

# **CONCEPT OF AUDIT**

- **GOVERNMENTAL SET UP**
- **GOVERNMENT TRANSACTIONS**
- **RECORDING OF TRANSACTIONS**
- **ACCOUNTINGS PRINCIPLES**
- **CLASSIFICATIONS OF GOVERNMENTAL TRNASACTIONS**
- **ROLE OF CAG**

# CONCEPT OF AUDIT

**What is an audit?**

**Audit is an independent examination of the financials of a legal entity irrespective of its size, nature, legal status to express an opinion thereon.**

# Understanding an Audit

- **An audit is an examination of records held by an organization, business, government entity or individual. Generally, this involves the analysis of various financial records but can also be applied to other areas. During a financial audit, an organization's records regarding income or profit, investment returns, expenses and other items may all be included as part of the audit process.**

# **BREAKING DOWN 'Statutory Audit'**

- **What is a 'Statutory Audit'**
- **A statutory audit is a legally required review of the accuracy of a company's or government's financial records. The purpose of a statutory [audit](#) is the same as the purpose of any other type of audit: to determine whether an organization is providing a fair and accurate representation of its financial position by examining information such as bank balances, bookkeeping records and financial transactions.**

# **BREAKING DOWN 'Statutory Audit'**

- **Chapter V of the Constitution of India**
- **details the duties, functions and powers of the C&AG of India.**
- **Four Articles 148, 149, 150 and 151 of the Constitution define the basic structure of the institution of C&AG of India.**

# **BREAKING DOWN 'Statutory Audit'**

- **'148.(1) There shall be a Comptroller and Auditor General of India, who shall be appointed by the President by warrant under his hand and seal and shall only be removed from office in like manner and on the like grounds as a Judge of the Supreme Court.**
- **149. 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**

# **BREAKING DOWN 'Statutory Audit'**

- **150. The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor General of India prescribe.**
- **151.(1) The reports of the Comptroller and Auditor General of India relating to the accounts of the Union shall be submitted to the President, who shall cause them to be laid before each House of Parliament.**

# **BREAKING DOWN 'Statutory Audit'**

- **C&AG'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) ACT, 1971**
- **In terms of the provisions of Articles 148(3) and 149 of the Constitution, C&AG's (DPC) Act, 1971 effective from 15 December 1971 was enacted,**
- **detailing the Duties, Powers & Conditions of Service of C&AG of India.**



# **BREAKING DOWN 'Statutory Audit'**

- **STATUS OF VARIOUS FUNCTIONAL AUDITS**
- **Defence Audit:**
- **Railway Audit**
- **Civil Audit, commercial audit.**
- **Receipt audit.**
- **P&T audit**
- **Income Tax Audit**

# **BREAKING DOWN 'Statutory Audit'**

- **C&AG is authorised to audit all expenditure from consolidated fund of India and of a state and of a Union Territory having a legislative assembly under Section 13 and 14 of DPC act.**
- **Financial Audit of Autonomous Bodies receiving financial assistance is governed by Section 14 & 15 of CAG's DPC Act 1971**

# **BREAKING DOWN 'Statutory Audit'**

- **Audit of a body or authority receiving loan or grant for a specific purpose from the consolidated fund of India or of a State or of a Union Territory having a legislative assembly is done under section section 15 of DPC Act.**
- **The authority for C&AG to lay down general principles of Government accounting is derived from Section 23 of DPC Act**

# **BREAKING DOWN 'Statutory Audit'**

- **C&AG is authorised to audit all receipts of the GOI and of Government of each State and of each Union Territory having a legislative assembly under Section 16 of DPC Act.**
- **C&AGs power to audit and report on the accounts of the stores and stock kept in any office or department of the Union is derived from Section 17**
- **A request for the special Audit shall be given due consideration by C &AG or any other Officer so authorised if the request for such audit of a programme , project or organisation is made with the approval of the Secretary of the concerned department**

