

Audit of PSU

21.1 - Framework for Government Audit

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Le	Legal Framework of CAG		
Article 148	 CAG shall be appointed by President by India. Tenure - 6 years or 65 years whichever is earlier. Remuneration - equivalent to that of a SC judge. Removal - only on grounds of proven misbehaviour. 		
Article 149	Powers and duties – prescribed under CAG (Duties, powers and Conditions of Service Act, 1971.)		
Article 150	Accounts of the Union and States will be maintained as per description given by President on advice of CAG.		
Article 151	Report of CAG shall be submitted to President/ Governor.		

Organisations subject to CAG Audit

- 1. All Union & State Government departments.
- 2. Public Commercial Enterprises controlled by Union and State Governments.
- 3. Non-Commercial autonomous bodies and authorities owned or controlled by Govt.
- 4. Authorities and bodies substantially financed from Union or States.

	Scrutiny of Audit Reports
	dit reports & Annual accounts will be referred to specialized
	nmittees.
I.F	Public Accounts Committee
Exa	amine the following:
1.	Money was disbursed for the purpose to which they were applied.
2	Expenditure was authorised.
	Re-appropriation made in accordance with the provisions made.
	Statement of accounts of autonomous and semiautonomous
	bodies, the audit of which is conducted by the CAG.
II.	Committee on Public Undertaking
	amine the following:
1.	Reports and accounts of public undertakings.
2.	Reports of the CAG on public undertakings.
3.	Efficiency of public undertakings and to see whether they are
	being managed in accordance with sound business principle and prudent commercial practices.
1	Such other aspects as allotted by Speaker.
	amination of public enterprises takes form of comprehensive
	praisal or evaluation of performance of undertaking.
	Estimates Committee
	rform the following functions:
1.	-
	efficiency or administrative reform, consistent with the policy
	underlying the estimates may be affected;
2.	to suggest alternative policies in order to bring about efficiency
	and economy in administration;
3.	to examine whether the money is well laid out within the limits
	of the policy implied in the estimates; and
4.	to suggest the form in which the estimates shall be presented to
	Parliament.

CAG Role in functioning of financial committees

- Reports of CAG form the basis of Committees' working, i.e. committees examine the issues raised by C & AG Reports.
- Committees requires the assistance of C & AG for scrutinising the notes which the Ministries submit to the Committees in so far as to check the correctness of submissions to the Committees and facts and figures in their draft reports;
- Reports of the Financial Committees are being submitted to the Parliament/State Legislature with their observations and recommendations. The CAG assists various committees in suggesting the recommendations.

Compiled by: CA. Pankaj Garg

21.2 – PSU Audit (Objectives, Scope and Elements)

