such works are quoted.
 - vi. Check that quotations/tenders are received in sealed covers and noted in the relevant registers; verify the registers and tenders/quotations to ensure they were opened by competent authority and in presence or tenderers wherever required; the registers and the tenders should be initialed by the competent authorities to evidence the same.
 - vii. Verify the comparative statements prepared by the quotation/tender evaluation officers and ensure that all relevant data has been considered in preparing those statements.
 - viii. Examine the tender/quotation evaluation and acceptance documents to ensure they were evaluated by competent persons and accepted by competent authority as per the delegation in force.
 - ix. Selection notice in the form of letter of acceptance as per bidding documents shall be issued to the bidder by the tendering authority within seven days or before the expiry of firm period whichever is earlier. The officer who is competent to enter into the contract shall send this notice through registered post/courier service/e-mail. The date of registration shall be the date of acceptance of the tender irrespective of the date when the communication is actually delivered to the bidder.
 - x. The agreement for the work shall be got executed by the Contractor with Department in the form prescribed in the bidding document after the award of contract within the period specified in the selection notice and duly entered in the register of agreements.(GO(P) 13/2012 PWD dated 01-02-2012
 - xi. Verify the Purchase Orders/Work Orders/Agreements to ensure that these are issued on successful tenderers and contain scope of work and other terms as per the bid documents, to the extent modified (if any) in the tender negotiation processes and the orders/agreements are issued under the signature of the competent authority.
 - xii. Verify to ensure that no undue concession not expressly provided or contemplated in the contractual agreement, is allowed to the contractor
 - xiii. Verify to ensure if a Register of Agreements/Contracts/PO/WO is maintained and updated with all new contracts and orders under the attestation of competent authority.
 - xiv. Verify agreements to ensure that they are properly executed by the successful tenderer and signed by the competent authority on behalf of local body.
 - xv. Verify if clauses such as contract value, scope of work, delivery schedule, place of delivery, timeliness of completion of works, penalty, inspection of stores, dispatch instructions, particulars of consignee, applicability of sales tax, excise duty in definite terms along with their rates etc. are clearly mentioned in the contract; ensure that the terms of the agreement are unambiguous so as to avoid any litigation on this contract.
 - xvi. Verify whether a provision is made in the contract for safeguarding Government property entrusted to contractors.

4. Works Execution and Billing and Payments – Verification Procedures

The works are executed in the following methods:

- Direct
- By Tender
- Through beneficiary committee
- By Accredited agencies
- As Deposit work

The auditor should:

- a) Verify that the work does not commence before execution of a contract and authorized by the competent authority of the local body.
- b) Verify that work did not commence without a detailed design and estimate (technical sanction) as sanctioned by the competent authority. Verify that final Bill of materials as agreed to is in place.
- c) Check that no work commences unless an allotment of funds has been made and orders for its commencement have been issued by the competent authority
- d) Verify if correct amount of security deposit and/or performance guarantees as per terms of contract have been furnished by the vendor within the stipulated time.
- e) Ascertain that every public work undertaken by the department is executed under the direct control and supervision of the concerned Engineer or other technical officers authorized by him and they are satisfied of the progress and quality of work by direct inspection and test checking.
- f) Check whether the contractor maintains the work schedule as incorporated in the agreement
- g) Check that M-Books are maintained for every work, date of measurement is correctly recorded and entries are recorded continuously without any blanks in between; verify the Measurement Books with the work executed and certified on site either independently or at time of verifying the contractors' bills and invoices with/without the Treasury Bills. Ensure that M Books are updated for the work completed and contain the signature of the authorized officials of the local body measuring the work and approving the work.
- h) Examine the M Books to verify if the measurements are crossed off as soon as bills are passed for payment, voucher numbers noted and pay order signed by the disbursing officer soon after the payment.
- i) When work registers for major and minor works are required to be maintained; if so verify such registers.
- j) Verify and report if the rates agreed in the contract are considerably higher than the rates prevailing at the time of review.
- k) Check if advances of any class are given to the contractors, recoveries of the advance are made promptly while settling the bills; verify such advances are as per contractual terms and are properly authorized and approved prior to their disbursement.
- l) In cases of material supply (like steel and cement) by local body, verify the actual issues against the issue notes/receipts and respective inventory registers; check the cost of such materials is properly and correctly recovered from contractors and accounted correctly in books.
- m) For any deviations from contracts, verify whether such deviations are approved by the competent authority.
- n) Verify that the following events are monitored by the competent authority and action taken:
 - i. Supervising the work and administering the contract
 - ii. Checking the bills of the contractors and certifying the work done and payment due to the contractors
 - iii. Valuing the variation to the work and the contract and obtaining necessary sanction of competent authority.
 - iv. Monitoring the time schedules and awarding extension with necessary approval from competent authority.
- o) Verify the following in the Running Account bills:
 - i. The rates as per RA bills and PO/WO/Contract – note and seek explanation for any discrepancies.
 - ii. Verify RA bill correctly mentions the Contract Agreement Number and date, Work Order number and date, date of commencement of work and date of completion of work as per

- agreement, extension of completion time granted by the competent authority, if any, taxes applicable, cost of material supplied.
- iii. Check the current running account bills with the previous bill to check its accuracy and completeness.
- iv. Verify the RA bills are properly signed and sent.
- v. Verify to ensure that cost of material supplied to contractors, and recoveries for supply of rent, water and electricity charges and hire charges of plant and equipment etc have been computed properly and deducted from RA bill.
- vi. Verify that bills are certified by the competent authority.
- vii. Verify the bill items of work completed with M Book to ensure accuracy and completeness
- viii. If necessary, undertake a site visit, examine and measure the work completed, compare with M Book and RA bills to ensure there are no issues with the bills.
- ix. Re-compute the taxes and bill amounts to ensure accuracy and completeness.
- x. Verify the authorization for payment.
- xi. For Treasury related payments, compare the actual bill (of vendor or AE) with treasury bill and supporting documents to ensure correct bills are sent to treasury for payments.
- xii. Verify the treasury payment advice with Cash Book/Bank Pass Book and the respective entries in the registers maintained for RA bills and contracts; verify the entries in respective GL accounts.
- xiii. Verify the treasury payment advice for payments like tax, Welfare Fund, etc directly to concerned departments and trace the entries to the Cash Book/Bank Book and respective GL accounts.
- p) In case of Final Bills also verify for the following:
 - i. Check and verify if a complete list of materials supplied to contractors is enclosed with final bill and the deductions already made in earlier RA bills and reconcile the same to arrive the balance cost to be deducted.
 - ii. Verify if all rental, hire charges and charges for water, power, etc have been fully deducted.
 - iii. Verify the certification of work to ensure that competent authority has issued work completion certificate as per the contractual specifications.
 - iv. Verify that the final bill along with final copy of M Book and other supporting documents have been verified and approved by competent authority before the same was paid.
 - v. Verify all tax and other deductions have been made and paid to respective departments.
 - vi. Verify the Treasury Bills and Payment Advices and trace them to Cashbook/Bank Passbook and respective GL accounts.

5. Repairs to Fixed Assets (like roads, buildings, etc.)

- a) Verify if there are preventive plans/schedules of maintenance of assets and examine the records to trace if they are followed.
- b) Identify delays in actual and planned maintenance and obtain and record reasons for deviations.
- c) Verify if proper registers/sub ledgers (function wise/asset wise) are kept for regular preventive and maintenance and repairs; verify the entries in the registers with respective supporting documents to ensure that expenditure is properly recorded.
- d) If external contractors are appointed for repairs and maintenance, verify if the relevant procurement rules are followed and quotations and/or tenders (as may be applicable) are issued/received, comparative statements made and contract is issued to the lowest bid vendor.
- e) Verify the sanctions of expenditure and ensure that competent authorities have necessary delegated powers to issue sanctions.
- f) Verify if payments made to vendors are correct and examine the approvals given for such payments with supporting documents.
- g) Verify if a register/record is maintained for grants received and used for Repairs and Maintenance works. Exercise the following audit checks:
 - i. Obtain the vouchers and supporting documents and verify if the expenditure is properly sanctioned, incurred and recorded.
 - ii. Ensure that the bills of the contractors/vendors are processed as per the rules in force;
 - iii. Trace the entries to the bank pass book/receipts from the vendors to ensure the payment has actually been made / received.

