

DEFENCE AUDIT CODE

2022



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DEFENCE ACCOUNTS DEPARTMENT HEADQUARTERS

PREFACE

“Well done is better than well said”- what we do is often more important than we may say. Our actions never lie. They speak for themselves. The New Defence Audit Code 2022 is culmination of massive exercise done on Business Process Re-engineering for the last year or so. As we had embarked on laying foundation for IT automation projects covering every possible facets of DAD, it was a natural corollary for us to do simultaneous review of our existing policies, procedures and processes. New Defence Audit Code reflects our new look at the important vertical related to Internal Audit.

Simplicity has been the key in rewriting new Audit Code. Not only flow of chapters has been made smoother, redundant and archaic material has been removed and the entire material is written in plain and simple English. We have been guided by the maxim that many problems of focusing are best resolved by defining what to ignore. Latest trends in Internal Audit like Risk-Based Analysis, IT-enabled Audit, etc. have been incorporated giving it a form of new Avatar.

We in DAD HQs had a big vision, and we had fire in our belly to do something new. But we would never have gotten anywhere without the active cooperation and stupendous efforts of our Field Offices across the country. I am honoured, humbled and grateful to be a part of this landmark re-engineering exercise and eager to see the change we can enact together in coming years with fresh outlook on our core areas.



(Rajnish Kumar)

20th June 2022

Controller General of Defence Accounts

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INTRODUCTION

1. Internal Audit is an independent, objective assurance and consulting activity, designed to add value to and improve an Organization's operations. An internal auditor provides the management with their objective assessment of the internal controls, processes and accounts of the organization.
2. Internal Controls are safeguards that ensure the accuracy and reliability of the activities of an Organization. Internal Audit tests and reports the extent to which the activities are reliable and accurate. The external audit is defined by statute and it provides an objective for independent examination to verify that accounts are true & fair reflection in accordance to the accounting standards.
3. In the context of Defence Expenditure, the internal controls are exercised by the Executives of Services, DRDO, Border Road Organization, Indian Coast Guards and other Organizations', paid out of Defence Estimates, while dealing with financial transactions within their inherent powers or with consultation of Integrated Financial Advisors. The Defence Accounts Department which works concurrently with the Services, DRDO, Border Road Organization, Indian Coast Guards etc. performs the Internal Audit to assure the extent of reliability and accuracy of the Internal Control. The external audit of Defence Expenditure, a statutory audit, is conducted by Director General of Audit Defence Services (DGADS) based on various Themes/Performance/Compliance parameters.
4. The audit mandate of the Defence Accounts Department essentially flows from the General Financial Rules and Financial Regulations for Defence Services and the charter for rendering an Audit Certificate annually by the Controller General of Defence Accounts, as the Principal Accounts Officer of the Ministry of Defence, certifying the correctness of accounts. Based on this certification, Secretary Defence Finance /Financial Advisor (Defence Services) prepares Appropriation Accounts of Defence Services and Defence Secretary endorses the certificate on Annual Appropriation Accounts. C&AG of India, through its office of DGADS, carries out test checks (statutory audit) on the Annual Appropriation Accounts, prepared by the Ministry and certifies the accounts before its submission to the Parliament.

PRINCIPLES OF INTERNAL AUDIT IN DEFENCE

5. Independent auditing enhances accountability and transparency in matters related to public expenditure. Defence Accounts Department is mandated to provide independent and reliable findings during the course of audit based on adequate and appropriate facts cum evidences. Five Fundamental principles or 5Ts, based on which Defence Audit will be carried out, are Thorough, Timely, Transparent, Technology driven and Trustworthy.
- a. **Thorough Audit:** Defence Accounts Department ensures that detailed and systematic audit exercises have been carried out. Thorough audit helps in minimizing audit risks.
 - b. **Timely Audit:** Audit at right time is the motto of Defence Accounts Department. Conducting audit at appropriate time will enable the Department to render timely financial advice to Executive Authorities. Thus procedural incorrectness or non-compliance to prescribed rules & regulations, if any, will be identified and corrective measures will be taken to mitigate the identified risks.
 - c. **Transparent Audit:** Transparency is the hall mark of any independent auditing agency. Defence Accounts Department, being a public institution itself and auditing agency, maintains transparency in the entire process of audit. This enhances credibility of the Department in providing audit assurances and enhances the confidence of the Executives.
 - d. **Technology Driven Audit:** Technology driven and system based audit will enable faster, accurate and timely audit, especially, as both the Defence Accounts Department and the Executives are functioning on different online and system based applications.
 - e. **Trustworthy Audit:** The auditing exercise needs to be trustworthy so that the trustworthiness will be maintained and acceptability can be ensured.

SCOPE OF DEFENCE INTERNAL AUDIT

6. Audit of all sanctions and orders affecting the Defence Services, issued by authorities lower than the Government of India.
7. Carrying out its duties as part of regulatory & compliance function and also in aiding the Executive Authorities in the decision making.
8. To verify the accuracy and correctness of receipts and expenditure and to confirm that:
 - a. All receipts are brought to account under the Proper Heads of Expenditure.
 - b. All expenditures and disbursements are authorized, vouched and correctly classified.
 - c. The final account represents a complete and true statement of the financial transactions it purports to exhibit.
9. To fulfill the audit responsibility, as stated above, through the following activities:
 - a. Audit of Sanctions and Orders affecting financial transactions of following categories
 - i. Rules and general orders
 - ii. Grants and appropriations
 - iii. Sanctions to expenditure
 - b. Audit of transactions arising out of the sanctions issued as above.
 - c. Audit of Store Accounts and Audit/Inspection of Cash Accounts of the Units and Formations of Defence Services and other entities that come under the purview of internal audit by Defence Accounts Department.
 - d. Appraisal, monitoring and evaluation of projects wherever applicable.
 - e. Assessment of adequacy and effectiveness of internal controls in financial activities, accounting and reporting system.
 - f. Identification and monitoring of risk factors associated with the achievement of outcomes, set forth by the Organizations.
 - g. Critical assessment of economy, efficiency and effectiveness of procurement and inventory management to ensure value for money. and
 - h. Offering an effective monitoring system to facilitate mid-course corrections.