 Fiscal Accountability: It includes audit of provision of funds, sanctions, compilances and propriety. The auditor: Role of auditor is fulfilled by Supreme Audit Institution, India and by its personal delegated with the task of conducting audits. The responsible party: The responsible parties may be responsible for the subject matter of or addressing recommendations & may be individuals or organizations. Generally, auditable entities would be the responsible party: The responsible parties. Intended users: The intended users may be legislative or oversight bodies, TCWG of the auditable entities would be the responsible parties. Intended user is primarily the Parliament or the Legislature which represents the citizens by determining the subject matter Information, condition or activity that is measured or evaluated against certain criteria. Comprise Audit: verification of transactions on the tests of public interest, commony accepted customs and independent assessment of the performance of a govt. organisation, program, activity, or function. Parto audit Repent of CAG Introduction containing a general review of working results of Government companies and corporations. Results of comprehensive audits of Government companies and corporations. Results of comprehensive audits of Government companies and corporations. Results of comprehensive audits of Government companies and corporations. Results of comprehensive audits of Government companies and corporations. Results of comprehensive apprisals of selected undertakings conduced by the Audit Board. 	↓ · · · · · · · · · · · · · · · · · · ·			
 Fiscal Accountability: It includes audit of provision of funds, sanctions, compliances and propriety. The auditor: Role of auditor is fulfilled by Supreme Audit Institution, India and by its personal delegated with the sand propriety. The responsible part: Role of auditor is fulfilled by Supreme Audit Institution, India and by its personal delegated with the sand roomanies and comparison of the subject matter of or addressing recommendations & may be individuals or ogarizations. Company autitor's effectiveness by ringing out financial & operational deficiencies, aadequacies or ineffectiveness of systems, bortfalls inperformance etc. Financial Audit: to express an opinion on a set of F.S. Intended user: The intended users may be legislative or oversight bodies, TCWG or the general public. The intended user is primarily the Parliament or the intended users of public finance, purpose and content of public spending and income. Subject Matter, Criteria and Subject matter information condition or activity that is measured or evaluated against certain generating the subject matter refers to the information, condition or activity that is measured or evaluated against certain criteria. Criteria: Each audit shall have criteria and subject matter against the criteria. Subject Matter, Criteria and Subject matter against the criteria. The subject matter against the criteria and presents the subject matter against the criteria. There reporting engagements: It is the auditor who measures or evaluates the subject matter against the criteria. Subject Matter, Criteria and Subject matter against the criteria. The subject matter refers to the outcome of evaluated against certain geners subition the durectors is submited by them under the directors is submited	Objective & Scope of Audit of PSU	Elements of Audit in case of PSU		
 a) Introduction containing a general review of working results of Government companies and corporations. b) Results of comprehensive appraisals of selected undertakings conducted by the Audit Board. 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. d) Significant results of audit of the undertakings not taken up for appraisal by the A lik B on division of the Company and the directions issued by the selected undertakings not taken up for appraisal by the selected taken up for appraisal by taken up for appraisal by t	 1. Objectives of Audit of PSU (i) Fiscal Accountability: It includes audit of provision of funds, sanctions, compliances and propriety. (ii) Managerial accountability: It includes audit of efficiency, economy and effectiveness. 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. 2. Scope of CAG Audit Scope of CAG audit extends to; (i) Financial Audit: to express an opinion on a set of F.S. (ii) Compliance Audit: to determine whether specified compliance requirements are met or not. (iii) Comprehensive Audit: assessing overall efficiency and effectiveness of Public Enterprises. (iv) Propriety audit: verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct. (v) Performance Audit: examination of evidence for the purpose of providing an independent assessment of the performance of a govt. organisation, 	1 Parties Involved 1. The auditor: Role of auditor is fulfilled by Supreme Audit Institution, India and by its personnel delegated with the task of conducting audits. 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. 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. 2 Subject Matter, Criteria and Subject matter Information • 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. 8 Subject matter information refers to the outcome of evaluating or measuring the subject matter against the criteria. 3 Types of Engagements - 2 types • Attestation engagements: Responsible party measures the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a		
 selected undertakings conducted by the Audit Board. 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. d) Significant results of audit of the undertakings not taken up for appraisal by the Aukit Panakai Garg 	(a) Introduction containing a general review of working results of Government	measures or evaluates the subject matter against the		
 submitted by them under the directions issued by CAG and that of comments on accounts of the Government companies. d) Significant results of audit of the undertakings not taken up for appraisal by the Aukit Panel Audit Audit Panel Audit Risk Materiality Documentation 	selected undertakings conducted by the Audit Board.			
	submitted by them under the directions issued by CAG and that of comments on accounts of the Government companies.	 Professional Judgment, due care and skepticism Quality Control Audit Team Management & Skill Audit Risk 		