- iv. Trace the entries to the respective registers/sub ledgers, cash book and GL accounts to ensure they are properly recorded and accounted.
 - v. If payment is not made for the work done, verify if the same is accrued as a liability in the books of accounts.
 - vi. Verify whether the procurement procedures (stores and public works) as per rules are followed in appointing vendors/contractors for the works.
 - vii. Verify to ensure that the expenditure is of revenue nature and does not directly result in improvement of assets/or their capacity, in which case such expenditure needs to be capitalized.
- h) Where the repairs are undertaken inhouse by the Public Works Department, verify if the procedures of the Public works are properly followed and sanction for material consumption and expenditure is given by a competent authority.
 - i) In case of repairs by the Public Works, verify the bill of materials with actual PW bill for repairs, ensure the bills are properly certified and authorized; verify that the consumption of stores is properly recorded in the consumption of stores/materials accounts with appropriate credit to inventory (stock & stores) accounts.
 - j) Verify the sub ledgers/registers for the stores released for consumption for sanctioned repairs work; if the entries in sub ledgers for stores released are not supported by sanctions/supporting documents, issue audit enquiry and seek clarification.
 - k) Verify if the total repairs & maintenance expenditure as per the sub ledger/register is being reconciled with the respective GL accounts and such reconciliation is properly evidenced. Obtain the reconciliation at the end of March and such that the GL and sub ledger accounts match and unreconciling items, if any, are properly followed up and corrected in the books of accounts.
 - l) Ensure that in the case of deposit works on behalf of Government departments, whether the cost of the works and supervision charges, if any, have been recovered from the departments concerned
 - m) Check to ensure that a half yearly reconciliation of the balance as per the Deposit Register maintained at the Engineering Department carried out with the Deposit Ledger accounts by the designated persons and differences are reconciled and accounted.
 - n) On completion of works, verify to ensure that, a reconciliation is carried out in respect of the amount expended as shown in the records maintained by the Engineering Department and the Capital Work-in-Progress control ledger account maintained by the Accounts Department.
 - o) Verify that on receipt of Summary Statement of Status on Capital Work-in-Progress (Form PW – 1), the Accounts Department reconciles and matches the total expenditure incurred as stated in the Statement with the cumulative total of several Capital Work-in-Progress Ledger Accounts.
 - p) Verify that at the end of each month, the Accounts Department reconciles the total expenditure as per the Functional Expenditure(Repairs and Maintenance) Subsidiary Ledger (in Form GEN –35) with the total expenditure recorded in the several Repairs and Maintenance Ledger Accounts
 - q) Verify to ensure if all recoveries are made from contractors before final payment is made.
 - r) Verify respective entries in Bill/Contract registers and bills and invoices to ensure these are journalized before release of the payments.
 - s) Enquire and verify to ensure that the at the year end/period end, the designated persons review the CWIP with all Work Sheets to see if any expenditure needs to be capitalized.

6. Additional Points for Road Project verification

- a) See whether for new construction of works, road is opened to traffic after completion of the sub base and base course for a minimum period of one monsoon. Black topping should be done after the above period
- b) Examine whether new works having guarantee period of 18 months in the agreement the contractor has done the B.T. work along with the original work and rectified the damage, if any
- c) Verify whether the practice of adopting different rates for successive KMs of the same road for supply of materials is discontinued and average rates used

7. Verification of Post Completion Activities

- a) Obtain the completion certificates for the completed Projects and their respective approved plans; verify that the completion is as per original plan; if there are deviations check if those deviations are properly authorized and approved.
- b) From the CC and its backup documentation, verify the actual date of completion with planned date, final cost/value with the agreement/ work order value etc.
- c) Inspect the project site/building site/road to ensure the asset construction is complete as documented and ready for capitalisation in the books.
- d) Verify if the asset is put to use; if not issue an audit enquiry and seek explanation.
- e) Verify whether the final payment is processed only after ensuring that all deliverables have been met and completion certificates are in place for the projects.
- f) Verify the backup documentation to check if test runs of the assets (wherever required) are conducted and the asset is in a condition to use.
- g) Verify the backup documentation to ensure that the project is commissioned; where the assets are constructed but not commissioned, issue an audit enquiry and seek explanation.
- h) Enquire and check if there is any surplus material at sites to be returned to store.
- i) Check with backup documentation that all such surplus material has been returned to stores or transferred to another project site location.
- j) Check the respective entries in the inventory records and trace the same to the material consumption vouchers/journal vouchers and to the respective General Ledger accounts.

82. Audit of Plan Expenditure

Government have issued orders in the matter of 13th five year plan detailing the guidelines for planning by the LSGIs. The projects have to be formulated based on the above guidelines. Please refer plan guidelines and Government orders. The general approach for project planning is development through participatory planning. The aims of the projects are continuous growth of the productive sector, protection of environment, human resource developments, rising of living index, enhancing the quality of services, social justice, protection of assets, etc.

Money/ fund is not the only source of income. Man power, nature resources, etc., have to be utilized effectively. The source for the project are from development fund maintenance fund centrally sponsored project fund for the States, loans share of other LSGI beneficiary contribution, voluntary service, donation, MLA fund and MP fund, etc.

The panchayat have to appropriate sufficient amounts from the development fund for mandatory project as per guidelines issued.

Subsidies and finance assistance shall also be disbursed on the basis of the guidelines issued.

Necessary working groups may be constituted and status report prepared evaluating the prevailing situation in respect of each sector before preparing the plan schemes for each year (please refer guidelines for preparation of plan schemes). Status report is prepared based on the correct statistics and scientific evaluation. The draft has to be prepared by Convener of the working group. The report shall be finalised after detailed discussion in the working group. Status report approved by the working group shall be forwarded to the LSGI and a copy retained with the convener. The draft project proposals shall be prepared in the prescribed format based on priority, concepts decided by the working group after the preparation of the status report. This shall be included as part-2 in the status report. The plan schemes shall be discussed with the banks in the matter of loans for which a separate meeting has to be convened. The project proposals shall be discussed with the stakeholders by the groups preparing the same. Each working group has to conduct such separate meetings with stakeholders on the project proposals. Based on the discussions amendment may be made in the draft report (Paadashekarasamithi, PTA, Hospital Management Committees, service organisations, labour organisations, voluntary organisation). Experienced and skilled personnel can be invited during the discussions with the stake holders.

Current Procedures for implementation of the projects by LSGI are given below:

- 1) Constitution of planning committee and working group.
- 2) Formation of development report
- 3) Convene Grama Sabha/ Ooru Koottam/ Ward Sabha, etc.
- 4) Development Seminar
- 5) Formation of Annual Plan
- 6) Preparation of Projects
- 7) DPC Approval
- 8) Vetting of Projects/ Technical Sanction.
- 9) Implementation of Projects/ Monitoring

The project report is authentic record of a panchayat project. It has to be verified whether the same has been implemented as per the above:

1. Verify whether the working groups have consolidated the grama sabha proposals
2. Verify whether the LSGIs have decided upon its share on the various subject schemes
3. Verify the minutes book to examine whether public meeting of the working groups have been convened and vision, strategy for implementation, priorities are discussed
4. Verify whether each working group has submitted their proposals to LSGIs
5. Verify whether a core group has been constituted within the working group and project report prepared
6. Verify whether the status report of the working groups, project proposals, proposal of the LSGIs, etc., are in order
7. Verify whether the draft project report has been prepared and discussed in the development seminar
8. Verify whether one day seminar has been conducted to discuss the draft project and draft plan project

9. Verify whether the general development concept in each sectors in accordance with vision for general development
10. Verify whether the policy approach is in accordance with the vision
11. Verify whether development schemes are capable of solving the existing issues
12. Verify whether the concept, policy approach, development strategy are in accordance with priority stipulations
13. Verify whether projects are proposed on priority basis.
14. Verify whether collective co-ordination possibilities utilised
15. Verify whether the prepared projects are proper, capable and practicable
16. Verify whether the efforts have been made to rectify lapses and deficiencies in the implementation of the previous projects