RULES AND REGULATIONS GOVERNING AUDIT

10. Audit by the Defence Accounts Department is conducted with reference to the Statutory Provisions, CVC guidelines, General Financial Rules, Defence Acquisition Procedures (DAP), Defence Procurement Manual (DPM), Delegation of Financial Powers for the Defence Services, Financial and other Regulations, provisions of Defence Audit Code, provisions of Defence Accounts Code, orders issued by the Government and other Competent Authorities from time to time, having relevance to Defence Expenditures.

TYPES OF INTERNAL AUDIT

11. Compliance Audit: Compliance Audit examines transactions relating to Expenditures, Receipts, Asset Management and Dealing of Liabilities of the Government. This is done to see whether these activities have been carried out as per extant Rules and Regulations, Orders and Instructions, issued by the Competent Authorities.

- a. Audit against provision of funds: To ascertain whether the expenditure has been incurred for authorized purposes.
- b. Audit against rules and regulations: To ensure that the expenditure incurred is in conformity with rules and orders.
- c. Audit of Sanctions: To see that every item of expenditure from Government Exchequer has been incurred with the approval of the Competent Authority in the Government following laid down rules and procedures.
- d. Propriety Audit: This extends beyond scrutinizing the mere formality of expenditure to the wisdom and economy. It is an essential and inherent function of Audit to bring to light every matter which, in the judgment of auditors, appears to involve improper expenditure or waste of public money or stores, even though the accounts themselves may be in order and no apparent irregularity has been committed.

12. Performance Audit: Performance Audit is also called Efficiency-cum- Performance Audit (ECPA) or Value for Money (VFM) audit. It is a comprehensive review of the projects, analysis of life cycle cost, programmes, schemes etc., in terms of their goals and objectives. Its aim is to ascertain the extent to which the expected outcomes have been achieved with the use of available resources and manpower.

- a. Performance Audit will ascertain the performance of Organization, programme or scheme in conformity with five R's- 'Right Quality', 'Right Quantity', 'Right Price', 'Right Time and Place' and 'Right Source'.
- b. While conducting Performance Audit, the concept of Thematic Audit will also be taken into consideration to ensure compliance of the adopted process and procedures as per laid down rules and regulations. The purpose of such audit is to focus meticulously on a

particular audit objective out of various objectives. In addition to the general performance evaluation, comprehensive and in-depth performance analysis may also be carried out on a particular theme.

13. Risk Based Audit: Risk Based Internal Audit (RBIA) by the Defence Accounts Department will be Compliance and/or Performance based audit on the ‘Risk’ areas identified/involved in procurement, inventory management processes, etc. of the Services. The Department shall also facilitate appropriate risk mitigation measures by rendering advisories and audit consultation services.

- a. These risks, with regard to Financial Management System of the Units/Formations/Organizations, may be broadly categorized into Financial Risk, Operational Risk, Hazard Risk, and Strategic Risk. Following are some of the general categories of risks that may be observed during internal audit of Defence Expenditure. This identified list of risks is not exhaustive and may evolve from time to time. Principal Controllers/Controllers may identify additional specific risk areas in their domain of audit based on circumstances and during the course of their internal audit.

Type of Risk	Mitigation Areas/Activities/Tasks
Financial Risk	<ul style="list-style-type: none"> i. Compliance to tendering procedure for award of Contracts. ii. Price reasonability of procurement undertaken on manual mode or as well as through system. iii. Performance of the procurement portal. iv. Conditions of contracts for ensuring performance. v. Risks that arise from effect of market forces, changes in prices of inputs, interest rates etc. vi. Credit Rating of Banks issuing Bank Guarantee. vii. Overpayments by Units/Formations. viii. Outstanding advances. ix. Non-recovery of dues/revenue. x. Blockage of Government Funds/Parking of Funds. xi. Project delays, cost overruns, and inadequate quality standards.

	<ul style="list-style-type: none"> xii. Violation of GFRs/DPM/DAP etc. xiii. Deviation from laid down procedures. xiv. Fraud Cases- Travel and pay claims. xv. Unauthorised sanction/splitting of sanction. xvi. Flaws in the process of intimation regarding fund allotment and budget management. xvii. Less deposit of Employees/Employers contribution to Provident Fund. xviii. Less deposit of contribution to ESI.
Operational Risk	<ul style="list-style-type: none"> i. Risks emanating from Procedures, Practices, Controls, Equipment, Technology, People. ii. Manpower issues- recruitment/ training/ promotions/ performance management. iii. IT risks, Management oversight . iv. Loss to State due to – Inefficient/Poor Planning and Irregular procedures. v. Inadequate contingency plans to maintain continuity of service delivery. vi. Inadequate skills or resources to deliver services as required. vii. Loss or misappropriation of funds through fraud or impropriety. viii. Non/Poor utilization of Stores. ix. Non-reporting of service receipt. x. Failure of sellers or other agencies to provide services as required. xi. Delayed or failed introduction of new technology. xii. Disruption from industrial action, protest, or failure of transport or IT infrastructure. xiii. Inconsistent programme objectives resulting in unwanted outcomes. xiv. Creation of situations like vendor lock-in or technology lock-in. xv. Lack of provision for verification of the credentials of the hired manpower or contractors' labourers.

Strategic Risk	<ul style="list-style-type: none"> i. Global supply chain, international trade, barriers, trends in economy. ii. Diversification of supply chain. iii. Avoidance of monopolistic situations.
Hazard Risk	<ul style="list-style-type: none"> i. Lack of credential verifications of outsourced persons. ii. Property loss, Monetary loss, Personnel risk.

b. The identified risks may have more than one risk profiles. These risks shall be identified as high risk, moderate risk and low risk based on factors such as:

- i. Frequency of occurrences
- ii. Financial implications including magnitude of loss
- iii. Coverage of the risks--whether localized, regional or national
- iv. Extent of procedural deviations
- v. Security implications
- vi. Others

14. Internal Audit methods like ‘Compliance Audit’ and ‘Performance Audit’ including such audits on ‘Risk’ areas (Risk-Based Audit) will NOT be mutually exclusive and may be carried out concurrently.

15. Compliance Audit and Performance Audit will be guided by detailed SOPs including Risk-Analysis Framework issued by Controller General of Defence Accounts in line with the principles laid down in this code.