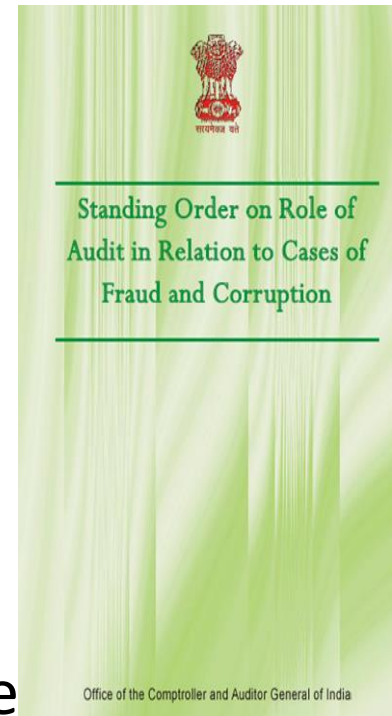
# **BREAKING DOWN 'Statutory Audit**

- **The scope and extent of audit shall be determined by the C&AG of India under Section 23 of DPC Act.**
- **Under sec 18 of DPC act the C&AG has the authority to**
  - **inspect any office of accounts under the control of a Union Territory having a legislative assembly**
  - **require that any accounts, books, papers and other documents which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may appoint his inspection**
  - **put such questions or make such observations as he may consider necessary to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which it is his duty to prepare**

# Preventive Role

## ☐ BENEFITS

- Risk minimization.
- Strengthening of the Internal Control.
- Improvement in the overall governance mechanism.
- Developing a networking relationship with other enforcement agencies.



# A - BEST PRACTICES OF PREVENTIVE ROLE IN ANTI-CORRUPTION.

## □ OBJECTIVES.

- aim to effectively combat corruption by **audit & audit reporting**.
- aim **to promote** accountability, transparency and good governance.
- aim to strengthen a culture of     robust **internal controls**.
- aim to act as effective /satisfactory **deterrent**.

# MANDATE

## ☐ Anti- Corruption.

- Examinations of systems for detection and prevention of fraud and corruption is an integral part of all types of audits.
- Cases of presumptive corruption are raised as red flags and notified to the specialized agencies.

## ☐ Anti- Money Laundering.

- **No direct mandate** - limited to sharing information about the presumptions if any, raised during field audit and co-operating with the Anti-Money Laundering Agencies of the country.



# Preventive Role

## □ TYPICAL EXAMPLE OF BEST PRACTICES.

- Auditing Standards of SAI India
- As per the Auditing Standards (2nd Edition, 2002 – Chapter para 6) the auditor, in determining the extent and scope of the audit, should **study and evaluate the reliability of internal control.**
- Financial Audit
  - ✓ controls that assure the **accuracy and completeness of accounting records.**
- Compliance Audit
  - ✓ controls that assist management in **complying with laws and regulations.**
- Performance Audit.
  - ✓ controls that assist in conducting the business of the audited entity in an **economic, efficient and effective manner,**



# TYPES OF AUDIT

- **Regulations on Audit & Accounts**
- **Auditing Standards**
- **Types of Audit**
  - **Financial Audit**
    - Correctness of financial statements
  - **Compliance Audit**
    - Compliance with laws, rules & regulations
    - Financial propriety
  - **Performance Audit**
    - Programmes/ schemes/ organisation/ activities
    - Economy of costs; efficiency of operations; and effectiveness (achievement of intended objective)

# COMPLIANCE AUDIT

- **Compliance audit is an assessment as to whether the provisions of the applicable laws, rules and regulations made there under and various orders and instructions issued by the competent authority are being complied with.**
- **This audit by its very nature promotes accountability, good governance and transparency as it is concerned with reporting**
- **deviations, identifying weaknesses and assessing propriety.**

# COMPLIANCE AUDIT

- **CAG's Regulations on Audit and Accounts, 2007** recognised compliance audit as distinct stream of audit and these guidelines lay down the principles, approach and processes for regulating compliance audits within the Department
- . These guidelines reorient the planning process by instituting a top down, risk based and department centric approach and aims to instil the process rigour in audit implementation.
- These guidelines also provide clarity on reporting and follow up processes.

# COMPLIANCE AUDIT

- **Compliance audit deals with the degree to which the audited entity follows rules, laws and regulations, policies, established codes, or agreed upon terms and conditions, etc. Compliance auditing may cover a wide range of subject matters.**
- **‘an assessment as to whether the provisions of the Constitution of India, applicable laws, rules and regulations made there under and various orders and instructions issued by the competent authority are being complied with’**

# COMPLIANCE AUDIT

- **The CAG's Regulations on Audit and Accounts, 2007 envisage that compliance audit includes an examination of the rules, regulations, orders and instructions for their**
- **Legality,**
- **adequacy,**
- **transparency,**
- **propriety**
- **prudence and**
- **effectiveness**

# COMPLIANCE AUDIT

- whether these are:
- a) intra vires the provisions of the Constitution of India and the laws (legality);
- b) sufficiently comprehensive and ensure effective control over government receipts, expenditure, assets and liabilities with sufficient safeguards against loss due to waste, misuse, mismanagement, errors, frauds and other irregularities (adequacy);
- c) clear and free from ambiguity and promote observance of probity in decision making (transparency);
- d) judicious and wise (propriety and prudence); and
- e) effective and achieve the intended objectives and aims (effectiveness).