82.1. Records to be verified

1. Status report
2. Attendance register
3. Minutes book
4. Recommendation of the gramasabha/ ward sabha
5. Projects
6. Project files and other documents
7. Treasury Bill Book, Cash Book (TR7A), Implementing officer-wise Subsidiary Register
8. Monitoring Report

82.2. Risks and Implications

Risks	Implications
<ul style="list-style-type: none"> ▪ The fund balances wrongly stated. ▪ Assets acquired/Expenditure not accounted/ wrongly accounted. ▪ Expenditure and Withdrawals from the Funds without proper sanction/ authority. ▪ Mis classification of expenditure/ funds. ▪ Noncompliance with respective rules and regulations. ▪ Fund Balances not reconciled. ▪ Inappropriate utilization of funds. 	<ul style="list-style-type: none"> ▪ Financial statements may be misstated ▪ Excess/unauthorized payments may be made

82.3. Audit Procedures

Verify and ensure the following:

1. Whether the project comes under the purview of the LSGI. Verify whether Administrative Sanction, Financial Sanction and Technical Sanction are obtained
2. Whether sanction from the DPC has been obtained
3. Whether the project has been implemented based on guidelines.
4. Whether subsidy norms have been followed
5. The mode of implementation (direct / beneficiary committee / recognised agents / accredited agencies / quotations / tender)
6. Monitoring report
7. Is the priority list approved by the grama / ward sabha based on beneficiary selection criteria
8. Whether the implemented project achieved the objective
9. Whether “idle assets” are created
10. Whether amounts earmarked for SC/ ST projects diverted
11. Verify whether SCP/ TSP projects were implemented properly
12. Check the progress/ efficiency in implementing the projects
13. Whether it has been discarded, if so, the reason therefor
14. Whether procurement / store purchase rules are being followed
15. Verify project implemented are being correctly routed through accounts
16. Verify project expenditure with Appropriation Control Register, Treasury Bill Book, Cheque Issue Register, etc.

83. Audit of Stores and Stock

The procurement of stores are regulated by the following manual/ codes:

- Procurement Manual of Stores & Service issued in GO (P) 259/10/LSGD dated 8-11-2010
- Kerala Store Purchase Manual 2013 vide GO (P) 3/2013 SPD dated 21-6-2013
- Kerala Financial Code Articles 120 to 162

83.1. Risks & Implications

Risks	Implications
<ul style="list-style-type: none"> ▪ Non-production of records to Audit. ▪ Deviation from the prevailing Rules and Procedures. ▪ Improper /non-maintenance of essential basic records. ▪ All requisite records not produced to Audit 	<ul style="list-style-type: none"> ▪ Loss of revenue ▪ Lack of clarity of actual outstanding at any point of time ▪ Non-detection of the actual stock position

83.2. Audit Procedures – Stores and Stock

All relevant audit checks are given here under.

1) Stores Items
<p>a) Verify whether requirement of stores for the year has been estimated properly and included in the year's Budget and the budget has been approved by competent authority.</p> <p>b) Verify the process of estimation of stores and check if the list of stores items required for the next year are estimated and prepared in advance (at the close of the previous year).</p> <p>c) Check whether list has been prepared based on the consumption during the previous 3 to 5 years with justification for changes.</p> <p>d) Check whether the purchasing officer has ensured that sufficient funds are available before according administrative sanction for purchase.</p> <p>e) Verify if there is any purchase plan in place to ensure that purchases are made only for those items which will be utilized within a reasonable time.</p> <p>f) Verify if the purchase indents have been raised for such purchases and indents are approved by competent authorities.</p> <p>g) Verify to ensure that purchase indents are not split into small quantities for avoiding approval of higher authorities as above.</p> <p>h) Check whether copies of quotation notices regarding terms and conditions, material specifications, etc. were supplied to all firms to whom enquiries were sent.</p> <p>i) Verify if quotations were required to be submitted in sealed covers and in fact received in sealed covers.</p> <p>j) Verify if quotations were received in time.</p> <p>k) If samples were required as per the terms of enquiry, verify whether the quotations without samples have been accepted and what action was taken?</p> <p>l) Check whether the prices quoted are inclusive of all taxes, dues, cess, etc. Where tenders are required to be floated, check the Tender notices for date of publication, date of tender, date of submission, details of materials with specifications and other full particulars as may be required.</p> <p>m) In case of tenders, check that tenders were received in sealed covers and noted in the relevant registers; verify the registers and tenders/quotations to ensure they were opened by competent authority and in presence or tenderers wherever required; the registers and the tenders should be initialed by the competent authorities to evidence the same</p> <p>n) Verify if the cost of tender form was collected and realized.</p> <p>o) Check whether minimum time required for submission of tender was given</p>

- p) Verify whether tenders were rejected in the following cases.
- i. When tenders were not in the prescribed form.
 - ii. When the tender is not accompanied by requisite earnest money deposit whenever necessary.
 - iii. When the tender is not signed by the tenderer.
 - iv. When the tender is from a black listed/ banned firm.
 - v. When the tender is received late.
- q) Verify to ensure that a comparative statement of all tenders received were compared in terms of price, quality, terms of delivery, terms of payment, etc.
- r) Check whether other conditions being equal the least tender/quotation was accepted and if otherwise satisfactory reasons were recorded
- s) Verify to ensure that appropriate approval of the competent authority was received on the selected tender/quotation before placing a formal purchase/supply order.
- t) Check if a formal supply order was placed before the successful tenderer once the tender was accepted.
- u) Examine the purchase/supply order contained to ensure it is issued as per the approved quotation or tender's quoted and terms and conditions.
- v) Where an agreement is necessary, verify to ensure that an agreement had been entered into with the successful tenderer in stamp paper of stipulated value.
- w) Verify the Material Notes/Goods Received Notes, Invoice to check whether the quantity as per the purchase order was received; whether the officer receiving the stores has certified the quality and quantity.
- x) Check whether the stock register had been maintained and requisite entries were recorded there in.
- y) Verify the purchase vouchers along with bills, invoices and other supporting documentation to ensure that stores purchased is properly accounted and paid; trace the purchase entries to stock register and respective GL accounts.
- z) Where bills are processed through Treasury, check the Treasury bill with the actual bill of the vendor and other supporting documents and ensure the same is correctly recorded in the Cash Book/Bank Book and respective GL accounts.
- aa) Verify the payment voucher to the vendors to ensure cheques signed/payments are released by competent authority and vouchers are properly authorized and approved; trace the payment entries to the Cash Book/Bank Book, and respective GL accounts.
- bb) Check whether proper receipts had been obtained for the payments in cash/ DD/ Cheque to vendors and compare them with the voucher amounts for accuracy and completeness.
- cc) If payments are made by Treasury, verify Treasury payment advice and trace the entries in Cashbook/Bank Book and respective GL accounts.
- dd) Check whether physical verification of stock and certification has done in due course.

84. Audit of Financial Statements

One of the significant audit mandates for local body audits is audit of balance sheet, the financial statement that depicts the statement of financial position of the local body on a particular date. Audit of balance sheet involves verification of assets and liabilities of the entity for assertion of (i) Completeness (ii) Existence (iii) Valuation (iv) Ownership (v) Disclosures. These are verified using the audit procedures detailed herein.

84.1. Review of Final Accounts

The transaction audit as per the audit procedures detailed above should be followed by a detailed review of Final Accounts and the Financial Statements generated by the Local Body. The following procedures are relevant for the purpose.

