

Developments in Auditing¹

AN OVERVIEW OF DEVELOPMENTS

The decade of Nineties and the beginning of new Millennium saw exciting developments in auditing profession of SAI India. First, several entirely new audits were introduced along with new audit concepts. For example, audit of privatization and audit of regulation as a consequence of Government policy on disinvestment/ privatization came into their own during this period. INTOSAI's efforts to draw up guidelines on these two audits succeeded after a High Level Committee, chaired by Sir John Bourn, C&AG of UK finalized a comprehensive set of Audit Guidelines on these two. SAI India also issued its own set of Guidelines on these two audits in 2005. There was a renewed emphasis, with greater urgency, for environmental audit, thanks to widespread public attention to environmental issues across the globe. Audit of local bodies was brought within the ambit of C&AG's audit through a novel concept of Technical Guidance and Supervision (TGS). And a series of scandals involving some high profile global companies and remissness of some leading CA firms forced the Government to tighten the regulatory mechanism at one level; at another level, concept and techniques of risk assessment and fraud acquired special thrust and emphasis in audit literature. In commercial audit, governance issues in Public Sector Undertakings (PSUs) were given special attention by C&AG Kaul. Amongst the prominent developments can be included new comprehensive system of audit planning. New systems that entered auditing dictionary included outsourcing of specific surveys, engagement of experts as consultants in audit work, new evidence gathering techniques, etc. The concept of peer review got operationalized in the Audit

Department for the first time. An old branch of auditing viz. performance audit also went through a big overhauling but perhaps the most important development was the emergence and use of IT audit as a distinct technique of audit which is set to have a dominant place in future audits. Internal auditing was given a more prominent role and at the initiative of C&AG Kaul, now Government of India is also in the process of putting in place a revamped internal audit system as per suggestion of the C&AG.

Some new auditing processes were attempted. Of these theme-based and department-based audits introduced by C&AG Shunglu take the cake. C&AG Kaul made an important decision of demarcating audit into two broad streams viz. transaction audit and performance audit—the division also meant some earmarking of staff in Audit Offices for the two streams.

A new improved approach of evaluating the financial and accounting system of State Governments as also Central Government was adopted. This was further refined through the induction of an economist as Economic Advisor in C&AG's office.

Finally, the notification of Regulations on Audit and Accounts by the C&AG in November 2007, will rank as another major development, for, now this book sets out, the guiding principles of auditing.

Some developments that were not very welcome for the Department also took place. The question of audit mandate was raised at least on three occasions by different authorities. The same was however settled without any detriment to the authority of C&AG and in fact C&AG's authority for carrying out audits in an unfettered manner was established. Non-production of records remained an issue. Audit responsiveness left much to be desired.

AUDIT MANDATE

The Comptroller and Auditor General of India derives his authority and powers from the provisions of Articles 148 (3) and 149 to 151 of the Constitution of India. In consonance with the provisions of Article 149 of the Constitution, which provides that the C&AG shall exercise such powers and perform such duties in relation to the accounts of the Union and the States and of any other authority or body as may be prescribed by or under any law made by Parliament, Parliament passed Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act in 1971 effective from 15 December 1971. While the Act sets out the duties and powers in

relation to the audit and accounts of the Union, States and the Union Territories and other authorities or bodies, the detailed instructions on such audit were till recently contained in the C&AG's MSO (Audit). Section 23 of the Act authorizes the C&AG to frame regulations defining the scope and extent of his audit including the general principles of Government accounting and broad principles in regard to audit of receipts and expenditure. The Regulations have been notified in the official gazette on 20 November 2007. The Regulations have clearly provided that within the audit mandate, the C&AG is the sole authority to decide the scope and extent of audit to be conducted by him or on his behalf. It is laid down that 'such authority is not limited by any consideration other than ensuring that the objectives of audit are achieved'. The broad categories of audit as provided for in the Regulations are financial audit, compliance audit and performance audit. These are elucidated in separate chapters in the Book. It has been laid down therein that the scope and extent of audit would be determined by the C&AG. It has, in fact, been so over the years.

