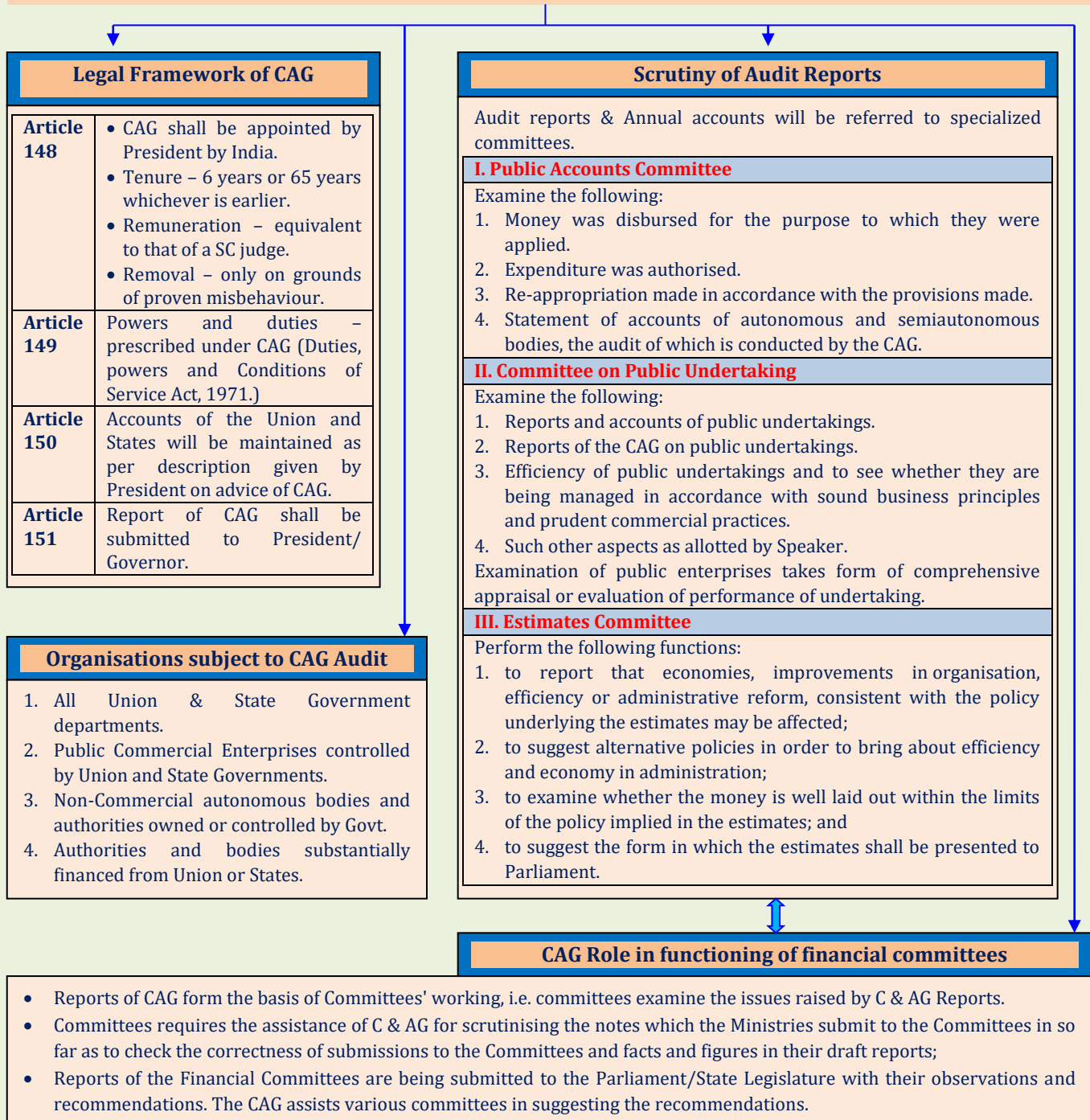


21.1 – Framework for Government Audit



21.2 – PSU Audit (Objectives, Scope and Elements)

Objective & Scope of Audit of PSU
<p>1. Objectives of Audit of PSU</p> <p>(i) Fiscal Accountability: It includes audit of provision of funds, sanctions, compliances and propriety.</p> <p>(ii) Managerial accountability: It includes audit of efficiency, economy and effectiveness.</p> <p>Another equally important objective is to help government and the enterprise management to improve their efficiency & effectiveness by bringing out financial & operational deficiencies, inadequacies or ineffectiveness of systems, shortfalls in performance etc.</p>
<p>2. Scope of CAG Audit</p> <p>Scope of CAG audit extends to;</p> <p>(i) Financial Audit: to express an opinion on a set of F.S.</p> <p>(ii) Compliance Audit: to determine whether specified compliance requirements are met or not.</p> <p>(iii) Comprehensive Audit: assessing overall efficiency and effectiveness of Public Enterprises.</p> <p>(iv) Propriety audit: verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct.</p> <p>(v) Performance Audit: examination of evidence for the purpose of providing an independent assessment of the performance of a govt. organisation, program, activity, or function.</p>
<p>3. Parts of audit Report of CAG</p> <p>(a) Introduction containing a general review of working results of Government companies and corporations.</p> <p>(b) Results of comprehensive appraisals of selected undertakings conducted by the Audit Board.</p> <p>(c) Resume of the company auditor's reports submitted by them under the directions issued by CAG and that of comments on accounts of the Government companies.</p> <p>(d) Significant results of audit of the undertakings not taken up for appraisal by the Audit Board.</p>

