



Audit Mandate of the
Comptroller and Auditor General of India,
Supreme Audit Institution of India

Under the Comptroller and Auditor-General's
(Duties, Powers and Conditions of Service) Act, 1971
(56 of 1971). **(One of the Constitutional Body of
India)**

Presentation by A. Viswanadham

Mandate

- The functions of the Comptroller and Auditor General of India are derived mainly from the provisions of **Articles 149 to 151** of the Constitution of India.
- **Article 149** provides that the Comptroller and Auditor General shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other *authority or body* as may be prescribed by or under any law made by Parliament.



- ▶ Audit Mandate

- ▶ **Constitution of India** Article 149,151,279 Sixth schedule

- ▶ DPC Act

- ▶ Compilation of accounts of Union and the **States (Sec 10 and 11 of DPC Act)**

- ▶ **Sections 13 to 21 & 24**

Section 13- General Provisions relating to Audit of expenditure

Section 14-Audit of receipts and expenditure of bodies or authorities substantially financed from Union or State Revenues -

Section 13- General Provisions relating to Audit of expenditure

Duty to audit all expenditure from the Consolidated Fund of India / State / UT having a Legislative Assembly –

Audit all transactions relating to the Contingency Funds and Public Accounts and to audit all trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts kept in any department of the Union or of a State or a Union Territory.

Section 14-Audit of receipts and expenditure of bodies or authorities substantially financed from Union or State Revenues -

Section – 14 of the C& AG's (Duties, Powers and Conditions of Service) Act 1971 deals with the audit of receipts and expenditure of bodies or authorities substantially financed from Union or State Revenue.

Section-14(I)

An Institution which receives grant or loan of Rs. 25 lakhs and above or loan forms more than 75 percent of its total expenditure will be audited under this Section.

(Contd.)

- **Substantially financed** means financial assistance is not less than 25 lakh in a year **and** the grant or loan is not less than 75% of the **total expenditure** of the body or authority.
 - Normal accounting period of the body or authority to be taken.
 - Total expenditure = revenue + capital
 - Payments of purely depository nature not to be treated as expenditure

Section-15 of DPC Act

This Section deals with the functions of C&AG in the case of grants or loans given to other authorities or bodies.

- Grant or loan given from **Consolidated Fund for a specific purpose**
- To a body or authority **not being a foreign state or international organization**
- CAG to scrutinise the **procedure** by which the sanctioning authority satisfies itself about the fulfillment of grant conditions



Section 16-Audit of Receipts of Union or of States

CAG to audit all receipts payable into the Consolidated Fund of India, each State, and each Union Territory with a Legislative Assembly. It ensures rules and procedures are effective for assessing, collecting, and allocating revenue.



Section 17- Audit of accounts of stores and stock

Section 17 Of the Act vests in the C&AG the authority to audit and report on the accounts of the stores and stock kept in any office or department of the Union or a State or a Union Territory

Section 18- Powers of Comptroller and Auditor-General in connection with audit of accounts

Access to Records: The CAG has the right to inspect any office, accounts, books, and documents relevant to its audit duties.

Information Request: The CAG may require information, and ask questions necessary for auditing.

Mandatory Compliance: The person in charge of any office must provide necessary information and comply with requests

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Location of Inspection: The CAG can designate the place for the inspection of accounts

Section - 19 of DPC Act

- Deals with the audit of Government Companies and Corporations.
- The reports of the Comptroller and Auditor General, in relation to the accounts of a Government company or a corporation referred to in Section-19, shall be submitted to the Government or Governments concerned.

Audit under Section 19(I)

- **Section 19 (I)** provides that duties and powers of the CAG in relation to the audit of the accounts of Government Companies (both Central and State) shall be performed and exercised by him in accordance with the provisions of the Companies Act 1956.

Audit under Section 19(2)

- **Section-19(2)** of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971 deals with **Bodies established by or under law made by the Parliament.**
- They contain specific provisions for audit by the Comptroller and Auditor General of India.

(Contd.)

Such bodies or authorities include :

- Major Port Trusts
- Central Universities
- National Institutes of Technology
- Indian Institutes of Technology
- Indian Institutes of Management
- Other educational and cultural institutions, health and research institutions, etc.

Audit under section 19(3)

Under **Section-19(3)** of the Act, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly can entrust, in public interest, the **audit of the accounts of a corporation established by law made by the State/Union Territory** to the Comptroller and Auditor General after prior consultation with him.

Audit under Section-20

- Consent Audit

- Consent or entrustment audit
- Applicable in cases where a body or authority is otherwise not covered under any provisions of this Act
- Two kinds of consent audit
 - Request by the President or Governor
 - Request by the CAG

Section 20(I) – Request by President or Governor

- Request is made by the President or Governor
- CAG shall undertake audit of accounts of such body or authority
- Terms and conditions of audit will be as agreed between CAG and the Government
- CAG shall have right of access to books and accounts
- No request shall be made except after consultation with CAG

Audit under Section-20(I)

- Audit of other organizations (corporations or societies) not covered under **Section-19** of DPC Act, is entrusted to the Comptroller and Auditor General of India in public interest under **Section-20 (I)** of the Act .
- The nature of audit conducted under these provisions is certification of annual accounts as well as value for money audit.