# **INTERNAL AUDIT**

- **An internal audit is the examination, monitoring and analysis of activities related to a Government, company's operations, including its functions regulations, business structure, employee behavior and information systems.**
- **Audits are important components of a company's risk management as they help to identify issues before they become substantial problems, such as attempts to steal intellectual property.**



# **BREAKING DOWN 'Internal Audit'**

- **A daily, weekly, monthly or annual internal audit assesses the effectiveness of a company's internal control system helps uncover evidence of fraud, or abuse.**
- **Periodicity of internal**
- **while the human resources department may need an annual audit of records and processes.**
- **Scheduling audits on a calendar helps ensure they are performed consistently.**
- **Departments should be given notice so they can have the required documentation and materials available for the auditor.**
- **A surprise audit may be conducted if suspicion of unethical or illegal activity exists**

# **BREAKING DOWN 'Internal Audit'**

- **Internal controls**
- **are policies and procedures put in place to ensure the continued reliability of accounting systems.**
- **Accuracy and reliability are paramount in the accounting world.**
- **Without accurate accounting records, managers cannot make fully informed financial decisions, and financial reports can contain errors.**

# **BREAKING DOWN 'Internal Audit'**

- **"Internal audit is a dynamic profession involved in helping organisations achieve their objectives. It is concerned with evaluating and improving the effectiveness of risk management, control and governance processes in an organisation.**

# **Benefits of Internal Audit**

- **Some of the benefits of having a good system of internal controls are:**
- **Helping protect assets and reduce the possibility of fraud.**
- **Improving efficiency in operations.**
- **Increasing financial reliability and integrity.**
- **Ensuring compliance with laws and statutory regulations.**
- **Establishing monitoring procedures.**

# **Benefits of Internal Audit**

- **What is internal auditing in accounting?**
- **With regards to accounting, internal auditing is used to deter and investigate fraud, safeguard assets, and make certain that financial reporting is timely and accurate. Internal auditing also ensures that a company's accounting policies and procedures are in compliance with laws and regulations.**

# **WHY AUDIT OBJECTIONS**

- **Mandated by the Constitution of India, we promote accountability, transparency and good governance through high quality auditing and accounting and provide independent assurance to our stakeholders- the Legislature, the Executive and the Public- that public funds are being used efficiently and for the intended purposes.**

# AUDIT OBJECTIONS

- **monthly TRANSACTIONS OF A OFFICE**
- **critically examined during inspection and audit**
- **correct measures suggested to the office audited unit to improve the situation.**
- **Whether the staff engaged in the offices on accounting work is adequate and properly trained and**
- **whether any omission in the accounts are attributable to either of the factors.**
- **Whether the offices devote proper attention to the preparation and rendition of accounts bills pre-audit checks on bills and other records to the treasury**

# **AUDIT OBJECTIONS**

**Cases of debiting the Consolidated Fund by contra credit to Deposit Heads under Public Accounts.**

**Heavy balances remain unspent under Personal Deposit Accounts although the amounts stand finally booked under Major Head of accounts as expenditure incurred as soon as the amount is withdrawn form the Consolidated Fund of the State.**



# **PUBLIC ACCOUNT COMMITTEE**

- **Public Accounts Committee (PAC) is a standing committee of Parliament created under Government of India Act, 1919 coming into existence in 1921.**
- **It serves as a check on the government especially with respect to its expenditure bill and its primary function is to examine the audit report of Comptroller and Auditor General (C&AG) after it is laid in the Parliament. C&AG assists the committee during the course of investigation**

# **PUBLIC ACCOUNT COMMITTEE(PAC)**

- **the Public Accounts Committee (PAC) is quite often referred to as a post-mortem committee,**
- **But it has a significant role, ‘Indian Administration’ (**
- **The committee’s job of scrutinising accounts is a continuous process and it enjoys the prerogative of looking at the present as well as the future, they reason.**
- **the very fact there is someone who will scrutinise what has been done is a great check on the slackness, or negligence of the executive,**
- **the examination, when properly carried out, leads to general efficiency of the administration, and also serves as a guide for both future estimates and policies.**