<p>1. Review of Income & Expenditure Accounts</p>
<p>A. Tax Revenue</p> <ol style="list-style-type: none"> 1. Check that revenue to be recognized on accrual basis has been recognized; agree the GL account balances with income schedules and the amounts shown in the financial statements. 2. Verify the control accounts to ensure that income to be recognized on cash basis have been properly recognized; agree the General Ledger account balances with income schedules and the amounts shown in the financial statements. 3. All write offs/remissions and refunds have proper approval and are backed by detailed schedule listing the assessee-wise remissions / refunds and are justified in the circumstances.
<p>B. Non – Tax Revenue</p> <ol style="list-style-type: none"> 1. Check that the rent registers and rent schedule showing the property wise rental income tallies with rental income shown in the GL accounts and the financial statements. 2. Perform similar procedure for other non-tax revenue and ensure that the same tallies with the respective records maintained and with the amount shown in the income and expenditure account.
<p>C. Income from Grants</p> <ol style="list-style-type: none"> 1. Check the grant registers and ensure that the grant income matches with the General Ledger accounts and the grants shown in financial statements. 2. Check and ensure that the grant received for specific purpose is matched with the corresponding expenditure 3. Check the grant registers with the treasury statements to ensure that unutilized grants are not shown as income.
<p>D. Interest income</p> <ol style="list-style-type: none"> 1. Check the details of interest income with the source documents and ensure the following <ul style="list-style-type: none"> • Income has been booked at the correct rate and for the entire current accounting period • Proper classification of Interest income into interest income accrued but not due, interest income accrued and due but not received and appropriately disclosed in the books of accounts. • Reconcile the interest income with total investments to ensure that all the income pertaining to the current year has been booked in the books of accounts.
<p>E. Profit/Loss on sale of assets</p> <ol style="list-style-type: none"> 1. Check that: <ul style="list-style-type: none"> • Profit or Loss on sale has been properly recognized and correctly accounted • Such profit/loss pertains to current year only. • Check the arithmetical accuracy of calculations
<p>F. General administration and other expenses</p> <ol style="list-style-type: none"> 1. Ensure that the expenditure has been provided for the entire 12 month period; they are properly classified and booked at correct amounts. 2. Analyze the trends of the major expenditure and carry out detailed scrutiny of exceptions (expenses head showing abnormal increase / decrease trend); similarly carry out period end analytical

procedures like period to period comparison; data relationships and ratios and scrutinize exceptions.

3. Perform on test check basis ledger scrutiny of major expense head keeping in mind basic principles:
 - Booking in correct account head
 - Booking of correct amount
 - Expense pertain to current year
 - Authorisation and approval from competent authority
 - Expenses have been properly classified into prepaid and current year expense.
4. Check that adequate provisions have been created for doubtful debts and other non-receivables.
5. Check the depreciation calculations and ensure it is correctly provided.
6. Reconcile the stores and spares consumption booked in books of account with the stores ledger and sort out the differences, if any.

G. Employee Remuneration and benefits

1. Check whether the salary booked matches with the consolidated pay bill prepared every month and salary is booked for all 12 months correctly.
2. Analyse the monthly trend of salaries and find out whether there are any abnormal variations and if so obtain the reason for the same; similarly compare the salaries with previous year figures and scrutinize exceptions and seek justification for large increases.
3. Check all statutory deductions have been made and remitted to government/funds.
4. Test check the deduction of employees contribution to provident fund and calculation of TDS

H. Interest and Finance charges

1. Check to ensure:
 - Interest rate and amounts matches with the provisions of the loan agreement.
 - Interest and financial charges have been booked for the period for which it is due.
 - No penal interest is paid during the year.

I. Revenue Grants, Contributions and Subsidies

1. Obtain a schedule of grants received and spent for specific purpose and the expenditure incurred out of the same; tally the figures to GL and financial statements.

2. Review of Balance Sheet

A. Fixed Assets

1. Review the Asset Registers and ensure they are maintained in accordance with the formats prescribed in Kerala Municipal Accounts Manual and other applicable Rules.
2. Check the summary of additions to ensure :
 - Criteria applied for capitalisation is correct and the assets have been correctly capitalized
 - Sufficient evidence of assets being put to use / installed is available for capitalisation.
 - Expenditure in nature of Repair & maintenance has not been capitalised
3. Check that depreciation has been charged as per the rates prescribed in Kerala Municipal Accounts Manual or other applicable rules.
4. Check the detail of assets sold/ discarded / disposed during the year and ensure that gains/ losses on disposal are properly accounted
5. Check that revaluation of fixed assets, if any has been properly disclosed/ reflected in books of accounts.

B. Investments and Fixed Deposits

1. Obtain and check confirmations for investment / deposits lying with banks or lender / third parties and match the same with GL and Financial Statements balances; scrutinize differences and ensure they are accounted.
2. Reconcile the Deposits/investment ledger/ detail with the general ledger and sort out the differences, if any
3. Ensure that investments are recognized at their correct cost/market value whichever is less; and any loss of permanent nature is provided in the books of accounts.
4. Check investment income is correctly recognized.

C. Stock / Inventories

1. Check that inventory/stock is valued correctly as per generally acceptable accounting principles and rules as per Kerala Municipal Accounts Manual and other Rules.

2. Check that year end inventories were verified and difference adjusted in the books with necessary approval of the competent authority.
3. Ensure that inventories have been disclosed in accordance with the requirement laid down in the Kerala Municipal Accounts Manual.
4. Perform analytical review to ensure that inventories have been adequately presented and disclosed in the financial statement:
 - Reconciliation of quantities of opening stock, purchases and closing stock
 - Comparison of closing quantities and amount with those of the previous year
 - Comparison of actual stock, purchase figure with the corresponding budgeted figures.

D. Receivables (debtors, other current Assets, Loans and advances)

1. Check the balances shown in Schedule tally with GL accounts and the financial statements
2. Check major ledger accounts to ensure that no unusual /irrelevant transactions have been recorded in the accounts.
3. Verify the schedule of receivables with the Demand, Collection and Balance (DCB) statement and pay special attention to the following points:
 - The amounts as per DCB and GL and Financial statements agree with each other.
 - Dues and overdues have been correctly identified and stated in the financial statements.
 - Transfers from one account to another account are evidenced.
 - Provision for doubtful debts has been made in accordance with period of dues.
4. Review the terms and conditions of the loan agreement and ensure that the parties / employees are complying with the terms and condition in respect of repayment, interest payment etc.
5. Ensure that adequate provision has been made against the non-recoverable advances/ loans.
6. Perform the following analytical review procedures and scrutinize exceptions:
 - Comparison of closing balance of receivables, loans and advances with the corresponding figures of the previous year
 - Comparison of the relationship between current year receivables and the current year income with the corresponding figures of previous year
 - Comparison of actual closing balances of receivables, loans and advances with the corresponding budgeted figures, if available
 - Comparison of current year aging schedule with the corresponding figure of the previous year
7. Ensure that debtors, loans and advances have been disclosed properly in the financial statements.

E. Cash and Bank

1. Ensure that bank balances as shown in financial statements have been duly reconciled with book balances and these have been confirmed by bankers and matched with those confirmations.
2. Carry out physical verification of cash and reconcile with the book balance.
3. Ensure that time deposits, if any have been adequately disclosed and confirmations obtained from respective bankers and the balances matched with GL and financial statements.

F. Borrowings

1. Ensure that all the borrowings are supported by Council resolutions and approved by government where required.
2. Ensure that borrowings and related contingencies and securities given are properly disclosed in the financial statements.
3. Cost of borrowings is capitalized where required and found necessary in accordance with applicable accounting framework.
4. Confirmation from lenders were obtained for year-end outstanding and reconciled with books.

G. Sundry creditors and Accrued Liabilities

1. Review high value creditor ledger / parties account and examine the unusual/ irrelevant entries, if any recorded in the accounts.
2. Check for all significant accruals for payroll, invoices received from contractors / suppliers, interest, etc. have been made and expense ledgers have been reconciled with GL.
3. Compare the last year and current year accruals to ensure no recurring items have been omitted.
4. Any advance paid to the suppliers shall be shown under the head “Loans and Advances”
5. Review major expenditure accounts such as salaries, electricity, etc. and ensure that expenditure has booked for entire 12 month period and adequate provision has been made in the books.

6. Check necessary provision for outstanding expenses actually incurred but not settled have been accrued at the period end; check the calculations and justifications for provisions with necessary supporting documentation; in case of management estimates, ensure estimates are made based on a reasonable basis and have adequate justifications.

H. Unexpired Capital commitment

1. Review the details of capital work in progress and all open and partially settled pay orders to ensure adequate disclosure of capital commitment has been made in financial statements.
2. Review the details of debit balance of sundry creditor / advances to sundry creditor and trace out the cases of capital advances. Ensure that adequate disclosure of unexpired capital commitment has been made in financial statement.
3. Ensure that only capital items have been considered in respect of unexpired capital commitments.