Section 20(2) – Request by the CAG

- CAG may propose to the President or Governor
- Ask permission to audit accounts of a body or authority (which he cannot audit otherwise)
- When substantial amount has been invested or advanced by Central or State Government.
- Such audit is necessary in public interest

Section 20(3) – Consent Audit

- President or Governor will entrust the audit to CAG (under both Sections)
 - when it is expedient to do so in public interest
 - After giving reasonable opportunity to the body or authority to make representation with regard to proposal for such audit

Terms and conditions of entrustment audit

Section-20(3) deals with certain procedural requirements to be observed before entrustment audit under Section-20.

- No monetary limit
- Formal request for audit by CAG
- Audit in Public Interest
- Opportunity to make representation by Autonomous Bodies
- Consultation with CAG
- Settlement of terms and conditions
- Period of Entrustment Audit
- Formal request

Types of Public Sector Audit

- ▶ Financial Audit
- ▶ Compliance Audit
- ▶ Performance Audit

Financial Audit

- Going concern considerations
- Considerations Relating to fraud in an audit of Financial Statements
- Considerations Relating to Laws and Regulations in an audit of Financial Statements
- Consideration of subsequent events
- Evaluating Misstatements
- Forming an opinion and reporting on the Financial Statements
- Comparative Information

Concept of Propriety Audit

- Propriety audit may be defined as audit concerning the decisions of the executives, with an emphasis on public interest and financial discipline.
- It checks whether decisions are within the frame-work of sanction, authority, rule, procedure and law made by a competent body.
- Propriety audit extends beyond the formality of the expenditure to its wisdom, faithfulness and economy.
 - Audit should not only ensure that expenditure incurred is duly sanctioned by the appropriate authority but should also investigate the justifications and the necessity for it.

Canons of Propriety Audit

- **The auditors, while conducting the propriety audit, should ensure observance of the following Canons of Financial Propriety:**
 - (a) The expenditure should not, prima facie, be more than what the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
 - (b) No authority should exercise its power of sanctioning expenditure to pass an order which will be directly or indirectly to his own advantage.
 - (c) Public money should not be utilised for the benefit of a particular person or section of the community.
 - (d) The amount of allowances (e.g. travelling allowances) granted to meet the expenditure of a particular type should be so regulated that these are not on the whole sources of profit to the recipients.

CAG and accountability through propriety audit

- The CAG is the institution through which the accountability of the government and other public authorities
- Accountability is not the same thing as accounting, though the latter may be a part of the former.
 - Vouching expenditures and rendering accounts are of course important: Parliament votes funds to the Executive and those funds have to be accounted for.
 - the word 'accountability' really means 'answerability'. This answerability means
 - exercising prudence,
 - avoiding waste,
 - not incurring in fructuous expenditure,
 - showing results for moneys spent, and achieving those results at least cost. If the CAG is our prime accountability-ensuring institution, that institution must go into all these matters.

Compliance Audit Standard

- A compliance audit may be concerned with regularity or propriety (observance of general principles governing sound financial management and conduct of public officials)
- Propriety audit may be pertinent given the public sector context, in which there are certain expectations concerning financial management and the conduct of public officials.
- Audit Criteria for compliance audit of propriety will be either generally accepted principles or national or international best practice.
- Suitable criteria may derive from;
 - Public financial management expectations ie. Compliance with effective and efficient internal controls.
 - Beneficiaries expectations regarding the utility of goods, or quality of services and works
 - Requirement of transparent/unbiased allocation of public funds and human resources.

Compliance Audit

- These audits are carried out by assessing whether activities, financial transactions and information comply in all material respects, with the authorities which govern the audited entity.
 - **Regularity** – adherence to relevant laws, regulations and agreements
 - **Propriety** – observance of general principles governing sound financial management and the ethical conduct of public officials

Compliance Audit

- Compliance audit can be part of a combined audit that may also include other aspects. It is generally conducted either
- In relation with the audit of financial statements, or separately as individual compliance audits, or in combination with performance auditing

Performance Audit

- ▶ Auditors shall plan the audit in a manner that contributes to a high quality audit that will be carried out in an economical , efficient, effective and timely manner and in accordance with the principles of good project management.
- ▶ Auditors shall choose a result, problem or system oriented approach, or a combination thereof, to facilitate the soundness of the audit design

Objectives of Expenditure Audit

Main objectives include:

Checking **legality of expenditure**

Ensuring **financial propriety**

Preventing **wasteful spending**

Ensuring funds are used **for intended purposes**

Improving **government efficiency**

Principles of Expenditure Audit

CAG follows several principles:

Proper **authorization**

Compliance with **financial rules**

Spending for **approved purposes**

Avoidance of **wasteful expenditure**

Efficient use of public resources

Audit Process of CAG (Flowchart)