INSTITUTIONAL MECHANISMS

16. Audit Committees: Audit Committees, with representatives from the Executive Authorities and the Audit Authorities will be set up at Service Headquarters (or equivalent level) and Command Headquarters (or equivalent level), with the approval of the Ministry of Defence, Government of India. The Committee will interact with the stakeholders on regular intervals.

Following activities will be performed by the Audit Committees to facilitate the Units/Formations/Organizations in Performance Management and Risk Mitigation.

- a. Facilitating information sharing between the Executive Authorities and the Audit Authorities.
- b. Nomination of link officers at every level for co-ordination with the Audit Authorities.
- c. Discussion on Performance and Risk Audit Reports rendered by Audit Authorities and recommendations of necessary corrective actions.
- d. Ensuring expeditious Compliance to the advisories issued during internal audit.
- e. Holding Half-yearly meetings of Audit Committee.

17. Local Audit Conference: Principal Controllers /Controllers shall hold Annual Local Audit Conference to identify specific areas to be audited at Units/Formations/Organizations based on the following parameters:

- a. Findings of detailed audit of sanction.
- b. Analysis of the findings of Performance and Risk Based Audit.
- c. Inputs from the Local Audit Authorities.
- d. Audit findings by Statutory/Test Audit.

These specific areas to be audited will be in addition to the regular audit as mandated to be carried out by the Local Audit Authorities. These issues will be discussed in the Local Audit Conferences, conducted by the Principal Controllers /Controllers. The Conference will be scheduled before the finalization of the Annual Audit Plan.

- 18. Internal Audit Team:** Service-wise Internal Audit Team (IAT) is constituted by Controller General of Defence Accounts in the DAD Headquarters. Internal Audit Team undertakes examination and evaluation of the adequacy and effectiveness of procurement process, risk management process, internal controls structure, based on inputs pertaining to compliance, Performance and Risk audit received from the Principal Controllers/ Controllers. IAT also examines the quality of audit carried out by the Principal Controllers/Controllers.
- 19.** Controller General of Defence Accounts, based on the functional and administrative necessity, may establish additional institutional mechanism for facilitating audit.

COMPUTER ASSISTED AUDIT TOOLS

20. Internal audit by the Defence Accounts Department will leverage use of Information Technology with the following objectives:

- a. Quicker processing of bills/claims with inbuilt audit checks.
- b. Real Time MIS generation by facilitating real time data extraction and data analysis.
- c. Simplification of Intra-Defence Accounts Department transactions/correspondences.
- d. Simplification of Inter Defence Accounts Departments and Services/Organizations reporting/correspondences, e.g. through a common portal.
- e. Evidence based documentations.
- f. Aid to Risk Assessment and Risk Mitigation.
- g. Aid to Performance Evaluation.
- h. Developing pan India profile of suppliers.
- i. Utilization of manpower for higher audit (Performance Audit, Risk Based Audit).
- j. Any other field where use of Information Technology will enhance the performance of the Defence Accounts Department.

21. By virtue of being the audit and payment authority for variety of transactions such as pay and allowances, pension, procurement, etc. in respect of all the Organizations under MoD, which involves sizable quantum of budget allocation, the Defence Accounts Department holds huge data and information. The bulk of the data pertaining to Defence Expenditure is generated and processed through IT based applications. This big data can suitably be utilized for aiding the Services and Ministry in policy formulation, in evaluating policy effectiveness and best utilization of public money. As payment and Audit Authorities, the Principal Controllers/Controller offices work on different risk areas. With manual audit, many risk areas may go undetected in internal audit. Computer or System Assisted Tools with appropriate data validation help in converting the data held in electronic form into actionable inputs and provide useful information from audit point of view. Computer Assisted Audit Tools with integration of Artificial intelligence-AI and Data Analytics further enhance the effectiveness of internal audit.

- 22.** Suppliers' bills and personal claims, processed through IT Systems, will be audited with the help of IT Assisted Audit Tools at different stages, at the source and during processing, depending of bills/applications, depending on the services deliverables and level of computerization in respect of the activities.
- 23.** Store audit will be conducted either manually and/or through IT systems, in a centralized/decentralized/regional basis, wherever implemented by the Services/Organizations with the association of Defence Accounts Department.

SYSTEM AUDIT

24. Apart from computer or system assisted audits, 'System Audit' may also be conducted by Defence Accounts Department along with the respective Service organizations on the IT based applications /systems implemented by the Services containing auditable data/information etc. in regular intervals as may be decided by the Controller General of Defence Accounts from time to time. The 'System Audit' shall ensure that the IT based applications /systems implemented by the Services are audit compliant and that all required fields/information in the systems are accessible to the audit authorities at all times. The 'System Audit' carried out by the Defence Accounts Department will not extend to security audit of the Systems.

APPROPRIATION AUDIT

25. Appropriation Audit will be exercised for all the appropriations in respect of which the expenditures are compliable to locally controlled heads.

- a. Audit of Sanction and Audit of Expenditures have been explicated in the relevant chapters of Audit of Payment and Audit of Sanction of this code.
- b. The audit will ensure whether the amounts appropriated (including through re-appropriation), through IT system or otherwise have been made by the appropriate authorities at the appropriate level from the Appropriation of the Financial Year.

SALIENT FEATURES IN AUDIT OF PROCUREMENT CASES

- 26.** Supply Orders/Contract Agreements/Work Orders are legally binding documents. Hence, audit of bills carried out by the Defence Accounts Department will primarily be governed by the compliance to the provisions laid down in these documents.
- 27.** Once the contractual obligations have been fulfilled by the vendor, payment shall not be delayed /withheld. Cases of financial impropriety should be reported to the CFA through /by the PCDA/CDA for such action as CFA may consider necessary.
- 28.** “e-Bills” are either generated by the system or pushed through the system by the Units/Formations/Organizations.
- 29.** Detailed audit to be carried out either concurrently with the Compliance Audit or otherwise shall be done in compliance to the mandate of the Defence Accounts Department for assessment of a complete procurement cycle to the extent feasible.
- 30.** Though audit of sanction will be carried out on all the procurement cases, the Controller General of Defence Accounts may consider proposing a threshold value for carrying out detailed audit. However, Audit Authorities shall be at their liberty to carry out detailed audit of sanctions, pertaining to any Unit/Formation/Organization or any procurement case, irrespective of the threshold value, after assessing the risk profile of the concerned Unit/Formation/Organization.
- 31.** Rules 39, 40 & 41 of the GFRs-2017 or amendments thereof shall be duly considered for detailed audit.