Elements of Audit in case of PSU
<p>1 Parties Involved</p> <p>1. The auditor: Role of auditor is fulfilled by Supreme Audit Institution, India and by its personnel delegated with the task of conducting audits.</p> <p>2. The responsible party: The responsible parties may be responsible for the subject matter information, for managing the subject matter or for addressing recommendations & may be individuals or organizations. Generally, auditable entities and TCWG of the auditable entities would be the responsible parties.</p> <p>3. Intended users: The intended users may be legislative or oversight bodies, TCWG or the general public. The intended user is primarily the Parliament or the Legislature which represents the citizens by determining the priorities of public finance, purpose and content of public spending and income.</p>
<p>2 Subject Matter, Criteria and Subject matter Information</p> <ul style="list-style-type: none"> • Subject matter refers to the information, condition or activity that is measured or evaluated against certain criteria. • Criteria: Each audit shall have criteria suitable to the circumstances of that audit. In determining the suitability of criteria, the auditor considers their relevance and understandability for the intended users, as well as their completeness, reliability and objectivity. • Subject matter information refers to the outcome of evaluating or measuring the subject matter against the criteria.
<p>3 Types of Engagements – 2 types</p> <ul style="list-style-type: none"> • Attestation engagements: Responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion. • Direct reporting engagements: It is the auditor who measures or evaluates the subject matter against the criteria.

General principles of PSU Audit
<ol style="list-style-type: none"> 1. Ethics & Independence 2. Professional Judgment, due care and skepticism 3. Quality Control 4. Audit Team Management & Skill 5. Audit Risk 6. Materiality 7. Documentation 8. Communication

Compiled by: CA. Pankaj Garg

21.3 - Types of PSU Audit (Financial, Compliance, Propriety & Comprehensive)

Financial Audit	
Meaning	Audit which is conducted to express an opinion on a set of F.S.
Coverage	(i) Examination & evaluation of financial records & expression of opinion on F.S. (ii) Examination of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations; and (iii) Evaluation of internal control and internal audit functions that assist in safeguarding assets and assure the accuracy and completeness of accounting records.

Compliance Audit	
Meaning	<ul style="list-style-type: none"> Independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria. Compliance 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.
Coverage	Compliance auditing may be concerned with <ol style="list-style-type: none"> Regularity - adherence of the subject matter to the formal criteria emanating from relevant laws, regulations and agreements applicable to the entity Propriety - observance of the general principles governing sound financial management and the ethical conduct of public officials While regularity is the main focus of compliance auditing, propriety is equally pertinent in the public-sector context, in which there are certain expectations concerning financial management and the conduct of officials.

Propriety Audit										
Meaning	Verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct.									
Emphasis	Instead of too much dependence on documents, vouchers and evidence, it shifts the emphasis to the substance of the transactions and looks into the appropriateness thereof on a consideration of financial prudence, public interest and prevention of wasteful expenditure.									
Principles	(i) Expenditure is not prima facie more than the occasion demands and every official exercise same degree of vigilance in respect of expenditure as a person of ordinary prudence would exercise in respect of his own money. (ii) The authority exercises its power of sanctioning expenditure to pass an order which will not directly or indirectly accrue to its own advantage. (iii) Funds are not utilised for benefit of a particular person or group of persons. (iv) Apart from the agreed remuneration, no other avenue is kept open to indirectly benefit the management personnel, employees and others.									
Propriety elements in CARO	<table border="1" style="width: 100%; text-align: center;"> <tr> <td>Para 3(iii)</td> <td>Para 3(iv)</td> <td>Para 3(viii)</td> </tr> <tr> <td>Para 3(ix)</td> <td>Para 3(x)</td> <td>Para 3(xi)</td> </tr> <tr> <td>Para 3(xiii)</td> <td>Para 3(xv)</td> <td>Para 3(xviii)</td> </tr> </table>	Para 3(iii)	Para 3(iv)	Para 3(viii)	Para 3(ix)	Para 3(x)	Para 3(xi)	Para 3(xiii)	Para 3(xv)	Para 3(xviii)
Para 3(iii)	Para 3(iv)	Para 3(viii)								
Para 3(ix)	Para 3(x)	Para 3(xi)								
Para 3(xiii)	Para 3(xv)	Para 3(xviii)								

Comprehensive Audit	
Meaning	Assessing overall efficiency and effectiveness of Public Enterprises against certain pre-determined standards, objectives and criteria.
Coverage	Areas covered vary from enterprise to enterprise depending on nature of enterprise, its objectives and operations. Major areas are: <ol style="list-style-type: none"> Comparison of overall capital cost of the project with the approved planned costs. Production or operational outputs vis-a-vis under-utilisation of the installed capacity. Systems of project formulation and implementation. Planned rate of return Cost control measures. Research and development programmes. System of repairs and maintenance. Effective and economical procedures Project planning Undue waste, unproductive time for men and machines, wasteful utilisation or even non-utilisation of resources

Compiled by: CA. Pankaj Garg

21.4 – Types of PSU Audit (Performance)