While the position is now made abundantly clear by C&AG through the issue of Regulations which are statutory hence binding on the stakeholders, earlier, it had been laid down in the MSO that the scope and extent of audit would be determined by the C&AG. This was considered in conformity with the provisions of the Act as held by several distinguished constitutional and legal authorities from time to time.

Making use of this prerogative, successive C&AGs attempted to cope with the fresh demands on Audit in response to new challenges, technological innovation and public policy developments. Resultantly, new audit areas evolved. For example, Efficiency-cum-Performance Audit (ECPA) first introduced in early sixties, later got translated into fuller performance audit in the time of A. Baksi (C&AG from 1972–1978) and has since then made more progress, culminating in a thorough revamping in 2004 by the present C&AG V.N. Kaul. Similarly, scope of the receipt audit was vastly enhanced and a very comprehensive system of audit of receipts developed, that includes systems audit and performance audit. Similar developments took place in commercial and other branches of C&AG's audit.

There were a few occasions when C&AG's right to conduct audit as per his discretion was challenged during the period under discussion. These concerned C&AG's jurisdictional issues and also

production of records. Though not falling under the period covered by this volume of History, it is relevant to begin with the first.

The first question regarding C&AG's right to have access to records arose during the 'Emergency' (1975–1977) when Government by an executive instruction dated 25 September 1976 precluded the C&AG from having access to confidential files containing the views of the Government officers at different levels, cabinet notes and decisions etc. Fortunately, this repressive order was withdrawn immediately after the new² Government came to power and issued an amended order on 23 September 1978 restoring the *status quo ante* viz the instructions of January 1955, issued by Secretary, Department of Revenue and Expenditure, Ministry of Finance which had clearly stated that all files including secret and top secret were to be made available to Audit.

The C&AG's jurisdictional issues cropped up again in 1995. During the tenure of C.G. Somiah (C&AG March 1990 to March 1996) when Mrs. Shiela Kaul was the Union Urban Development Minister and the audit of the Ministry regarding Out-of-turn allotment of the Central Government Quarters was going on, the Ministry refused to give files to the Audit on the plea that no financial matter was involved in this review. When the C&AG wrote (March, 1995) to the Minister on the subject, she, in turn, gave the same reason which her Department had earlier given and refused to give the files.

Earlier, the C&AG in his letter of January 3, 1995 to the Minister of Urban Development (Sheila Kaul) made an unusual gesture of bringing to her notice the findings of the Principal Director of Audit, Economic and Service Ministries (who was the officer dealing with the audit of the Ministry) which had revealed that allotment of houses to the Government servants was being made 'in a manner which is neither commensurate with the rules or the guidelines framed by the Government in this regard'. In fact, he pointed out that prevailing rule dealing with out-of-turn allotments had since been deleted and allotments were being made only in relaxation of normal rules of allotment—the percentage of out of turn allotments in the first half of year 1994 was of the order of 60 per cent. An analysis of these cases further showed that they were not given on any of the grounds specified by the Government in their replies to the Public Accounts Committee which went into this issue in 1984. The C&AG, therefore, concluded that 'allotments are indeed being made only on personal grounds and in a seemingly arbitrary manner'. The C&AG while intimating these facts, also informed

the Minister that once the audit review on this subject was complete he would appropriately report to Parliament the findings; but he thought it fit to alert the Minister in the meanwhile so that 'immediate necessary action to streamline the allotments keeping in view the fairness and equity in such matters is taken by you at the earliest'. Though the C&AG had requested for a line in reply there was none from the Minister.

The C&AG followed it up by another letter of March 31, 1995 to the Minister where he referred to the reply of the Secretary, Urban Development to the PDAESM stating that 'it may not be possible for the Directorate of Estates to produce files relating to out of turn allotment for scrutiny by Audit as there was no audit point involved'. The C&AG reasoned out that any relaxation of the rules which had the effect of displacing the basic character of the rule was open to question in audit on grounds of propriety and legality. He stated that he was deeply disturbed by the stand taken by the Ministry in regard to the production of files required by Audit. The Minister sent a reply to this letter reiterating what the Secretary to the Ministry had stated. The C&AG then decided to write to the Prime Minister (Shri Narasimha Rao at that time) in the matter. Apparently due to the Prime Minister's directions, the Ministry agreed to give the files.