32. Risks identified during audit of sanction will be categorized and Principal Controllers/Controllers will take the following actions:

- a. **Low Risk**- Risk areas, identified during the course of audit process, shall be communicated to the Executive Authorities for taking suitable corrective measures.
- b. **Moderate Risk**- Principal Controllers/Controllers may, carry out detailed audit of sanction of at least 50% of the subsequent cases, which are equal to or less than the threshold value, for the remaining portion of the Financial Year. They may identify the cases through the process of Random Probability Sampling/ Random Stratified Sampling or through a system based probability sampling. This will be in addition to the usual detailed audit of cases above the threshold value.
- c. **High Risk**- Principal Controllers/Controllers shall carry out detailed audit of sanction of all subsequent contracts pertaining to those Units/Formations/Organizations, irrespective of the threshold, for the remaining portion of the Financial Year.

AUDIT OF PROCUREMENT OF DOMESTIC STORES AND SERVICES

AUDIT DURING PAYMENT

33. Payment is to be delinked from Audit to ensure faster payment action. Audit during payment with respect to Third Party Bills will be carried out by ascertaining that the following mandatory documents (ink signed/electronic) have been submitted /uploaded and necessary funds are made available.

- a. Copies of Sanction Order of the Competent Financial Authority-CFA.
- b. Contract/Supply Order/ Accepted Tender (AT) Note.
- c. Certified Receipt Voucher-CRV/Certificate regarding stores supplied/services rendered/milestone (as per Contract Agreement) achieved.
- d. Contingent Bill/Invoice reflecting all mandatory details.

Respective PCsDA/CsDA may also seek few more mandatory documents as per terms and conditions stipulated in the particular contract.

AUDIT OF SANCTION

34. Detailed audit along with Audit of sanction in respect of procurements made by the Units/Formations/Organizations shall be conducted in the Principal Controllers/Controllers' offices and Sub-Offices on the basis of documents submitted by Units/Formations/organizations as mentioned in DAD Manual issued by the Controller General of Defence Accounts. Audit of sanction will mainly be carried out from the perspective of Compliance Audit, Performance Audit and Risk Based Audit.

- a. **COMPLIANCE AUDIT-** Following will be seen during Compliance Audit:
 - i. Purpose, Need, Quality, Quantity of the stores or services required are well defined in measurable terms in the proposal for procurement. The concept of Right Time, Right Place, Right Quality and Right Quantity has been followed in the proposal.
 - ii. The Tender Enquiry has been floated as per applicable Rules, Regulations, Instructions and Orders.

- iii. The Contract Agreement, after a proper Tender Enquiry and fulfilling all the provisions thereof, has been concluded at Right Price with the Right source.
- iv. Right Quality and Right Quantity of stores or services have been supplied or rendered at the Right place and at the Right time as per the contract provisions.
- v. Stores supplied have correctly been taken on charge and the services rendered have appropriately been certified and recorded. Accounting of stores will be verified based on the vouchers scheduled to Local Audit Authorities or available with the units either through the IT based system or manually.

In addition to the above points, proprietary audit will also be carried out from the perspective of compliance to the canons of financial propriety as enumerated in the General Financial Rules.

b. PERFORMANCE AUDIT

- i. Performance Audit is carried out to ascertain whether economy in the financial transactions and efficiency in the procurement processes have been achieved. In order to ascertain the efficiency in the procurement process, inputs, if required, will be obtained from the Local Audit Authorities. The complete procurement cycle will be taken into consideration during Performance Audit for assessing the exact performance of particular projects, equipment, services.
- ii. Special emphasis will be given to see how the value for money, expected to be achieved (in measurable terms), has actually been achieved. For this activity inputs from the Local Audit Authorities, if required, will be obtained.
- iii. It will also be seen the extent to which the Project Timeframe, as defined in the project schedule, viz, Project Initiation, Project Planning, Tender Action, Project Execution, Project Monitoring and Controlling and Project Closing, has been adhered to.

- c. RISK BASED AUDIT** - Risk Based Audit or Audit on Risk Areas will be carried out by the Principal Controllers/Controllers concurrently with Compliance Audit and/or Performance Audit. An in-exhaustive list of risks involved with procurement and inventory management process has been enumerated at Para 13(a) of this code.

AUDIT OF PROCUREMENT OF IMPORTED STORES AND SERVICES

- 35.** Audit of bills pertaining to imported stores and services in Principal Controllers/Controllers office shall be guided by the provisions of the Contract Agreement, Supplementary Contract Agreement , Inter-Governmental Agreement (IGA), Letter of Agreement (LOA), INCOTERMS (International Commercial Terms), RBI guidelines, sanction issued and any other specific instructions/orders issued by the Competent Authorities in the Government of India.
- 36.** Domain of audit will extend to the compliance to the mandated terms and conditions by the banks with regard to the Defence Expenditure.
- 37.** The audit of sanction of Imported Stores and Services shall be carried out in the same way as in the case of Domestic Stores and Services. Special emphasis shall be given during audit to the following areas:
- a. Issuance of Bank Guarantees with contents as per the provisions of the Contracts/Agreements.
 - b. Financial health of banks issuing Bank Guarantees, as a risk area.
 - c. Clarity with regard to the liabilities of the buyers and sellers pertaining to various banking instruments.
 - d. Audit of receipt and expenditure statement issued by appropriate authorities/parties to the contract/agreement.
- 38.** Following risk areas will be duly considered by the Audit Authorities:
- a. Original Foreign Invoice has not been received from Service HQrs/Bank, although the stores along with the returnable copy of Foreign Invoice have been received at consignee end.
 - b. Discrepancy Report (wherever required) prepared at either Embarkment HQrs at the end of Consignee or both.
 - c. Delayed or non-receipt of Foreign Invoices against the stores already received.