I. Notes to Accounts and Disclosure Statements

1. Review the notes on accounts to ensure all accounting policies and other relevant items re disclosed correctly and properly and in accordance with applicable Rules and accounting framework. Review all other disclosures made in the financial statements to ensure those are true to the circumstances and improve the value of the financial statements for the users.

84.2. Audit Procedures

- a) The auditor shall verify the most recent financial statements along with its schedules and notes, for information relevant to opening balances, including disclosures and accounting policies applied.
- b) Check and determine whether the previous year's closing balances have been correctly brought forward to the current year; where they are regrouped or restated, obtain necessary evidence to check that regrouping or restatement is justified and is in accordance with applicable accounting framework.
- c) If the audit is conducted for the first time, then do the following:
 - i. Where the previous year's financial statements were audited, reviewing the predecessor auditor's working papers to obtain evidence regarding the opening balances.
 - ii. Evaluate if the audit procedures performed in the current period provide evidence relevant to the opening balance.
 - iii. Perform specific procedures for obtaining evidence regarding the opening balances.

85. Audit of Fixed Assets

Fixed asset is long term tangible piece of property that a firm own and uses in the production of its income and is not expected to be consumed or converted into cash as soon as one year's time. Fixed asset are sometimes collectively referred such as land, building, equipment, machinery, vehicles, etc. It is an asset purchased or created for the long time use of an entity and includes such assets transferred from the transferred institutions are also part of fixed assets.

As part of verification of the assets verify the register of assets, the register of documents related to land and buildings, roads, puramboke land, movable assets, etc. In addition, the history book, stock register, register of petrol / rent register, etc.

Depreciation has to be verified according the methods and the approved prevailing rates. There are several standard method of computing depreciation expenses including fixed percentage, straight line and diminishing balance method.

85.1. Risk and Implications

Risks	Implications
<ul style="list-style-type: none"> ▪ Procurement without budget sanction or exceeding budget limits. ▪ Procurement of fixed assets without proper approval/sanction. ▪ Procedures followed not adequate to prevent errors/fraud ▪ Non-updating of Fixed Assets related records/ registers on purchase of Fixed Assets. ▪ Segregation of duties relating to procurement / receipt of capital assets and its accounting thereof not adequate. ▪ Procurement and capitalization not complying with relevant Policies, Procedures and Rules. ▪ Incorrect classification/ capitalization of assets. ▪ Sale / disposal of the fixed assets may not have been duly authorised by the competent authority ▪ Identification of obsolete/surplus/impaired assets not done; disposal of such assets may not be in accordance with relevant Policies. ▪ Delayed receipt of sale consideration 	<ul style="list-style-type: none"> ▪ Lack of control over the physical assets. ▪ Purchase of fixed assets without budget availability. ▪ Assets not accounted at its correct costs/valuations. ▪ Capitalization of fixed assets under incorrect asset heads ▪ Incorrect rate taken for depreciation of fixed assets. ▪ Possible financial loss

85.2. Audit Procedures

1. General Verification
<p>a) Obtain the list of Fixed assets purchased/capitalized during the period covered under audit and verify the following:</p> <ol style="list-style-type: none"> i. Purchases made are as per the approved Budget; verify that budget provision was available and control exercised at the stage of commitment (i.e. issue of Purchase Order/Work Order) and not at the time of payment. ii. Purchases of fixed assets have been duly authorized/approved/sanctioned; verify the evidence in the form of Notes, Requisitions, Purchase Orders, Bills and Payment Vouchers. iii. Asset capitalization and accounting is supported by an installation certificate/ completion certificate/commissioning report from supplier/contractor and the same is certified by the concerned officer of the local body. iv. Assets should have been received along with necessary supporting documents i.e. invoice, delivery chalan, etc. v. Upon purchase and installation, Asset Register should have been updated; verify the Asset Register to confirm such updation. vi. Verify to ensure Asset Identification Number has been allotted and the same is recorded in the

<ul style="list-style-type: none"> vii. Verify the title deeds (where applicable) and ensure they are kept in the safe custody of competent authority. viii. Check that a Fixed Asset Register and/or a Land Register are maintained as required under respective Rules. Verify the registers to ensure these are updated with all details of assets; check that the Fixed Asset Register is kept under the custody of a designated officer in the local body. ix. Reconcile the balance as per Fixed Asset Registers with respective General Ledger accounts; seek explanation for differences and ensure they are correctly treated in the accounts. 	<p>Asset Register with the concerned asset; verify if the AIN is indicated on the asset itself.</p>
2. Transaction Verification	
<ul style="list-style-type: none"> a) Check the following in Asset purchase transactions: <ul style="list-style-type: none"> i. Verify the Purchase Indent/Proposal, and check if justification is properly recorded, and the indent/proposal is verified by designated person/s and approved/sanctioned by competent authority as per the delegation of powers in force. ii. Verify the Appropriation Control Register (Budget Utilization Register) to ensure availability of budget provision at the time of commitment and not at the time of payment. iii. Verify if the purchase procedures like, obtaining quotations/calling for tenders; evaluation and comparative statements, preparing a note to competent authority and obtaining approval of competent authority, issue of Purchase Order/Work order/agreement have been correctly carried out and there are no discrepancies or deficiencies noticed. iv. Verify the Goods/Asset Received Notes to ensure the receipt of materials/assets as per purchase order/Agreement and that the same are accepted by the concerned officials. v. Verify the Actual Invoice received from vendors/suppliers with purchase order and Goods Received Not to ensure the billing is done for what is ordered and received; there are no price differences and any other terms are properly complied with by the supplier. vi. Verify the Actual Invoice is properly authorised and approved by the competent authority for payment. vii. Verify the respective entries in cashbook/bank book and respective GL accounts for accrual and payment entries to ensure the assets are correctly and completely accounted; trace the entries to the Asset Register and reconcile the Asset Register with General Ledger. viii. Ensure that purchase price has been calculated as per the principles set out in Kerala Municipal accounts Manual and relevant Rules in force. ix. Verify to ensure that no revenue expenditure has been capitalized or vice versa. x. Check and ensure that classification of assets recorded is correct. xi. If the transaction involved purchase/ construction of a building then verify the following: <ul style="list-style-type: none"> a. Purchase price/compensation for acquisition of assets b. Legal charges c. Compensation paid to cancel tenancy rights at the time of purchase d. Repairs incurred to put the building into working/usable condition. e. If the building is purchased with land, the cost has been bifurcated between land and buildings based on technical valuation/government estimates. f. Where building is constructed all costs relating to construction including interest on money borrowed for construction is capitalized and included in the cost. b) For verification self-constructed assets, refer audit procedures in the Public Works section. c) For road assets, cost of land is capitalized with land and not with roads. d) Where assets are received at free of cost, check the same is accounted and valued at Rs.1/- and included in the Asset Register with a proper AIN. e) Verify, by examining the evidence available or by inspection which is duly recorded in the audit work papers, that the purpose for which asset was bought or constructed is achieved; issue audit enquiry and seek explanation for discrepancies/deficiencies. 	
3. Sale and Disposal of Assets	
<ul style="list-style-type: none"> a) Check the relevant procedures for identification and sale and disposal of assets; review the procedure for the following: <ul style="list-style-type: none"> i. There is a system to identify the unserviceable / obsolete fixed assets on a regular basis. ii. The competent authority reviews the status of obsolete fixed assets. iii. Assets approved for disposal are as per the guidelines in force 	

- iv. That all disposals have been properly sanctioned by means of an approved note/attestation in the Asset Register etc.,
- b) Obtain a list of assets disposed during the audit period and verify:
 - i. Sale is made as per the guidelines in force and it was properly authorised by competent authority.
 - ii. A Sale order/Sale Note is prepared and approved by competent authority.
 - iii. Sale is made by either inviting quotations or through a tendering or auction process as required by the relevant guidelines.
 - iv. Examine the quotation/tender/offer received with supporting sale order/sale note and respective entries in the Asset Register to confirm the carrying cost, depreciation and to ensure if offer amount is justified.
 - v. Enquire about the working condition and verify if there are any third party confirmations/technical certification for certifying the working condition of asset.
 - vi. Examine the reasons for sale/disposal/write off and check if they are justified in the circumstances.
 - vii. Check that the payment has been received in respect of sale and is properly recorded in cash book/bank book; verify the entries in the cash book/bank book and GL and trace them to respective entries the Asset Register.
 - viii. Check that all costs incurred on expiry of life time, scrapping, obsolescence and sale of assets have been charged to Income and Expenditure account in the year in which the costs are incurred.
 - ix. Verify whether the profit/ loss on sale of assets has been properly computed and accounted; check the calculations.
 - x. Check that the relevant registers are correctly updated with the sale.