In a recent case of such refusal to produce files and records to Audit, the Ministry of External Affairs questioned C&AG's right to carry out performance audit of commercial and passport offices in Indian Missions abroad. The reason given for this was strange—that an inter-ministerial group was already set up by Foreign Secretary, Shyam Saran to look into the aspect of performance audit and based on their recommendation and also the fact that outcome budgeting was likely to be introduced soon, Ministry of External Affairs would like both the performance audits to be postponed. The DGACR addressed the Foreign Secretary in January 2006 reminding him of the unfettered discretion of the C&AG regarding the subject, extent and methodology of his audit and it was unfortunate that his discretion to conduct performance audit had implicitly been questioned by an inter ministerial group. The matter was eventually taken up at the highest level when the C&AG had to write to the Prime Minister and as a result, Ministry of External Affairs agreed to give the files. More important, a general clarificatory circular was also issued in June 2006 by the Ministry of Finance³. It stated that performance audit which is concerned with audit of economy, efficiency and effectiveness is deemed to be within

the scope of audit by C&AG for which Performance Auditing Guidelines drawn up by the C&AG already existed. State Audit Wing, in 1999, faced a similar situation when Karnataka Government refused to part with the files relating to postings and transfers of police personnel when a systems audit of 'Manpower management of Police Department in Karnataka' was being done.

The reluctance of executive, at times, to give files to C&AG on some ground or the other, more often on the plea that the proposed audit was not within the competence of the C&AG, was fortunately limited to a very few cases. It is very difficult to comment on the real reasons or intentions behind such reluctance; but, at least in the case of out-of-turn allotment of government houses, it had something to do with the discretionary practice that was rampant those days in the Directorate of Estates. Subsequently, out-of-turn allotment case reached Supreme Court via a PIL and the Hon'ble Court ordered that all such out-of-turn allotments which were not covered by rules be cancelled and penal rent be recovered. The Court also directed a special audit of out-of-turn allotments by the C&AG.

Barring the 1976 order which was issued during Emergency, it would be noted that in all other cases, help to Audit came from the highest level of Prime Minister. In both cases of Urban Affairs Ministry and Ministry of External Affairs, C&AG was able to have his way on Prime Minister's intervention. While this is a redeeming feature of the Indian democracy that so far there has been no occasion to test the powers of the C&AG in a court of law because the executive at the highest level is sensitive to his concerns, the question remains that should it be left to executive to decide what is within the scope of C&AG's audit? That is the question which C&AG Somiah clearly answered in his letter to Prime Minister when he said that Minister's reply 'would suggest that the ultimate decision regarding production of files to audit rests with the Executive. This, I am sure, is not the intention of the collective decision of the Government which is prevailing since 1955 besides being contrary to law and will seriously interfere with the proper discharge of my Constitutional responsibilities'. He went on to say 'The stand taken by the Minister is not merely incongruous with the mandate of audit... but also negates the concept of transparency in administration and can occasion avoidable apprehensions which the Department, would, no doubt, like to avoid'.

In the context of the foregoing, the recently notified C&AG's Regulations on Audit and Accounts have addressed major issues that confront Audit Department from time to time and put them on

sound legal footing to avoid any doubts in future. Important provisions of Regulations are discussed in Chapter 21 of this volume.

AUDITING STANDARDS AND MANUALS

C&AG has laid down for the guidance of Auditors, instructions and guidelines for conducting audit. The basic principles and practices which the Auditors should follow in the conduct of audit are laid down in Auditing Standards. These were first issued in 1994 by C&AG Somiah. These were comprehensively restructured and updated to take care of changes and developments taking place in the auditing profession and public administration and revised Auditing Standards were published in 2002 suitably adopting the restructured auditing standards issued by INTOSAI in 2001. Manual of Standing Orders (Audit) which contains audit principles and concepts has for long been the basic Audit Manual of the Department till Regulations were issued in November 2007. First issued in 1962, it was then called C&AG's Manual of Standing Orders (Technical) and was reprinted in 1969 and 1973. It was revised and updated in 1991 and issued by the then C&AG C.G. Somiah, with a changed name 'C&AG's MSO (Audit)'. The procedures etc. regarding certification of finance accounts and appropriation accounts and preparation of audit reports, were earlier detailed in another Volume called MSO (Technical) Volume-II. The 1991 edition included these in the revised MSO (Audit). It was revised and updated and issued by the then C&AG V.K. Shunglu in March 2002. Between 1991 and 2002, a lot of changes had taken place including the famous 1991 liberalization and considerable exposure which the Department had of international audit practices while auditing U.N. and allied organizations. The 2002 edition incorporated, wherever possible, best international audit practices consistent with C&AG's mandate.