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

Meaning Audit O I Coverage (i) I I I I	coms and standards of conduct. ead of too much dependence	s of	Coverage Meaning	 Compliance Audit 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. Compliance auditing may be concerned with 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
opinic Coverage (i) E i i o (ii) E a (ii) E a (iii) E a Meaning Veri publ Emphasis Insta docu tran a p cons publ cons publ was a	on on a set of F.S. Examination & evaluation of inancial records & expression of opinion on F.S. Examination of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations; and Evaluation of internal control and nternal audit functions that assist n safeguarding assets and assure he accuracy and completeness of accounting records. Propriety Audit fication of transactions on the test lic interest, commonly accep- toms and standards of conduct. ead of too much dependence	s of		 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. Compliance auditing may be concerned with 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
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Emphasis Inst Emphasis Inst docu the tran app cons pub was	lic interest, commonly accep coms and standards of conduct. ead of too much dependence	s of		While regularity is the main focus of compliance
the tran app cons pub was		on		auditing, propriety is equally pertinent in the public-sector context, in which there are certain expectations concerning financial management and the conduct of officials.
tran app cons pub was	uments, vouchers and evidence, it sl emphasis to the substance of			
cons pub was	nsactions and looks into	the		Comprehensive Audit
pub was	ropriateness thereof on	а	Mean	
	sideration of financial prude lic interest and prevention steful expenditure.		Mean	Public Enterprises against certain pre- determined standards, objectives and criteria.
(ii) (iii)	Expenditure is not prima facie m than the occasion demands and ev official exercise same degree vigilance in respect of expenditure a person of ordinary prudence we exercise in respect of his own mone The authority exercises its powe sanctioning expenditure to pass order which will not directly indirectly accrue to its own advanta Funds are not utilised for benefit particular person or group of person Apart from the agreed remunerat no other avenue is kept open indirectly benefit the managem personnel, employees and others.	rery of	Cove	 Areas covered vary from enterprise to enterprise depending on nature of enterprise, its objectives and operations. Major areas are: 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 mer and machines, wasteful utilisation or ever non-utilisation of resources

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21.4 - Types of PSU Audit (Performance)

Meaning and Elements

Objective & systematic examination of evidence for purpose of providing assessment of performance of govt organization, program, activity, or function in order to provide information to improve public accountability & facilitate decision-making by parties with responsibility to oversee/initiate corrective action.

Elements of performance Audit

 	P			
•	Minimisin	g the	cost	0
	resources	used for	an activity	y.
•	Evaluating	g econo	my impl	ies
	forming	an opini	on whetl	hei
	resources	have	been us	sed
	economic	ally and	acquired	ir
	due tim	e, in	appropri	ate
	quantity &	& quality	at best pri	ce.

- Measurement of input-output, maximum output at minimum of inputs, or Minimum input for any given quantity of output.
- Examining efficiency covers aspects of:

Efficiency

Effectiveness

- (a) Sound procurement practices;
- (b) Efficiently used resources;
- (c) efficient operating procedures; and
- (d) meeting objectives, costeffectively.

Measurement of the extent to which objectives are achieved and the relationship between intended impact and actual impact. It will cover the following:

- (a) determine the extent to which a program achieves a desired level of results;
- (b) assess the effectiveness of the program;
- (c) determine whether mngt. has considered alternatives to carry program at a lower cost;
- (d) assess the adequacy of the management control system;(e) ensure compliance with laws
- and regulations.

Factors to be considered while planning performance audit

- 1. Significance and the needs of potential users of the audit report.
- 2. Obtaining an understanding of the program to be audited.
- 3. Legal and regulatory requirements.
- 4. Management controls.
- 5. Identifying the criteria needed to evaluate matters subject to audit.
- 6. Identify significant findings and recommendations from previous audits that could affect the current audit objectives.
- 7. Potential sources of data that could be used as audit evidence and consider the validity and reliability of these data.
- 8. Consider whether the work of other auditors and experts may be used to satisfy some of the auditors' objectives.
- Providing sufficient staff and other resources to do the audit.
 Preparing a written audit plan.
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Planning

Audit	These are the basic audit questions that performance auditors				
Objective	seek answers to.				
Audit	Criteria are the standards used to determine whether a program				
Criteria	meets or exceeds expectations.				
	Sources for obtaining audit criteria				
	(i) procedure manuals of the entity.				
	(ii) policies, standards, directives and guidelines.				
	(iii) criteria used by the same entity or other entities in similar				
	activities or programmes.				
	(iv) independent expert opinion and know how.				
Audit	Performance auditing generally follows one of three approaches				
Approach	in examining the performance of the audited entity (ies).				
	(a) System-oriented approach, which examines the proper				
	functioning of management systems, especially financial				
	management systems;				
	(b) Result-oriented approach, which assesses whether the				
	outcome objectives have been achieved as intended or				
	whether programs or services are operating as intended; and				
	(c) Problem-oriented approach, which examines, verifies and				
	analyses the causes of particular problems or deviations				
	from criteria.				

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