AUDIT OF WORKS CASES

39. Audit of works shall be carried out keeping into consideration the involvement of the following authorities and their corresponding roles in the Works Projects:

- a. Executives: For getting a project included in the Annual Works Plan and issuing Adm Approval.
- b. Engineer Authorities: For Conclusion of Contracts and Execution of the projects.
- c. Vendors: For supplying stores and providing services.
- d. Audit Authorities: For Scrutiny of Contract Agreement and related documents and payment and accounting thereof.

40. Audit of payments: Audit will be primarily from the following perspectives:

- a. There is a provision of necessary funds for the expenditure duly authorized by a Competent Authority.
- b. That the expenditure is in accordance with a contract properly concluded and is incurred by an officer competent to incur it.
- c. Quantities of stores supplied/services rendered have been noted/digitally recorded in the concerned measurement books.
- d. The vendor has submitted an Interim/Final bill in respect of the stores supplied/services rendered.
- e. For interim payments, in respect of the value of the stores supplied /services rendered, necessary retention amounts and other recoveries have been deducted.
- f. Escalation charges, where applicable, have been properly computed.

41. Audit of sanction:

- a. **Compliance Audit-** Audit will be carried primarily based on the following:
 - i. Preliminary project report has stated unambiguously whether the items/services to be procured are authorized or are special items/services as per extant rules and orders.

- ii. Preliminary project report has included project justification and the project need has been defined therein with specific mission and vision.
- iii. Preliminary project report has included Detailed Scope of the Project from both qualitative and quantitative angle.
- iv. Preliminary project report has stated clearly whether land and auxiliary services, if required, are available or not.
- v. The project has been included in the approved Annual Works Plan or in the Annual Maintenance Plan by the Competent Authorities.
- vi. Administrative Approval (wherever required) has been issued by the Competent Financial Authorities as per concerned schedule of Delegation of Financial Powers.
- vii. Payment reconciliation has been done to ensure that there is no liability outstanding against the contractor.
- viii. Provision has been made in the Contract Agreement for Performance Security Deposit (wherever necessary) and Liquidated Damage (LD) for delay in performance of the contract on the part of the contractor.
- ix. Warranty Clause/Defect Liability Clause has been incorporated in the contract.

In addition to the above, Proprietary Audit will also be conducted from the perspective of compliance to the canons of financial propriety as enumerated in the General Financial Rules.

- b. **Performance Audit:** Performance Audit on specific projects will be carried out by the Principal Controllers/Controllers or their subordinate offices, as and when assigned by the Principal Controllers/Controllers, to ascertain whether:
 - i. Five “R”, viz, Right Quality, Right Quantity, Right Price, Right Time & Place and Right Source have been achieved through the project.
 - ii. During all stages of tender enquiry ‘Independence’, ‘Impartiality’, ‘Confidentiality’ and ‘No Conflict of Interest’ have been maintained.
 - iii. For Extension of Time, if necessitated, the Engineers, after due consultation with the procuring entity and the contractor, has promptly determined the length of such extension and notified the same accordingly within the delivery period.

- iv. The Executive Authorities have confirmed that all works, ordered in the contract, have been taken over in Right Quality, Right Quantity at the Right Place on Right Time.
- c. **Risk Based Audit:** From the perspective of Risk Based Audit and Risk Mitigation, following aspects will be considered:
- i. Audit Authorities will monitor the expenditures made on a specific building/structure under ‘Special Repairs’ and ‘Addition/Alteration’ over a specific period of time. This will ensure that no abnormally high expenditure is incurred on a particular building or structure within a short span of time.
 - ii. Audit Authorities, will maintain and update data base in respect of station wise furniture authorized and furniture procured under Special Repairs/Replacement over the years.
 - iii. Audit Authorities will reconcile the quarterly rates of Market Variations for Military Stations, published by Engineer Authorities, with the specific data/information/figures on the basis of which these variations have been determined.
 - iv. Audit Authorities will help the Services by reconciling the scope of works mentioned at various stages of a project, up to the payment stage. This will aid the Services in getting the exact assets/services for which a project is initiated and thus achieving the value for money.
 - v. It will also be seen during the course of Risk Based Audit that:
 - a. A system of project monitoring and quality assurance has been created to periodically monitor the progress and quality of the project.
 - b. Deadlines and Contractual Milestones have been set up and tabulated to facilitate project monitoring.
 - c. Terms of contract are precise, definite and without any ambiguity. The terms have not involved any uncertain or indefinite liability.
 - d. There is a mechanism to control the quality of works. The contract should reserve the right of the Government to reject goods which do not conform to the specifications.

- e. An explicit dispute resolution mechanism has been specified in the bidding documents and Contract agreement to resolve disputes, if any, between the procuring entity and the contractor.
- f. In case of failure of the dispute resolution mechanism, recourse has been taken to settle the disputes through arbitration as per relevant provisions of the Arbitration and Conciliation Act.

**AUDIT OF PROCUREMENT OF SERVICES/WORKS/GOODS
FROM PUBLIC SECTOR UNDERTAKINGS**

42. Audit undertaken by the Defence Accounts Department in respect of Compliance /Performance Audit will be primarily from the following perspectives:

- a. The guidelines issued by Ministry of Defence, Department of Public Enterprises have been followed.
- b. All types of works or repair works carried out by the Public Sector Undertakings have been authorized by specific sanction accorded/contracts concluded/ Firm Tasks placed by the appropriate authorities.
- c. The specific milestone, as defined in the sanction/contract/Firm Tasks, has been achieved by the Seller & the requisite certificate to this effect has been issued by the authorized inspecting authority of the Buyer.
- d. For release of advance to the PSUs, audit will examine that advances released have not resulted in parking of funds, with no commensurate progress in work and deliverables.
- e. In respect of Deferred Revenue Expenditure (DRE) claims, requisite sanction of the Competent Authority exists for incurrence of DRE and the expenditure has actually been incurred. Proof of incurrence is to be insisted in audit.
- f. Payment on 'Cost-plus' basis has been made only in the cases where these are stipulated, to be paid, as per the Contract.