Manual of Standing Orders (Audit) is a comprehensive document that sets out in the beginning C&AG's functions, duties and powers under the Constitution of India and C&AG's (DPC) Act, 1971; rest of the Manual 'sets out the general principles and instructions that are to be observed in auditing the accounts, reporting the results of audit and preparation of Audit Reports'. Besides, this general Manual, there are Manuals that are subject specific and set out detailed instructions on conducting audit of relevant subjects. Most of others are about emerging audits like Audit of Regulatory bodies, Audit of Disinvestment and series of guidelines and instructions on IT Audit. Mention in this context must be made

of Performance Auditing Guidelines issued by C&AG, V.N. Kaul in 2004 which have overhauled the performance audit systems and practices.

In 2003, the Department formally adopted an Audit Vision and Audit Mission. While the first reflects the basic objective of the SAI India, as promoting excellence in public sector audit and accounting services towards improving the quality of governance, the second brings out the long term mission of the Department that includes enhancing accountability of the executive to the Parliament and State Legislatures by carrying out audits in the public sector and providing accounting services in the States in accordance with the Constitution of India and laws as well as best international practices and where entrusted, to provide technical guidance and supervision to local bodies including Panchayati Raj Institutions to enhance their accountability.

CATEGORIZATION OF AUDIT FUNCTIONS

C&AG's audit functions are broadly classified into three categories:

- (i) Financial Audit;
- (ii) Compliance Audit; and
- (iii) Performance Audit

(i) FINANCIAL AUDIT

C&AG conducts financial audit and issues certificates on the following:

- ❖ Finance and Appropriation Accounts of Union, States and UTs having Legislative Assembly.
- ❖ Accounts of statutory organizations.
- ❖ Government companies and deemed government companies
- ❖ Statements of Expenditure (SOEs) of externally aided programmes projects.
- ❖ Plan expenditure on schemes.

While audit may have discretion in other types of audits as regards its periodicity, in the case of financial audit there is limited leeway available. Financial audit is mostly mandatory and has to be done annually (subject to accounts being available). This audit enables the C&AG to make sure that the accounts are complete and correct.

Finance Accounts and Appropriation Accounts are the two principal annual accounts of the Union and State Governments. Their audit and certification is conducted in terms of provisions contained in Section 13 of the DPC Act 1971 and C&AG's MSO (Audit) (Second Edition-2002). C&AG certifies both these accounts. Financial audit of accounts of bodies and authorities like DRDAs or Zilla Parishads is done by the respective Principal Directors (Audit)/Accountants General. Detailed guidelines on audit of autonomous bodies where C&AG is the sole auditor exist in the latest Manual of Autonomous Bodies brought out by C&AG in July 2007.

The annual accounts of Government (Finance Accounts and Appropriation Accounts) are audited by the concerned Accountant General (Audit) or Director General of Audit in respect of State Governments and Central Government respectively. These are then submitted to the C&AG for certification. In the case of Union Government, Finance Accounts are compiled for the Union Government as a whole including transactions of the Department of Post and Telecommunications, Defence, and Railways as well as transactions of the Union Territory Government under the Public Accounts. The three Departments namely Department of Posts and Telecommunications, Ministry of Defence and Ministry of Railways prepare their respective Appropriation Accounts duly signed by their respective Finance Heads and countersigned by the concerned Secretary and in the case of Railway by Chairman, Railway Board.

The current system of Appropriation Accounts and Finance Accounts audit is that after the CGA has signed the accounts, it is audited by the DGACR or DGA, P&T or DGA, Defence Services, as the case may be, and after the rectification of accounts on the basis of audit observations, the concerned Secretary signs it and then it is sent to the C&AG for his signature.