4. Verification of Depreciation

- a) Ensure that the depreciation on assets is charged at the rates prescribed in the Kerala Municipal Accounts Manual or relevant and applicable Rules and Regulations or as per C&AG guidance if any.
- b) Land cannot be depreciated; hence check that no depreciation is provided on land.
- c) Verify the depreciation calculations and trace them to respective entries in the GL and Asset Registers; ensure total depreciation does not exceed cost of acquisition as per books.
- d) Where an asset is fully depreciated, check if it is being carried at Rs.1/- in the books of accounts.
- e) Where assets are bought from grants, check that depreciation is calculated in accounted on the full value of the asset and not the value arrived at after deducting the grant amount.
- f) Check if any Asset Replacement Bank Account is maintained by the local body. If so, check to ensure that it is utilized only for replacement of assets.

5. Physical Verification of Assets

- a) Check if the local body physically verifies the assets annually or at such other periodicity as may be required.
- b) Review the procedures followed by the local body for physical verification of assets; check the documentation evidencing the physical verification undertaken by the local body.
- c) When a physical verification is done, check if discrepancies between the physically verified balances and book balances are investigated and adjusted with proper approval of the competent authority.
- d) Obtain the list of assets at the period end and physically verify the assets and ensure the following:
 - i. Physical assets balances tally with Asset Register and General Ledger account balances; differences if any.
 - ii. Assets bear the AIN
 - iii. Assets are in good working condition.
 - iv. Assets idle and not being used are noted and remarks sought.
 - v. Assets transferred from other local bodies/departments are properly noted in the Asset Register and accounted in the books.
 - vi. The work papers relating to physical verification contain the details of the local body, the date of inspection, the category of assets, individual items checked with their AIN, the team involved in inspection, book balance, physical balance, discrepancies noted etc.

86. Audit of Investments

Investments may comprise of movable assets like (i) Fixed Deposits (ii) Equity Shares (iii) Units of Mutual Funds, which are maintained for earning regular income and provide a service to the public. The procedures detailed in Kerala Panchayat raj (Panchayat Fund Investments and withdrawal) Rules 1996 and Rule 47 of Kerala Municipality Account Rules 2007 should be followed in the case of all Investments.

The Secretary has to verify whether the municipal funds which are available in excess are deposited as per the Government directions according to the utility of the amount or tri-monthly whichever is practicable. All municipalities have to submit every deposit record for physical verification by the auditors.

86.1. Risks and Implications

Risks	Implications
<ul style="list-style-type: none"> ▪ Purchase/ disposal of investment may not have been approved by appropriate authority. ▪ Non-compliance with policies and other regulatory requirements ▪ Lack of safe custody measures / control over original documents of investment. ▪ Loss/Misplacement of original documents of investment. ▪ Incorrect accounting for purchase/ sale/ income on investments. ▪ Incorrect valuation of investments in the book of accounts. ▪ Non-maintenance of required registers/records to track investments. 	<ul style="list-style-type: none"> ▪ Non-adherence of investment policy may result in financial loss to Local Body. ▪ Lack of safe custody measures of investment proceeds increase the chances of fraud / misappropriations.

86.2. Audit Procedures

1. General Checks
<ol style="list-style-type: none"> a) Check what type of investments that the local body can make from General and Special Funds; Review the procedures to be followed for investments. b) Check if Investments registers (by type of investment) are maintained and updated for tracking the purchase and sale of investments. c) Verify the investment registers are reviewed periodically by the designated officials and that investment register entries are attested by such person reviewing the register. d) Check and ensure a list of investments maturing in a year/quarter/month is drawn up and timely action is taken for their renewal or disposal. e) Verify the ownership of investments; check that all investments are bought and sold in the name of the local body and not in the name of its officials. f) Verify that the investment registers and investments are in the safe custody of the competent authority and in a safe with dual control on operations. g) Check if there are investments where title was not transferred to the local body; identify all such cases and seek explanations. h) Check there are proper procedures to track the investment income like interest and dividends. i) Examine the carrying cost of investments in the financial statements; trace the total shown in the balance sheet to the Investment Registers and respective GL accounts. j) Ensure that bankers/third party confirmation is available on record for investments; check the balances as confirmed with the GL accounts and note discrepancies if any; seek and verify a reconciliation for differences. k) In case of loss/theft, ensure an FIR is lodged; verify the copy of FIR; verify that the local body is written to the bank/investee entity notifying the loss and for issue of duplicate instrument.

<p>2. Transaction Verification - Investments</p>
<p>a) Obtain a list of investments made during the period covered by audit and do/verify the following:</p> <ol style="list-style-type: none"> i. Examine the approvals by competent authority for investments made. ii. Verify the investments with FD receipts, contract notes, bill of costs, and such other supporting documents for accuracy and completeness and occurrence. iii. Verify the investment amounts with respective entries in Cashbook/Bankbook and trace them to Investment Registers and respective GL accounts; ensure these are properly classified and accounted. iv. Ascertain if investments are made cum-interest, cum dividend etc., and check the calculations of the interest and dividend and ensure that it is separately accounted in interest and dividend and not as cost. v. In case of equity investments, check the price paid with the closing price on the day on the stock exchange where the investment was made; investigate significant differences between the contract price and the closing price, if any. vi. Verify the Investment Register/s to ensure that all new investments are properly and correctly recorded therein. vii. Check that the FD receipts/ investment instruments/credit in depository accounts have been properly and correctly received for all investment made.
<p>3. Sale of Investments Verification</p>
<p>a) Verify the cases of disposal of investments/deposits and ensure the following aspects:</p> <ol style="list-style-type: none"> i. Approval of council or any other competent authority has been obtained. ii. Sale proceeds have been credited to the bank account timely; check the entries in the bankbook with corresponding entries in the bank pass book. iii. Appropriate entry to book the sale and resulting profit / loss has been passed in the books of account iv. The sale is recorded in the Investment Register and the investment receipt is cancelled/surrendered. v. Check the cost of investment/s and ensure that investments are not sold for less than the cost of acquisition. If circumstances require such sales, verify if proper approvals are taken for selling at lower than the cost and book a loss. vi. Obtain the FD receipt/statement from depository/Mutual Fund Company and compare the investment made. vii. Ensure the investment documents are kept in the safe custody of the designated persons.
<p>4. Physical Verification</p>
<p>a) Ensure there is a procedure to carry out physical verification of investments periodically; review the procedures and also the documentation available to ensure such physical verification is done.</p> <p>b) Obtain a list of investments and verify the following:</p> <ol style="list-style-type: none"> i. The investment is in the name of the local body ii. Original documents of investments are available and verified iii. All original documents/receipts are in safe custody and maintained in good conditions iv. The values are correctly represented in the balance sheet.
<p>5. Investment Income</p>
<p>a) Verify if the income from investment is updated in the investment register on purchase of any new investment or new deposits on a periodical basis for the income accrued on investment and receipt thereof.</p> <p>b) Check the calculations of the income accrued and compare with the income actually received, e.g. interest, dividend, etc.</p> <p>c) Take the list of ledger accounts relating to investment and investment income and verify that income from all investments has been received and accounted correctly; trace and verify the cashbook/bank book and also respective entries in the bank passbook.</p> <p>d) Where there is no actual receipt of income due, verify if the same is accrued in the books as receivable and followed up with respective institutions for receipt.</p>

87. Audit of Cash & Bank

Cash and Bank transactions form a major portion of the assets of any LSG. The audit of Cash and Bank shall include all the processes from receipt of cash/cheques, their remittance in to Bank/Treasury accounts, withdrawals from Banks/Treasury, payments made, and the accounting of all these transactions in the books of the LSG concerned. An illustrative checklist for some of the processes involved in the audit of cash & Bank transactions are grouped as below:

- i) Cash transactions
- ii) Cash withdrawal from Bank
- iii) Imprest cash
- iv) Bank transactions
- v) Bank reconciliation
- vi) Other checks
- vii) Cash chest

Cash Collection and remittance

1. Collection of revenue, its accounting and remittance to the bank or treasury shall be examined with reference to the respective Accounts rules prevailing
2. The Auditor shall ensure that the functionalities as cashier and accountant are separated
3. The revenue in respect of previous day from all sources are pooled together and remitted in lump. All documents such as receipts, computer print outs, in respect of the revenue shall be scrutinized to ascertain the sources of income and its correctness
4. Receipts through cheques and drafts money order transfer credit like NEFT, RTGS, online remittances, etc., shall also be acknowledged by proper receipts.