AUDIT OF NON-PROCUREMENT CASES

CASE OF LOSSES

43. In case of loss, Audit Authorities shall examine the following issues:

- a. No Loss has been written off without the specific approval of the Competent Financial Authority.
- b. A prompt investigation has been made to ascertain the quantum (approximate value), nature (whether loss of stores or loss of Public Money) and category (whether "Due to Theft, Fraud, Gross Neglect" or "Not Due to Theft, Fraud, Gross Neglect") of the loss, if any.
- c. A Court of Inquiry has been convened, where it is required to be done. Further, a Court of Inquiry has invariably been convened to investigate a loss which requires the sanction of the Government of India to write off.
- d. There has absolutely been no delay in the investigation of any loss involving fraud, negligence or financial irregularity.
- e. Responsibility for loss has explicitly been fixed by the investigating authorities and accepted by the Executive Authorities.
- f. There is a clear-cut recommendation/direction by the investigating authorities regarding regularization action/imposition of penalty/further course of action to regularize the loss.
- g. Remedial measures planned/undertaken to avoid recurring losses have been mentioned in the case file.
- h. The Loss Statement has been prepared in the proper format.
- i. A Statement of Case has been prepared stating all the facts in a sequential manner and supported by requisite evidences.
- j. Copies of orders/proofs on disciplinary action or whatever action was reasonable have been attached with the Statement of Case.
- k. Pricing/Price Checking of the Loss Statement has been made by the appropriate authorities.
- l. CFA has been determined after the loss was appropriately categorized and the Loss Statement was correctly priced.

44. Preliminary Audit Report by LAO and Final Audit Report by Principal Controllers/Controllers/Local Audit Officers will be rendered after taking into consideration all the prerequisites mentioned above.
45. Final Audit Report will have definite Comments/Remarks for fulfillment before obtaining CFA sanction. Receipt of copy of CFA sanction will be watched by the concerned Audit Authority, who has rendered Final Audit Report in respect of a specific Loss Statement. On receipt of copy of CFA Sanction by the concerned Audit Authority, the degree, to which the remarks/ comments made in the Audit Report have been addressed to, will be ascertained.
46. **Risk Audit:** As an aid to the Executives in limiting the probable risks, Audit Authorities will, from time to time, analyze following risk areas in addition to the in-exhaustive list of risk mentioned in Para 13(a) of this code.
- a. Operational risks with regard to (a) professionalism in the procurement of stores and services, (b) professionalism in the management of stores and services and (c) technical inspection of the goods and services.
 - b. Operational risk with regard to the quality management in general and the quality control system of the projects and inventory management in specific.
 - c. Financial risk related to the financial transactions and accounting systems.

CASES OF DISPOSAL OF STORES

47. While carrying out audit of disposal of stores, Audit Authorities will consider the following:
- a. An item has been declared surplus or obsolete or unserviceable by a duly constituted Committee and accepted by the Competent Authority.
 - b. Proper mode of disposal and proper bidding/auction process have been adopted.
 - c. The book values, guiding prices and reserved prices, which are required to be taken into account, for disposal of the surplus goods, have correctly been worked out.
 - d. CFA has been decided on the basis of estimated value of the goods to be disposed off.
 - e. A sale account, duly signed by the officer who has supervised the sale or auction, has been prepared to account for the amount realized through disposal action.

AUDIT OF PAY AND ALLOWANCES

- 48.** The principle of 5 R's. i.e, Right Rules, Right Procedure, Right Amount, Right Time and Right Payee shall be followed during audit of pay and allowances, irrespective of whether the documents are made available to the Audit Authorities through IT System or manual system or in a hybrid system.
- 49.** In IT based, Comprehensive Pay System (CPS), the Compliance Audit checks and payment will be performed by the automated system. The following audit checks will be exercised with the objectives of risk mitigation:
- a. There is a bonafide order appointing an official to the post or cadre he/she belongs to.
 - b. All the details affecting initial Pay and Allowances in respect of the official have accurately been fed in the system.
 - c. All the subsequent events/causalities affecting Promotions and Pay & Allowances in respect of the official have correctly been published through Part-II Orders.
 - d. All the events/causalities published through Part-II Orders and affecting Promotions and Pay & Allowances in respect of the official have correctly been fed in the system.

AUDIT OF PERSONAL CLAIMS AND ALLOWANCES

- 50.** The same principles, as enumerated in Para 48 above, will be adopted during audit of Personal Claims and Allowances.
- 51.** In IT based Centralized Defence Travel System (DTS), claims submitted online will be processed and paid by the system with the help of data already or concurrently fed into the system. Activities like calculation, processing and payment of Transportation Allowance and Daily Allowance claims will be carried out by the DTS. The responsibility of the audit will be to verify the correctness of the data fed into the system at various stages.
- 52.** Risk Based Audit will be carried out primarily on the authenticity and validity of the authority (Part-II OO or any other order) sanctioning move or authorizing a certain allowance in respect of an Officer/PBOR/ Defence Civilian.

AUDIT OF PENSION CASES

53. The principle of 5 R's. i.e, Right Rules, Right Procedure, Right Pension, Right Time and Right Pensioner shall be followed during audit of pension cases.

54. In processing of pension cases through computerized system, SPARSH[System for Pension Administration (RAKSHA)] , the activity wise role are as under:

Element of Jobs	Nature of action	To be carried out by	Activities
Part-II Order	Initiation	Executives	Uploading and Verification of Part-II Orders notifying superannuation
	Verification		
Service	Initiation	Executives	Uploading and Verification of service details of the prospective retiree on the system
	Verification		
Pay	Initiation	PAO	Uploading and Verification of pay details of the prospective retiree on the system
	Verification		
Audit	Initiation	Audit Authorities	Audit of Services and Pay details of the prospective retiree on the system
	Verification		
Sanction	Sanction of Pension	Pension Sanctioning Agency	Sanction of Pension and Issue of PPO
Disbursement & Accounting	Disbursement of Pension & Accounting of Expenditure	PDA(SPARSH)	Disbursement of lump-sum as well as monthly pension, revision of pension, compilation of expenditure disbursed through SPARSH.

55. Though most of the tasks and operations are taken care of by the system, there are certain areas of potential risk, where Risk Based Audit is required to be done to eliminate any scope of errors. Basically Risk Based Audit will be carried on the correctness of inputs (e.g, Service and Pay details) fed into the system. This will be carried out during initiation and verification of 'Audit' by the Audit Authorities.

AUDIT OF IMPREST ACCOUNTS

56. Following audit checks will be exercised on requisitions of advance for the Imprest and subsequent payment and accounting thereof.