Government Department



Preparation of Accounts



CAG Audit Examination



Detection of Irregularities



Preparation of Audit Report



Submission to Parliament / Legislature

Audit Techniques

CAG uses different techniques:

Document verification

Sampling methods

Financial analysis

Field inspections

Interviews with officials

These methods ensure **accurate audit results.**

Importance of Expenditure Audit

Expenditure audit helps to:

Prevent corruption

Ensure responsible use of public funds

Improve financial discipline

Promote transparency in government

Strengthen democratic accountability

Challenges in Expenditure Audit

Some challenges include:

Large volume of government transactions

Complex financial systems

Delays in submission of accounts

Limited audit resources

These issues require **modern auditing techniques.**

Scope of Section 13 Audit

The audit includes:

Establishment expenditure

Contingent expenditure

Procurement expenditure

Stores and stock verification

Tendering procedures

Contract management etc.,

Establishment Audit

- Salaries , Allowances (Proper authorization of allowances)
- Pension contributions
- Sanctioned posts vs actual posts
- Correct pay fixation
- Correct pay scale
- Proper increments
- Dearness allowance calculations
- Overtime payments
- Leave salary payments etc.,
- Compliance with service rules
- Prevention of ghost employees

Contingent Expenditure

Contingent expenditure refers to **day-to-day operational expenses**, such as:

Office expenses

Electricity bills , Telephone bills , Stationery

Maintenance charges etc.,

The audit ensures:

Expenditure is properly sanctioned

Bills and vouchers are available

Spending follows financial rules

No excessive or unnecessary expenditure

Objectives of Procurement Audit

Ensure **competitive procurement**

Prevent **overpricing**

Verify compliance with procurement rules

Ensure **value for money**

Proper purchase approvals

Market price comparison

Compliance with procurement rules

Quality of purchased goods

Types of Tenders

Common tendering methods:

Open Tender

Limited Tender

Single Tender

Global Tender

Limited Tender / Quotation Monetary Context

While GFR 2017 (Government Financial Rules) are central rules, they guide state practices where states have not issued alternative limits:

- ✓ **Purchases up to Rs. 25,000** – can be made without competitive bids on certification basis
- ✓ **Purchases above Rs. 25,000 and up to Rs. 2,50,000** – require quotations/Limited Tender with Local Purchase Committee recommendations
- ✓ **Above Rs. 25 Lakhs** – usually require open advertised tenders (or e-procurement)

Legal Framework for Receipt Audit

Audit of receipts is governed by:
CAG (Duties, Powers and Conditions of Service)
Act, 1971
Financial Rules of Government
Taxation laws
Departmental regulations
These provide the **legal authority for auditing government revenues.**

Section 16 of the DPC Act

Section 16 states that the CAG shall audit all **receipts payable into the Consolidated Fund of India and of each State.**

The audit checks whether:

Systems exist for proper collection

Revenue is correctly assessed

Rules and procedures are followed

Meaning of Audit of Receipts

Audit of receipts refers to the **examination of government revenue collection systems** to ensure that:

All dues are properly assessed

Revenue is collected promptly

No revenue leakage occurs

Proper accounting procedures are followed

Objectives of Receipt Audit

The main objectives are:

Ensure **correct assessment of revenue**

Detect **revenue leakages**

Verify compliance with laws

Ensure efficient revenue administration

Improve financial management

Scope of Receipt Audit

Receipt audit covers:

Tax revenues

Non-tax revenues

Duties and fees

Government service charges

Fines and penalties

Types of Government Receipts

Government receipts are broadly classified into:

Tax Revenue

Income tax , GST , Customs duty

Excise duty etc.,

Non-Tax Revenue

Fees and fines

Interest receipts

Dividends from public sector enterprises

User charges

Tax Revenue Audit

Tax revenue audit checks whether:

Tax assessments are correct

Exemptions are valid

Taxes are properly collected

Arrears of tax are monitored

Non-Tax Revenue Audit

Non-tax revenue audit examines:

Fees charged for services

Licensing fees

Royalties

Interest and dividends

The aim is to ensure **government receives its rightful income.**

System-Based Audit Approach

CAG focuses on evaluating:

Internal control systems

Departmental procedures

Efficiency of revenue collection

This approach identifies **weaknesses in revenue systems**.

Audit Checks in Receipt Audit & Audit Techniques

Important checks include:

Verification of assessment procedures

Examination of revenue registers

Checking calculation of taxes and duties

Verification of exemptions and concessions

CAG uses various techniques:

Sampling methods , Data analysis Field inspections

Review of departmental records

Examination of computerized systems

Detection of Revenue Leakage

Audit identifies revenue losses due to:

- Under-assessment of taxes
- Incorrect exemptions
- Delay in collection
- Weak internal controls

Audit Process (Flowchart for PPT)

Revenue Department



Assessment of Revenue



Collection of Revenue



Audit Examination by CAG



Identification of Irregularities



Audit Report



Thanks