# **PUBLIC ACCOUNT COMMITTEE(PAC)**

- **committee has kept the executive accountable to Parliament, thereby lending an additional dimension to the nation's fiscal policies and programmes.**
- **the committee has been able to bring to light certain cases where parliamentary authority on the administration of tax laws had been diluted by the executive fiat, and other cases of the government not carrying out the intentions of Parliament as expressed in laws.**
- **“It had also drawn attention to differing interpretations given by officers to tax provisions which had led to citizens being taxed differently under the same statute.”**

# **POWER OF COMMITTEE**

- **The powers and functions of the PAC Committee are:- Examine the report of Accounts of the union government submitted by the CAG.**
- **the PAC has the power to see that (a) the expenditures made by the government, were authorized by the Parliament, and (b) that the expenditures under ANY HEAD HAS NOT CROSSED THE SANCTIONED.**

# **POWER OF COMMITTEE**

- The committee brings to the notice of the Parliament instances of unauthorized expenditures or expenditures beyond sanctioned limits.**
- Brings to the notice of the Parliament instances of extravagance, loss, lack of financial integrity in public services, etc.**
- Scrutinizing the Audit report of public corporations.**

# **POWER OF COMMITTEE**

- **While examining the audits and accounts of the ministries and public corporations, the PAC has the power to scrutinize the process of their working. It has the power to point out any weakness or shortcomings.**
- **look into the issues such as CWG, 2G, Agusta-Westland and KG basin. This would be done through inquiry and investigation. It will bring forth any loopholes in the observance of financial efficacy as well as sound auditing.**
- **Besides that, it will also bring to highlight of any strong political nexus.**

# CASE STUDY

- *Report of the Public Accounts Committee on the Report of the Comptroller and Auditor General of India for the year 2010-11 (Civil) – Government of Andhra Pradesh*
- PAC discussed the matters relating to the Department on 19 February 2015 and 02 March 2015.
- Para 10.2 Constituency Development Programme PLANNING DEPARTMENT

# CASE STUDY

- **Government of Andhra Pradesh launched "Assembly Constituency Development Programme (ACDP)" in April 2005 to enable the Members of Legislative Assembly (MLAs) to initiate developmental works within their constituencies. The scheme was implemented during 2005-08 and was revived in 2010-11 after a gap of two years, as "Constituency Development Programme (CDP)" extending it to Members of Legislative Council (MLCs).**



# **CASE STUDY**

- **Audit of implementation of ACDP/CDP was carried out to assess whether funds allotted were utilised economically, effectively and efficiently for achieving the scheme objectives and proper books of accounts were maintained by the district authorities as prescribed in the scheme guidelines.**

# CASE STUDY

- **OBJECTIONS**
- **1. NON RECEIPT OF UCS**
- **2 NON COMPLETETION OF WORKS**
- **3.Inspections of Works: *In the absence of regular inspection of works, the correctness of works taken up, their commencement, completion and quality could not be verified.***
- **Non-Maintenance of Assets Registers**

# OBSERVATIONS AND RECOMMENDATIONS

- ***1. Government should issue strict instructions to all the implementing agencies to furnish Utilisation Certificates forthwith for the amounts already released and expended on the works.***
- ***2. Government should issue instructions making the District Collectors responsible for submission of UCs.***
- ***3. With regard to Visakhapatnam District, Government should identify the officials responsible for misplacing the UCs already received and fix accountability on them for non-submission/delay in submission of UCs.***
- ***4. The Committee recommends that Government submit a report to the Committee with regard to the district-wise details of works sanctioned, taken up, completed, works in progress, and works stopped midway including the details of expenditure etc. as on 1 March 2015 in respect of all the districts, within three months from the date of tabling of this Report.***

# **OBSERVATIONS AND RECOMMENDATIONS**

- **The Committee sought district-wise and project-wise details from the Government. Further, the Committee queried the following:**
- **i. How did the Government satisfy itself about the implementation of the scheme (execution of sanctioned works, etc) without receipt of UCs from the executing agencies?**
- **ii. What action was taken by the Government to ensure receipt of Ucs immediately after incurring the expenditure?**
- **iii. Why were further funds released in the absence of UCs for earlier releases? Has accountability been fixed for the lapse of non-monitoring UC's for over 5 years? iv. Have the UCs been received for the entire expenditure from the executing agencies?**
- **1.5 The Committee, however, felt that imposing such a condition would complicate the release of funds for new works and opined that a condition in the guidelines regarding furnishing UCs along with final bill of the work would suffice.**
- **1.6 The Committee enquired about the existing monitoring mechanism in the department with regard to receipt of UCs.**

- **YOUR  
QUESTIONS?**

• **THANK YOU**