- a. The imprest account has been sanctioned and allotted by the appropriate authorities.
- b. The Ceiling Monetary Limit (CML), wherever applicable, has been fixed by the appropriate authorities.
- c. Requisition of advance for the Imprest has been made on the basis of Ceiling Monetary Limit, if applicable, and approximate requirement for the month for which the advance is drawn.
- d. The imprest account has been closed monthly and sent to the concerned Audit Authorities with all the requisite documents in support of the expenditures from the imprest.

AUDIT OF PROVISIONAL PAYMENT

- 57.** In exceptional circumstances, in anticipation of the receipt of the sanction of the appropriate authorities or allotment of funds or receipt of necessary particulars in support of the payments, provisional payments may be made under the personal order of the Principal Controller/Controller, if she/he can satisfy herself/himself, with due sense of own responsibility, that her/his authorization is justifiable. Settlement of provisional payments thus made will subsequently be watched by the concerned Principal Controllers/Controllers.
- 58.** Principal Controllers/Controllers may make provisional payments at the direction of Ministry of Defence (or Branches at Service HQrs, with the concurrence of Ministry of Defence (Finance), when the Ministry of Defence has empowered them to sanction the expenditure). In all such cases final adjustment and settlement of payments will rest with the Ministry of Defence or the Branches at Service HQrs.

AUDIT OF RECEIPTS AND RECOVERIES

59. Audit of Receipts and Recoveries will ensure that

- a. All the amounts due to the Government have been recovered.
- b. The correct amounts have been recovered without delay.
- c. The mode of recovery is as per laid down provisions.
- d. The amount received/recovered has promptly been credited to the correct head of accounts.
- e. The amounts have been credited to the concerned receipt heads only after they have been actually received.

AUDIT AT UNIT/FORMATION LEVEL

- 60.** Local Audit Authorities shall carry out Audit of auditable documents and records, maintained in the units and formations, as per orders on the subject issued by the DAD HQrs, procedures incorporated in Audit Manuals and other subsidiary instructions and/or as per the Annual Audit Plan.
- 61. Compliance Audit:** During audit of stores performed manually or through Computer Aided Tools, following broad guidelines shall be followed:
- a. Inventory Management of stores has been carried out as per prescribed rules and procedures. The stores have been accounted for within reasonable time and issued as per authorization/requirement taking into consideration their remaining shelf-life.
 - b. Details like date of procurement, technical specifications, cost and expected serviceable life of equipment and its subsequent maintenance details and cost, performance measurement have been correctly recorded.
 - c. Items procured have not been kept idle for long time.
 - d. Stores have been charged off from the ledger on the basis of valid authority.
- 62. Performance Audit:** Under Performance Audit, the complete procurement cycle will be looked into from the economy, efficiency and effectiveness angle. The following aspects will be seen during the course of Performance Audit. The list of activities is, however, not exhaustive.
- a. Intended objectives, for which the resources/services were procured, have been served.
 - b. The quantities of resources accumulated have not exceeded the laid down scales, if there is any.
 - c. Specific themes, decided by Principal Controllers/Controllers, have been covered.
- 63. Risk Based Audit:** Local Audit Authorities shall normally be guided by the Annual Audit Plan. Specific areas of risk, incorporated in the Annual Audit Plan, will be studied to ascertain the efficiency of Risk Management System of the Units/Formations and to provide the Principal Controllers/Controllers with the desired inputs on various risk areas.

REPORTING AND ESCALATION PROCESS

REPORTING OF COMPLIANCE AUDIT, PERFORMANCE AUDIT AND RISK BASED AUDIT

64. Audit Authorities will ensure that reporting of audit findings is standardized to bring uniformity in the pattern of reporting.

AUDIT ADVISORIES

65. As an outcome of internal audit conducted at Units/Formations/Organizations and at Audit Sections/Offices, necessary advisories, which will contain details of the irregularities/observations and necessary recommendations, will be issued to the concerned Unit /Formation/Organization.

66. Escalation I - Action taken reports/regularization action thereof will be watched by the Audit Authorities. If the replies/action taken reports are not adequate, then the matters will be escalated to Principal Controllers/Controllers.

67. Escalation II-

- a. The matters involving compliance related issues, if felt necessary, will be taken up to the higher Formation HQrs by the Principal Controllers/Controllers.
- b. If the action taken report is still not adequate, the audit findings will be considered by the Principal Controllers/Controllers for inclusion in the Quarterly Audit Report.

QUARTERLY AUDIT REPORT

68. Important issues, raised during internal audit, from the compliance angle, which in the opinion of Principal Controllers/Controllers need to be brought to the notice of Executive Authorities at Command HQrs or Equivalent level, will be included in a quarterly report, viz, Quarterly Audit Report. This report will be rendered by the Principal Controllers/Controllers as per format given in Defence Accounts Department Manual. The copies of the reports will be addressed to Controller General of Defence Accounts.

69. Controller General of Defence Accounts, if felt necessary, may bring important issues, incorporated in Quarterly Audit Report or received through any other means, to the notice of authorities at Service HQrs and the Ministry of Defence for information and their consideration.

REPORT ON PERFORMANCE AND RISK BASED AUDIT

70. Findings of Performance Audit will be communicated by the Principal Controllers/Controllers to the respective unit/formation/organization, with copy to the next higher authority. Replies/Action taken reports will be watched by the Principal Controllers/Controllers.

71. On identification of risk areas, after analysis of the findings of the Internal Audit, Principal Controllers/Controllers will undertake the following course of actions:

- a. For Low Risk cases necessary advisories will be issued to the Units/Formations.
- b. For Medium Risk cases necessary advisories will be issued to the Units/Formations with a copy to the next higher authorities.
- c. For High Risk cases necessary advisories will be issued to the Units/Formations with copies endorsed to the next higher authorities and to Command or equivalent formations. If the formation is Corps HQrs/Area HQrs (or equivalent level), then the copy will be endorsed only to the next higher Authorities.
- d. Risk cases pertaining to Command HQrs (or Equivalent level), irrespective of the level of risks, will be communicated by the Principal Controllers/Controllers to the authorities at Command HQrs (or Equivalent level).

These issues shall be discussed and reviewed within the Audit Committees at the Command HQrs (or Equivalent level).