In the case of State and Union Territory accounts, except accounts of State of Goa and Union Territory of Pondicherry (now Puducherry), the responsibility for finalizing the Finance Accounts and Appropriation Accounts is on the concerned Accountant General (A&E). A system is in place for getting these accounts checked both at the intervening and final stages by the Internal Test Audit Wing of Accountant General (A&E) and subsequently by Accountant General (Audit). The finalized accounts are then submitted to C&AG for his signature with the prescribed audit certificate.

Governments of State of Goa and Union Territory of Pondicherry prepare their respective Appropriation Accounts and Finance Accounts which are checked by Principal Director of Audit, Central, Mumbai and Accountant General, Tamil Nadu respectively at the draft stage. The final compiled Appropriation and Finance Accounts are prepared taking into account the observations of audit; in case audit suggestions are not accepted, the Principal Director of Audit or Accountant General will incorporate such audit comments as he considers necessary. The accounts are signed by the Director of Accounts & Treasury and countersigned by the Secretary Finance of the concerned States. Principal Director of Audit, Central, Mumbai (now AG, Goa)/ Accountant General (Audit), Tamil Nadu forward the same with prescribed audit certificate for the signature of the C&AG.

Certification of World Bank And Other Externally Aided Projects: The World Bank as well as other funding agencies have accepted the arrangement that C&AG of India be an independent auditor for certification of accounts of projects being executed in India through their assistance. It speaks for the credibility of the SAI-India auditing system that these institutions have reposed so much trust in the C&AG's audit. There is a calendar prescribed for the finalization of these accounts and their certification. There have been cases of delay in the issue of audit certificates for externally aided projects but these are mainly due to delays in the receipt of SOEs from the project implementing authorities.

The prescribed audit certificate is signed by the Accountant General/Principal Director of Audit as the case may be.

Certification of Accounts of Central/ State Autonomous Bodies: Where the C&AG is the sole auditor of these bodies, the audit certificate on the annual accounts is issued by the concerned Principal Director of Audit or Principal Accountant General/ Accountant General (Audit) as the case may be. The format of the audit certificate was revised in April, 2006 for adoption in all cases of accounts to be certified/ separate audit reports issued to the Government/Management from 1 July, 2006 onwards.

Certification of Accounts of Railways is dealt with in Chapter 10 on Railway Audit.

(ii) COMPLIANCE AUDIT

Compliance audit is the current expression in the department for what was earlier called transaction audit, is concerned with compliance with applicable laws and regulations. Essentially, this involves “verifying that the expenditure conforms to the relevant provisions of the Constitution and of laws and rules made thereunder”. All transactions are reviewed in audit from these basic requirements. The expression Compliance audit has been adopted now because it is in line with the international practices and C&AG’s Report on transaction audit has been renamed as C&AG’s Compliance Audit Report from the year 2007. Details of interesting audit findings on compliance audit are contained in Chapter 5 on Audit Reports (Civil).

(iii) PERFORMANCE AUDIT

It ‘Is concerned with the audit of economy, efficiency and effectiveness’. It is also called value for money (VFM) audit in some countries. It has also been defined as ‘an independent assessment or examination of the extent to which an entity, programme or organization operates efficiently and effectively, with due regard to economy’. The concept, its development over the period and its application are discussed in detail in Chapter-12.

AUDIT METHODOLOGIES AND TECHNIQUES

Government Audit employs different methodologies to achieve its aims and objectives viz. (i) securing executive accountability to Parliament, (ii) providing assurance to Parliament that funds voted by it have been applied for the purpose they were given and, they have been spent wisely as any prudent man will do with his own money, and (iii) provide very useful data to Administration and information on the spending; more importantly, giving independent assessment of the quality of that spending.

