

**Training to staff/ officers of DLFA under TGS
Arrangement
on
AUDIT POINTS & WRITING OF
OBJECTION MEMO**

DEMO....

Session overview

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- Introduction
- Structure of POMs
- Details of criteria section
- Details of Files/ records seen/verified;
- Audit observation and findings
- Cause and effect
- Confirmation of audit findings
- Signature and addressee
- Replies of auditee
- Rebuttal if required

Session objective

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By the end of the session participants will be able to describe the structure of a model POM and also have hands on practice in converting an audit observation into a POM.

Introduction

- A Preliminary Objection Memorandum (POM) is the document which acts as a tool for auditor to communicate with auditee organisation during a course of audit.
- It acts as an important working paper and key documents for consolidation and preparation of Audit Reports.
- POMs can be used to collect information, communicate audit findings to obtain views of auditee or serve as objections on the replies furnished by the auditee on previous POMs.

Structure of model POM

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- Reference to return POM in original with reply within specific time to be given in superscript
- POM No. and dated:
- Subject/ title/ Sub issue/sub-sub issue (in statement form)
- Audit criteria
- Sample & scope
- Documents/records examined in Audit
- Evidence gathering/Data collection stage
- Details of audit findings (What, when, where, who is responsible, what is new)
- Audit Observations based on documentary evidence are to be corroborated by joint physical inspection and/or beneficiary survey/interviews

Structure of model POM

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- **Audit Findings:**
 - **Why** (reasons) & **how** (modus operandi) such a thing happened
 - **Cause and Effect** (Impact)
 - **Audit Conclusion (Audit Finding + Reason)**
 - Confirmation of fact and figures came out in audit.
 - Signature with designation
 - Addressed to (To be addressed to head of audit unit and **not to the other officers** even if authorised by head of unit.)
-
- **Reply of Auditee**
 - **Re-examination of files/records/site inspection for rebuttal if auditee views differs.**
 - **Revised Audit Conclusion**

Structure of POM

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- Reference to return POM in original with reply within specific time to be given in superscript
 - **“(To be returned in original with reply within *three days*)”**

- POM No. and date:

- Name of the **Sub issue/sub-sub issue** from the **SDM** in **statement form** (not question form), currently written as **“Subject”** of the **POM**
(Even if the POM is issued on Sub-issue, analysis has to be done of each sub-sub issue under each sub-heading)

Structure of POM

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- **Audit Criteria (What should be)** used as per the **SDM** (can also be fine-tuned/sharpened and revised) (Usually Rules, Standards, Key Performance Indicators & Norms etc. specified in Acts, Rules and scheme guidelines. However, Audit criteria can be different from scheme guidelines if Constitutional provision or Act or Rule or other Best Practices say otherwise)
 - “Performance Indicator/Criteria: _____
Norm/Benchmark: _____”
- **Sample & scope**
 - “Audit covered _____ blocks, _____ beneficiaries, for _____ years etc.”
- **Documents/records** examined in Audit
 - (Specific, not vague & general including File Nos & reports by name etc.)

Structure of POM

- **Evidence gathering/Data collection stage** (To be specific and practicable) Best to prepare **uniform formats/tables** in case of multiple parties before going to field to make consolidation easier by the Reviewing Officer heading the party and subsequently, by the Group Report Sections for report purpose. Accuracy of data/information furnished by Auditee must be independently ensured in Audit by random cross-verification of these data with reference to original records, by working backwards from the final figure given to Audit and tracing the trail of these figures to the original records from where such figure was captured.
 - **Audit observation** based on records (what is actually observed from data. At this stage, comparison with criteria is not necessary. Comparison with criteria gives rise to Audit Findings)
 - **(To be written in Third-person Active voice & not in passive voice)**

Structure of POM

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- **What did you observe for each Audit observation?**
 - “Scrutiny of records/file (name) revealed that.....”
- **When did the incident occur?**
 - “During _____ ,”
- **Where did the incident occur?** Office name & location, district etc.
 - “ _____ in _____ village/office _____ of _____ block of _____ district,”
- **Who is responsible for the lapses?** (Accountability centered)
 - “Collector ordered.....”
- **What is new** compared to earlier Audit Findings in CAG’s Reports/Inspection Reports?
 - “Earlier CAG’s Report/IR _____ had observed but now we find that.....”