- e. Principal Controllers/Controllers will communicate these issues to the Service HQrs or Directorates and also to the Audit Committees at Service HQrs or Directorates through DAD HQrs.

72. All the findings of Risk Based Audit and Performance Audit, referred to the Audit Committees either by the Principal Controllers/Controllers and/or by the Executives, shall be discussed by the Audit Committees.

- a. Decisions/recommendations of the Audit Committees shall be communicated to the concerned stakeholders.
- b. For Audit Committees at Command HQrs (or equivalent Level), if there are findings having wider relevance, then the same shall be forwarded to the Services HQrs/HQrs of the organizations and to the DAD HQrs, recommending issuance of appropriate orders to all concerned.
- c. For Audit Committees at Service HQrs (or Equivalent Level), if there are findings having wider relevance, the same will be communicated to the Controller General of Defence Accounts.

73. Principal Controllers/Controllers, after systematic and methodical analysis of the findings of the Performance and Risk Based Audit will undertake following actions:

- a. They will decide on the cases or subjects, which need better Performance Management, (i.e, Performance Review, Performance Recognition, Performance Enhancement, etc.) or Risk Mitigation Process, (i.e, Identifying Risk, Avoiding Risk, Controlling Risk and Monitoring Risk).
- b. These cases, along with inputs received from Audit Committees, wherever applicable and available, will be reported to DAD HQrs by the Principal Controllers/Controllers. The report titled, Report on Performance and Risk Based Audit (RPRBA), will be generated half-yearly.
- c. Subject/case wise definite ways and means for enhancement of performance and mitigation of Risks will be suggested in the report.
- d. DAD HQrs, after due deliberation through IAT on the inputs received from the Principal Controllers/Controllers, will submit an Annual Report to the Service Headquarters/Headquarters of the organizations titled ‘Annual Report on Performance and Risk Based Audit’.

- e. Controller General of Defence Accounts, if felt necessary, may bring important Performance and Risk Based Audit issues to the notice of authorities at Service HQrs and the Ministry of Defence for information and their consideration.
- f. If considered necessary, DAD HQrs may propose for necessary amendments to the orders on the subjects to MoD, after due consultation with the Services/Organizations.

REPORTING OF LOSS

- 74.** Cases involving major deviations from prescribed procedures for dealing with cases of loss shall be brought to the notice of Secretary Defence Finance/Financial Adviser Defence Services (FADS) and the Chief Accounting Authority of the Ministry of Defence.
- 75.** In addition, when an investigation into a case of loss due to theft, fraud or gross neglect discloses a defect of procedure or system and when irrecoverable debts of units are attributable to that cause, a report shall be made to Ministry of Defence through the proper channel together with a recommendation for rectifying the defect.

INTERNAL AUDIT REPORT (IAR)

- 76.** This report, containing unsatisfactory features observed during Internal Audit (as per format given in Defence Accounts Department Manual) is prepared by DAD HQrs, based on similar reports rendered by the Principal Controllers/Controllers and based on findings of the Internal Audit Team of DAD Headquarters. The report is classified under three headings, viz. (i) Pay (including loans and advances, interest), Pension & Personal entitlements. (ii) Stores/Procurement. and (iii) Works, with financial value/implication of each case of at least Rs. 7 lakh.
- 77.** The report is circulated to Defence Secretary, Secretary (Defence/ Finance)/FA (DS), Additional Secretaries/Joint Secretaries in MoD, Vice Chiefs and PSO's in Service HQrs, Principal Controllers/Controllers. This report besides the case details will also bring out the associated risk profiles based on the principles laid down in this code.

ANNUAL REVIEW OF WORKS EXPENDITURE

- 78.** The Annual Review of Works Expenditure is a set of statements (as per format given in Defence Accounts Department Manual) reflecting deviations noticed during the scrutiny of Works Contracts.
- 79.** With reference to the statements furnished by the Principal Controllers/Controllers, Controller General of Defence Accounts prepares consolidated Annual Review of Works Expenditure for submission to the Secretary (Defence/Finance) / Financial Adviser, Ministry of Defence (Finance).

ANNUAL AUDIT CERTIFICATE (AAC)

- 80.** The Controller General of Defence Accounts furnishes annually a Draft Certificate (as per format given in Defence Accounts Department Manual) to the Secretary (Defence/Finance) / Financial Adviser, Ministry of Defence (Finance) by the due date as intimated by MOD (Finance) each year, that to the best of his knowledge and belief, no part of the expenditure contained in the Appropriation Accounts for the year has been incurred without the sanction of the Competent Financial Authority (position as on 30th June), where such is required by regulations or other orders, with the exception of items where necessary sanction is awaited. Particulars of such items exceeding Rs. 5, 00,000 in each case are furnished in the statement attached to the certificate.
- 81.** This certificate is prepared based on similar certificates furnished by the Principal Controllers/Controllers. Principal Controllers/Controllers prepare the certificates based on records maintained in their offices and inputs given by Local Audit Authorities and Accounts Offices dealing with Works cases.
- 82.** Follow up AACs (quarterly progress report), will be submitted at the end of subsequent quarters. 'Annual Audit Certificate' forms a part of the Annual Appropriation Accounts, submitted to Secretary (Def/Fin)/FADS.

DRAFT PARA

- 83.** Draft Paragraphs are prepared for inclusion in the report of the Comptroller and Auditor General of India, Union Government (Defence Services). When Draft Paras are received by the Principal Controllers/Controllers from the authorities of the DGADS, audit will be carried out with regard to the verification of facts and also to ascertain whether any failure to detect the irregularity, or to take proper and prompt action after detection, can be attributed to the Defence Accounts Department.
- 84.** The contents of the Draft Para will be brought to the notice of the Command Headquarters or equivalent level and copies thereof will be sent to the local administrative authorities concerned by the Principal Controllers/Controllers. Local Administrative Authorities will be advised to furnish their replies to the Principal Controllers/Controllers through Local Audit Authorities. Once the replies to the contents of the Draft Para, along with comments of the Local Audit Authorities, are received, the Principal Controllers/Controllers will verify the facts mentioned in the Draft Para with the substantiations furnished by the Administrative Authorities. Verified Draft Para will then be sent to the local representatives of the DGADS.