87.1. Risks and Implications

Risks	Implications
Payments without approved bill / supporting documents: <ul style="list-style-type: none"> ▪ Duplicate payment against same bill support ▪ Receipt of cash without issue of official cash receipts ▪ Inadequate controls over safe custody of the cash receipt books ▪ Incorrect accounting of cash transactions-Cheque and draft ▪ Inappropriate procedure for safe custody of physical cash. ▪ No segregation and rotation of duties of officials involved in cash and bank receipts and payments and accounting thereof. 	<ul style="list-style-type: none"> ▪ Chances of fraud or misappropriations. ▪ Financial loss ▪ Regulatory consequences like, penalties etc. ▪ Keeping of idle funds.

87.2. Audit Procedures – Cash

1. Cash Receipts
<ol style="list-style-type: none"> a) Review cash collection, scrolling and accounting procedures; ensure required cash books/bankbooks, bill collection receipts and registers, scroll are maintained. b) Check if there is a system of issuing official receipts for cash collected; check if these are serially numbered. c) Check if a stock register is maintained to keep an account of receipt, issue and balance of receipt books. d) Verify that printed receipts are issued in consecutive order and ensure that cancelled receipts have been properly authenticated and preserved. e) Verify to ensure that unused official receipt books are checked at regular intervals and kept in a safe custody. f) Check and ensure that any alterations in the official receipts have been properly authorised and evidenced.

g) Verify that the cash scroll and cash book are totaled daily and are tallied and cash collected is recorded under the respective heads and deposited in the bank account on the same day or the next day. Verify the postings to Cash/ Bank Book accounts. Test check deposits into bank account with cash book and analyze the delay if any and seek explanations.
2. Cash Withdrawals
a) Trace the cash withdrawals into cash book and ensure they have been accounted on the same day of withdrawal and taken into the balance of that day. b) Check there is no practice of signing cash cheques for withdrawal in advance
3. Cash Verification and Safe Custody
a) Verify the cash book to ensure that cash is tallied daily and the cash book is signed by the person performing this verification as evidence. b) Carry a surprise cash count during the course of audit and compare the balance with cash book; report the differences noticed. c) Physically inspect the safe custody box/locker etc for cash and ensure these are adequate considering the average cash balances on hand. d) Verify the segregation of duties of staff to ensure that cash functions like cash collection, accounting and deposit into banks are reasonably segregated.

87.3. Risks and Implications – Bank

Risks	Implications
<ul style="list-style-type: none"> ▪ Making of bank payments without approved bill / supporting documents. ▪ Incorrect accounting of bank transactions. ▪ Internal controls over cheque books, signed cheques, issue of postdated cheques, cheques received, etc., not adequate. ▪ Delay in deposit of cheques in the bank. ▪ Delay in communicating banker for change in signatories. ▪ No segregation and rotation of duties of officials involved in banking transactions 	<ul style="list-style-type: none"> ▪ Chances of fraud and misappropriations ▪ Financial loss to Local Body

87.4. Audit Procedures - Bank

1. Payments
a) Test check bank payment vouchers and ensures the following aspects: <ol style="list-style-type: none"> i. Vouchers are serially numbered (printed nos), dated, written neatly and contain no corrections/changes/amendments; in case of corrections on vouchers, verify if the same are attested by a competent authority by a full signature. All vouchers must be entered in the Voucher Register if any. ii. Vouchers accompany adequate supporting documents like bills, receipts, invoices etc. which are also should be original- exceptions could be where payments are processed through Treasury and the originals are sent to Treasury, in which case a full set of attested copies should be available for audit. iii. Verify if the correct head of classification is recorded on vouchers along with primary and secondary units of appropriation (if any) against which the amount of the bill is to be debited. iv. Vouchers and the supporting documents are properly authorised and approved by the competent authority; vouchers should contain the cheque/DD numbers issued. v. There are no overwriting/changes on the voucher; if there are any changes, the change is approved by a full signature of person approving the voucher and not a different person. vi. Cash and bank section does not modify any field of the vouchers prepared by other sections (i.e. party name and code, particulars, amount, etc). It only updates the fields for cheque number and date and the bank code. vii. Payment has been made against original documents only. viii. Expenditure is correctly classified, and posted in correct account heads in GL. ix. Trace the bank vouchers to respective entries in Bank Book and respective GL accounts; on a test

check trace large value of transactions to respective entries in Bank Pass Book.

- b) Review the list of vouchers for which payment is not made and ensure that vouchers are not pending for payment for unreasonable long period.
- c) Verify if the specimen signatures of the officials authorised to sign cheques have been communicated and timely updated (in case of change) to the Banks (ensure duly authorized)
- d) Check to ensure that all the bills are stamped once approved for approval and then for payment to ensure the same bill is not processed once again.
- e) Test checks the cancelled cheques and verify to ensure that such cancelled cheques are defaced as 'Cancelled' and retained for records
- f) Verify that local body maintains a register for cheque books and for cheque issuances; test check the entries in these registers with respective bank books and bank pass books; trace them to GL accounts; ensure cheques/DDs are timely despatched.
- g) Check and ensure that all cheque books and unused cheques are kept in the safe custody of the designated person/s.
- h) Test check the receipts received from parties (to whom cheques are issued) with respective vouchers.
- i) Ensure that all signed cheques pending issuance to parties are kept under the control of authorized persons only and acknowledgement is taken when cheques are released.
- j) If fresh cheques are issued against time barred/ cancelled/ lost cheques:
 - i. A fresh voucher is made with reference to the old vouchers
 - ii. In the case of lost cheque
 - iii. Issue of fresh cheque has been authorised by competent authority
 - iv. Non Payment certificate from bank in the case of lost cheque.
- k) If a cheque is dishonored, check if the same is entered in the Cheque issuance register, and fresh cheques are issued under reference to old vouchers/bills to avoid duplicate payments.
- l) Verify the Segregation of Duties – ensure persons preparing cheque and those signing cheques are independent of each other; ensure payment and recording are segregated.
- m) In case of electronic payments, check:
 - i. Appropriate details from the payee are received in writing and recorded on the voucher
 - ii. On a test check basis, check and compare the details received from the payee with details sent to the bank and ensure there are no differences.
 - iii. On a test check basis verify the payment advice sent to bank to ensure payment is made to correct payee.

2. Bank Receipts

- a) Verify the acknowledgement is issued for all receipts, which are serially numbered.
- b) Check and ensure that the entry for bank charges (if any) on deposit of Cheque / DD in the collection account is accounted separately.
- c) Check the recording procedure for cheques received and ensure that all cheques received are recorded properly and kept under safe custody until they are deposited into bank; verify a few entries in the registers to ensure timely realization of cheques.

3. Bank Reconciliation

- a) Check the local body has a system of regular (monthly) reconciliation of its bank book with bank pass books, scrutinize the difference and pass adjustment entries in the books of accounts.
- b) Obtain monthly reconciliation statements and scrutinize the same for the following:
 - i. Cheques issued but not appeared as paid by banker, and Cheques deposited but not credited in the bank statement have been properly dealt with and reconciled.
 - ii. All debits and credits made by the bank have been duly identified and accounted for
 - iii. Any undue delay in realisation of cheques deposited or cheques issued.
 - iv. No items are outstanding for a long time (stale cheques); seek explanations for the same
 - v. There are no unexplained debits/credits
 - vi. Bank reconciliation is done by a person independent of disbursement and receipt functions
 - vii. There are no stale cheques outstanding for more than 3 months ; if so, ensure these are transferred to Liability accounts
- c) Ensure that BRS statements are available for all bank accounts and are filed properly.
- d) Check the balance confirmation certificate received from banks for each account with the Bank Book Balance.