How does Audit go about its job? In India, where Audit has evolved for over a century, presently two-main systems operate:

- ❖ Field Audit
- ❖ Central Audit

Bulk of the auditing is field audit or on site audit like everywhere else. Due to historical reason of C&AG also being the compiler of accounts and, therefore, having the advantage of getting all the

vouchers from the treasuries in his office, (this is not applicable for Central Government Offices where the Accounts were departmentalized in 1976), a system of Central Audit or offsite audit also prevails. The vouchers used by the Accountant General (Accounts & Entitlement) for compiling the monthly and annual accounts are subsequently passed on to the Accountant General (Audit) whose team called Central Audit Party (CAP) audits them in the A&E premises. Central Audit Support Section (CASS) in Audit offices coordinates and pursues the work of Central Audit parties and performs all support functions. Central Audit is supplemented heavily by local audit and inspections as prescribed by the C&AG. In cases where accounts have been departmentalized (like Central Government Departments, State of Goa etc), the entire audit is being done locally and there is no central audit. On introduction of VLC in A&E offices in January 2000, checks being manually exercised hithertofore can now be done through computer generated reports. It was, therefore, expected that central audit would become much more effective. This, however, is yet to happen.

Of the 27,270 persons deployed in Audit work in the IA&AD as of March 2005, 20,499 are deployed on Civil Audit (75 per cent). The field audit deploys much of the C&AG's staff—the audit of Union Government Accounts is done totally through field audit work. In case of State (Civil) Audit also, nearly 75 to 80 per cent of audit staff is deployed on field audit.

The basic expenditure audit unit is the Drawing and Disbursing Officer (DDO) of the Department but the audit also covers Controlling Officers, and Heads of Departments besides the Ministries or the Departments of the Government. A data-base of all the auditable entities is maintained by each audit office that contains their relevant particulars. This is naturally revised and updated each year. The quantum of audit checks, the periodicity of audit etc. are governed by C&AG's Memorandum of Secret Instructions as modified by HQrs circular of December 1994 on Audit Planning that allows the Accountants General/ Principal Accountants General to deviate from the norms subject to conditions detailed in this circular. With clear guidelines on risk based planning in 2005, Audit Plans have now adopted these as their basis with refinements taking place every year. The Performance Audit Stream, as explained in a separate Chapter, has a totally different system of preparation of Audit Plan for its reviews which includes acceptance at the HQrs. In State Civil Audit, significant developments took place in the post 1990 period. A detailed account of these is given in the

Chapter on State Audit Reports. However, a brief mention of these would be relevant here. C&AG, Shunglu introduced theme-based Transaction Audit which was a new feature. Amongst these were audit of foreign travel expenses and hiring and utilization of vehicles by State Government Department. In addition certain system based audit were also introduced. Examples of these are integrated audit of a department, manpower audit of a department, audit of personal ledger account/ PD Account. All the above audits were conducted across various States. In addition, emphasis in his period was also on the Environment Audit and Compliance Audit of certain important Acts like Prevention of Food Adulteration Act, Water and Air Pollution Act etc.

DEPARTMENT-WISE/ CONTROLLING OFFICER BASED AUDIT

Currently, the C&AG is debating a proposal for moving on to Department/ Controlling Officer wise audit from the DDO based audit as a unit. The C&AG had constituted a Task Force in December 2005 which concluded that an amalgamation of good features of the DDO and the proposed Department/ CCO audit system would be appropriate. C&AG approved the recommendations of the Task Force in May 2006 to be tried on experimental basis. The new systems were not to cover commercial, state receipts and performance audits and would also not be applicable to the audit of Union Ministries and Departments. It will cover civil transaction audit in States only. To begin with, the system was to be tried in two large and two NE States. These 4 pilot studies were in progress. The study was to be confined only to one high risk Department in each of the Pilot Study States.

REGIONAL AND NATIONAL WORKSHOPS

The regional workshops and national workshops on Civil Audit held from 1996-97 onwards provided an extremely good forum for exchange of ideas and discussions in a business like manner on already identified themes which had lead paper presented by the designated officer and a review of main audit output in the pipeline. For example, in such a workshop held in February 2000, the theme papers presented in the workshop concerned Integrated Audit of a Department, additional guidelines on risk analysis, impact analysis in performance audit and environmental auditing. Besides, audit planning and distribution of staff in HQrs and field offices were also discussed. For each topic, specific action points were identified

and conveyed to participating Accountants General. One of the important themes discussed in this workshop related to audit of purchases. The Principal Accountant General, Tamil Nadu gave a presentation on the theme about the system of computerization of sanctions relating to purchases by Government departments developed by his office so that a proper data base was available for audit planning. Amongst the suggestions made was that similar computerized data base should be maintained in all the Accountant General's offices for planning, conducting and monitoring the audit of purchases. It was also suggested that software used by Tamil Nadu Office could be adopted with suitable modifications by other offices. Finally, a Committee of three Principal Accountant General level officers was constituted to finalize guidelines for audit of purchases. A review of ongoing work on Audit Reports is done in regional workshops—every branch of C&AG's audit viz. Civil, Receipts, Railways, etc. have their own systems of holding workshops for this purpose.