Structure of POM

- If documents have not been maintained properly or risk seems to be high as controls are non-existent or weak or there is doubt in Audit about the authenticity of the documents/records/figures/data based on which positive Audit Assurance can be given, then **Audit Observations** based on **documentary evidence are to be corroborated by joint physical inspection and/or beneficiary survey/interviews** (as per SDM).
- For each audit observation
 - ▣ Results of **joint physical inspection** (along with **photograph** duly signed on the reverse by Auditee & Auditor & others present)
 - “Joint physical inspection conducted by department officials in the presence of Audit revealed/ confirmed
 - ▣ Results of **beneficiary survey** or **interview** (based on pre formatted questionnaire only)
 - “To ascertain the satisfaction level of the concerned villagers/ beneficiaries, interview with beneficiaries/ officials revealed that.....”

Structure of POM

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- **Audit Findings:** Comparing the audit observation (Audit evidence) including those of joint physical inspections and beneficiaries surveys against Audit Criteria)
 - “Though_____was required as per_____ (criteria), yet it was observed/found that
 - “Some of the more important cases are discussed below (3-5 cases invariably)
 - (a).....
 - (b).....
 - (c).....”
- **Why (reasons) & how (modus operandi)** such a thing happened despite controls in place, like Rules & Standards, Monitoring etc? (This can be ascertained after examination of files)
 - **Why?**
 - **How?**
 - **Who is responsible?** (Accountability centered)

Structure of POM

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- Establish **Cause and Effect** (Impact) relationship. (This is called **analysis of the Audit findings** - the most important aspect of any audit work, more so in Performance Audits & Thematic Audits). In case causes of failure/irregularities are not on record, we may say so and discuss the matter with head of the audited unit to know the reasons as to why such irregularity/ lapse occurred. The replies so obtained from discussion can be re-analysed by Audit with reference to records/files once again and mentioned in POM for **confirmation. POMs should not carry the line “the reasons (causes) may be stated”; but that “reasons (causes) as ascertained in Audit may be confirmed”**. Reasons furnished by the Auditee must once again be checked by Audit with reference to original records.

Structure of POM

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- **Effect/Impact (Financial impact/ economic impact/ social impact/ environmental impact/ administrative impact/ Equity impact/Ethical impact)**
 - “Further examination of files revealed that as a result of _____ , _____ occurred or there was a loss of _____ or the project got delayed by _____ years or _____ beneficiaries were deprived of this benefit.”
- Cause (why it happened as revealed from examination of files, or joint physical inspection or beneficiary survey?)
 - “Further examination revealed that _____ passed an order that was irregular, resulting in _____”

Structure of POM

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- **Audit Conclusion (Audit Finding + Reason)**
- Confirmation of facts and figures
 - ▣ Fact and figures and reasons ascertained in Audit may please be **confirmed** and comments, if any, offered.
- Signature with designation (Sr.AO/AO/AAO), name of Audit Party and Office
- To be addressed to head of audit unit and **not to the other officers** even if authorised by head of unit. However, the POM can be given to the authorised/Nodal Officer appointed on behalf of the head of the audit unit/entity under acknowledgement.

Structure of POM

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- Reply of Auditee (specific and point wise reply to POM to be obtained and accuracy and correctness of reply has to be verified by Audit and not blindly accepted. It is to be ensured that reply of Auditee is furnished by head of unit or authorised/appropriate officer with dated signature and seal.)
 - On facts (right or wrong)
 - On logical (reasons) issue

Structure of POM

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- If Auditee accepted the views of Audit then we have nothing to do. Further examination of files and records/site inspection is necessitated if Auditee differs from views of Audit and offers a counter reply to justify its stand. We have to re-examine the files/records/site inspection and offer a suitable rebuttal to the views of Auditee through rejoinder Audit Memo
 - ▣ Acceptance
 - ▣ Rebuttal
 - “Memo No. Dated:
Sub:
With reference to POM No. dated..... on the above audit observations, stated that
However, above reply is not acceptable/convincing due to”

Structure of POM

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- **Revised Audit Conclusion (Audit Opinion)**, if required to be revised after rebuttal
 - “Therefore, due to.....there was a loss of _____/ _____people suffered/ a delay of _____occurred/etc.”

Important:

Besides, the Auditor must exercise his judgement in determining the audit procedures necessary in the circumstances to afford a reasonable basis for his opinion and content of his report

**Hands on exercise:
Develop a POM based on details
provided in succeeding slides**

CASE 1: CC ROAD Case

Criteria: CC road guidelines 2010 provides that

- ❑ Verification of site by concerned JE/GPTA
- ❑ Accordingly prepare the drawing of the concrete road
- ❑ detailed estimate of the work should be prepared on the line of the drawing
- ❑ Technical sanction and administrative approval

Sample scope and coverage:

- ❑ 15 PS,
- ❑ 62 case records test checked
- ❑ Period covering 2010-13

Audit observations

- ❑ in 12 case records, drawing of the project was available.
- ❑ In **majority** of cases, the drawing was a Photostat copy and not having the exact length and breadth of the estimate
- ❑ Sampled PSs were under flood zone
- ❑ Cut off was not provided in the estimate
- ❑ Eight cases physically verified and was found that the road was found cracked within two years of completion

CASE 2: MLALAD Case

Criteria:

- As per Rule 1 of the “Rules and procedure for sanction of MLALAD funds 1997”, the "MLALAD Fund" is intended to be utilised for small but essential Projects/ Works based on the felt needs of the local public.
- The MLA Concerned will have to recommend a priority list of projects/ works (Rule-11) to be taken up within his jurisdiction during the year indicating the broad details against each
- The priority list will have to be furnished to the Collector at the beginning of a financial year under the signature of the MLA.

Sample, scope and coverage

- Audit covered 10 PSs
- Records of 100 projects test checked
- Period of coverage : 2008-09 to 2012-13
- Scrutiny of correspondence file/sanction files of MLALAD scheme, Case record registers; sanction orders of the DPMU was carried out

Audit observation

- During 2008-13, 89 projects were sanctioned at a cost of Rs. 2.78 crore.
- none of these works were approved by the gram sabhas of the GPs.
- no records such as requests of residents/ active forums / local bodies/NGOs/ gram sabha proceedings etc. were available
- Joint Physical verification of the MLALAD projects and beneficiary interview of concerned villagers/ beneficiaries was conducted by the Panchayat Samiti Officials in presence of audit.
- villagers interviewed however expressed their requirement for more essential projects like, road to SC/ST Basti of their locality, electrification of particular Basti of their locality, installation of drinking water facilities, additional class room, completion of incomplete school building, Boundary wall of village schools, connecting road and drainage system, culvert bridge etc
- 89 projects were related to items other than mentioned above.

Coffee/ Tea Break

POTENTIAL DRAFT PARA AND CONSOLIDATION OF AUDIT PARAS

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- Result of audit is communicated to the audited entity through Inspection Report (IR) or Audit Note.
- On completion of audit, the audit party submits the Draft Inspection Report (DIR) by compiling the POMs issued, replies furnished thereto by the entity and information collected from the records produced to audit.
- DIR is duly vetted at the headquarters with respect to criteria (norms, standards, existing rules and regulations) and relevant key documents. After approval of the proper authority it is issued to the audited unit with copy to higher authorities.

Contents of an IR

An IR contains three parts

- **Part-I:** Introductory, compliances to outstanding paras of previous IRs, persistent irregularities.
- **Part-II:** It has two sections “A” & “B”
- **II-A:** Contains major and important irregularities i.e. irregularities involving recoveries, questions of principle or losses etc.,
- **II-B:** Consisting of irregularities which are not so important but are to be brought to the notice of higher authorities and pursued by the Accountant General.
- **Part-III:** Part III of the IR will consist of a Test Audit Note (TAN) containing minor and procedural irregularities, disclaimer, report of discussion of the DIR with the head of the audited unit and signature with seal of the head of the office and Audit Officer.

Potential Draft Para

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- On the basis of materiality and type of irregularity some important objections in Part II-A of the IR are selected at headquarters level as Potential cases for inclusion as draft para in the CAG's Audit Report. The para is further developed by collecting additional information (if needed) and relevant key documents which are not available in the IR/POM.
- All the details such as subject, money value, units, year etc. of the potential paras are to be entered in a register (Potential Draft Para Register) and should be watched and updated regularly.

Contd..

- Similar observations/irregularities can be clubbed together and a consolidated draft para can be developed.
- While consolidating, care should be taken that the observations related to different units but to a particular period. Criteria under reference should be same.
- Old PDPs, if possible, may be updated and processed for DP or else deleted, in case it relates to obsolete schemes/ programmes.

Procedure

- Such cases are referred to the concerned department for verification of fact and figure. This affords yet another opportunity for the department to ensure that incorrect and unacceptable objections are not converted into Draft Paras.
- On intimation of the major irregularity, the Government shall undertake *prima facie* verification of facts and send to AG(Au) a preliminary report confirming or denying the facts within six weeks of the receipt of intimation.

Contd..

- Where the fact of major irregularity is not denied by the Government in the preliminary report, the Government shall further send a detailed report to the AG within three months of preliminary report inter alia indicating the remedial action taken to prevent recurrence and action taken against those responsible for the lapses.

Contd..

- While the reporting of major irregularities to Government need not wait for inclusion of the matter in the IR or audit note or the audit report of the CAG, the same should be done only after due verification with reference to supporting evidence and as far as possible after considering the views of the audited entity. Care needs to be taken to ensure that only major irregularities are reported in this manner.

Questions?

Thank you