88. Audit of Liabilities

Liabilities are financial obligations of the Local Body and may include Loans and Borrowings, Sundry Creditors, and other current liabilities and provisions. Liabilities are generally represented by documentary evidence originating from third parties in their dealings with the Local Body.

88.1. Audit of Loans & Borrowings

Loans and Borrowings represent the financial obligations of the Local Body; moneys borrowed for general business either through General Funds or Special Purpose Funds. Interest on loans and borrowings should be accrued on the due dates as per the loan schedules/agreements.

88.2. Risks & Implications

Risks	Implications
<ul style="list-style-type: none"> ▪ Loans and borrowings beyond the powers of the Local Body and may not be approved by the Government. ▪ Unauthorized borrowings ▪ Higher interest rates ▪ Amounts borrowed may be unutilized for the purpose. ▪ Incorrect calculation of Interest ▪ Inadequate loan closure procedure improper record maintenance. ▪ Loans may not comply with applicable legal and statutory requirements. ▪ Un-reconciled loan balances with the lending agency. 	<ul style="list-style-type: none"> ▪ Disputes with lenders and reconciliation problems. ▪ Penal interest due to delayed payment of interest and/or principal ▪ Penalties for non-compliance of statutory requirements ▪ Inadequate loan closure procedure may result in untimely release of collateral security, etc.

88.3. Audit Procedures

Verification Procedures
<ol style="list-style-type: none"> a) Verify to ensure that loans and borrowings obtained are within the powers of the Local Body and that appropriate sanction and approval of the competent authority was obtained for borrowings. b) Verify that borrowings at any point of time do not exceed the limits imposed by the statute/regulations and/or the decisions of the Council/Board/Executive Authority. c) Obtain a statement of loans/borrowings raised during the year and verify the following: <ol style="list-style-type: none"> i. Approval of the appropriate authority for borrowings ii. Borrowings are within the budget allocation and for any deviations, revised approvals of the appropriate authority were obtained. iii. If the assets of the Local Body are pledged, check if necessary approval are taken for the pledge and that the security is recorded in the Fixed Asset Register. iv. Check and verify the Loan Registers are properly updated with all loans and borrowings. v. Check Interest and other terms and conditions of the loans have been carefully negotiated and are in the interest of the Local Body; check that necessary approval for the terms is obtained. vi. Check that the charge on assets was created by following the provisions of the laws, regulations that apply to the Local Body. vii. Verify if the loans raised are utilized for the purpose for which loans are taken and check there were no diversion of funds for any other use. viii. Check that the period of the loan does not exceed the life of the asset for which it is taken. ix. Check the entries in the Loan Registers and trace them to bank book and respective GL accounts. x. Obtain confirmations from the lenders for the outstanding balances as at the year end and verify the same with books of accounts; seek explanations for differences. xi. Check that the interest rate has been correctly applied in servicing the loans; calculate the interest and tally it with respective accounts and seek explanations for any discrepancies.

- d) Check and verify the loan draws for the following:
 - i. The draws are as per the schedules agreed with lenders and as per terms as provided in the loan agreement.
 - ii. The draws are as per the requirement of funds and that borrowed funds did not lie idle resulting in loss of interest
 - iii. Trace the amounts to the bank books, bank statements and respective GL accounts and ensure that all drawal are correctly accounted.
 - iv. Verify the amounts drawn with the advice from lenders/confirmation statement from lenders.
- e) Check the repayment entries for the following:
 - i. That the installments repaid are as per the schedule of repayment stated in the loan agreement.
 - ii. Repayment amount has been calculated as per the loan agreement conditions
 - iii. There are no defaults in loan repayment; and in case default is noticed, ensure the genuineness for delay.
- f) Check the following for the interest paid:
 - i. The correct rate as agreed to and as stated in the agreement is applied.
 - ii. Interest calculations are correct and are correctly accrued, paid and recorded in the accounts.
 - iii. Interest is paid on time and penal interest is levied only on default due to the reasons beyond the control of LSGI. Penal interest paid otherwise to be treated as liability.
 - iv. Loan Registers are updated with interest
 - v. Verify the interest paid as per vouchers to the entries in Bankbook and GL accounts and confirmations from Lenders.
- g) If rate of interest has been changed during the term of loan, check if it is justified and agreed and approval of competent authority has been obtained for the change.
- h) Upon repayment of the whole loan, check if the lender has properly closed the loan account and released the security given; based on the advice of the lenders, check the Asset Register for necessary noting.
- i) Check that interest due for the period is charged to the Income and Expenditure account of the Local Body.

89. Audit of social security/ welfare pension

89.1. Important Rules/ Government Orders:

- i. Agriculture Labour Pension:
 - a) Kerala Agriculture Labour Pension Rules, 1998
 - b) GO(P) 18/98/ Labour Dept./dated 16.04.98
 - c) GO(Ms) 31/2000/Labour Dept./ 14.03.2000
 - d) GO(Ms) 41/03/Labour Dept./ 23.08.03
- ii. Unemployment Allowance:
 - a) Kerala Unemployment Allowance Rules, 1998
 - b) GO(P) 23/98/ Labour Dept./28.05.98
- iii. Widow Pension:
 - a) GO(P) 11/97/SWD/7.04.97
 - b) GO(Ms) 2/2008/SWD/16.01.08
 - c) GO(Ms) 60/11/SWD/13.12.11
 - d) GO(Ms) 59/2013/SJD/20.07.13
 - e) GO(Ms) 58/2014/SJD/20.06.14
- iv. Pension for differently abled:
 - a) GOP 10/98/ SWD/31.03.1998
 - b) GO(Ms) 21/ 2010/SWD/17.03.2010
 - c) GO(P) 330/13/Fin/12.07.2013
 - d) GO(Ms) 58/13/SJD/15.07.2013
- v. Pension for Unmarried Women above 50 years:
 - a) GO(Ms)/14/2001/SWD/31.03.01
 - b) GO(Ms)/43/2004/SWD/01.07.04
 - c) GO(Ms)/58/14/SJD/20.06.14
 - d) Circular No:14572/C1/13/SJD/30.10.13
- vi. Old age Pension:
 - a) GO(Ms)93/13/SJD/4.11.13
 - b) GO(Ms)58/14/SJD/20.06.14
 - c) GO(Rt)571/14/SJD/10.09.14
 - d) GO(Ms)24/16/SJD/01.03.16
- vii. Financial Assistance to the marriage of daughters of Widows:
 - a) GO(P)43/97/SWD/19.12.97
 - b) GO(Ms)76/12/SJD/26.12.12
 - c) GO(Rt)2592/15/LSGD/22.08.15

89.2. Audit Procedures

1. Verify whether the registers and records as stipulated by the Government for each project have been maintained and verify them
2. Verify the enquiry reports, decision of the standing committee, decision of the LSGI on the applications received
3. Verify the records related to age and income of the applicant as also the Government stipulations
4. In case of delay in decision making within the prescribed time limit, this has to be observed upon (the register of application received and denied shall also be verified). Agriculture workers' pension has to be finalised within of 45 days of receipt of application (rule 7B)
5. Verify whether pension has been given based on the report of the agriculture assistant / ICDS supervisor / VEO, etc.
6. Verify whether there is a sanction of the Grama / Ward sabha for the selection of beneficiary
7. Verify whether the age limits have been adhered to in respect of wages and pension
8. verify whether the certificate from the medical board is available
9. Verify the transfer credit of amounts from pension fund to the account of the beneficiaries
10. Verify the unemployment wages distribution
11. Verify whether the allocation for pension has not been diverted for other purposes

The auditor has to verify the unemployment wages, agriculture workers' pension, pension of widows, invalid pension, pension for unmarried women, national old age pension, financial assistance for marriage of the daughters of widows, etc., distributed to the LSGIs in relation to all the records.