COMPLETE AUDIT OF DISTRICT

In February 2000, instructions were issued from the C&AG office to all the field audit offices to take up at least one district in their State for complete audit. This audit would cover the entire expenditure incurred at the district level by all the agencies like DRDAs and Panchayati Raj Institutions. It would include all the schemes both State or Centrally sponsored. One of the objectives of this audit was to see the extent of duplication of various development schemes and examine whether a convergence would be possible for a more efficient and effective implementation of the programmes. Pursuant to these instructions, AG, Madhya Pradesh had conducted a comprehensive audit of Bastar District. Subsequently, on the formation of a separate Chhattisgarh State, this report was discussed by the PAC of Chhattisgarh Assembly which gave its detailed recommendations. (This is discussed in Chapter on 'Key' audit paragraphs).

In April 2003, ADAI (Report State) addressed the field Accountants General on several issues including District Audit. His views on this were based on Regional Workshops held at Kolkata, Bangalore and Delhi. The consensus was that District audit would need new methodology and would be a success 'in drawing the attention of state governments to several developments and accountability issues'. A multidisciplinary approach for this audit

was recommended covering works, revenue and commercial audit. All the major schemes implemented in a district including autonomous bodies like universities would be covered. The coordinating Accountant General would be AG (Civil) to whom, revenue audit and commercial audit results were to be conveyed for incorporation in the Report. These were broad suggestions, which had been enthusiastically endorsed.

In practice, district audit concept did not take off on a full scale. At least three State Accountants General namely Kerala, Orissa and Tamil Nadu included results of district audit in their Audit Reports of 2003-04.

NEW METHODOLOGIES: BENEFICIARY SURVEYS

Although the basic audit methodologies have remained the same over the years in the sense that audit investigations are carried out through an examination or scrutiny of accounts and related records and documents, certain subtle but important changes have taken place over the last 18 years which have refined the system of audit scrutiny and examination and at the same time introduced certain innovative techniques to gather information. For example, C&AG Shunglu (1996–2002) for the first time introduced a system of commissioning beneficiary surveys through reputed agencies to assess the impact of some of the major socio-economic programmes of the government. ORG Marg was commissioned (June 1999) to carry out beneficiary surveys on Public Distribution System and Rural Employment Generation Programme—two programmes that were being evaluated through Performance Audit for inclusion in Audit Report. The idea was that these independent surveys will capture perception of the beneficiaries or the target group of these programmes regarding the benefits they have derived from these programmes or schemes and thereby give an idea of the effectiveness of the programme. Additionally, the survey would help the audit department to assess the programme delivery as well as the quality of delivery and to some extent the integrity of the delivery system. In retrospect, one can say that the beneficiary surveys did yield a wealth of data and information to audit on the impact these programmes made on the beneficiaries or the target group. ORG Marg prepared the delivery profile for every state concerning these programmes to enable the AG to incorporate findings in their relevant Audit reviews while the national profile was used for the Union Reports/ All India reviews. The executive summary prepared

by ORG Marg was appended to the Audit Report containing the reviews. This strategy is often employed in the performance audits carried out by the GAO, the NAO, the OAG and other SAIs.

The subject of engagement of specialized agencies for carrying out beneficiary surveys was again debated at length in the year 2000 and a conscious decision was taken to use them wherever it was seen as of value to audit. This was done after the matter was deliberated at length at HQrs on the basis of a Report of an in-house Committee set up to determine (i) the need to carry out the beneficiary surveys on the schemes for which All India reviews were to be undertaken during the year (there were 4 such reviews) (ii) selection procedure of the agency for the work, (iii) terms or the parameters on which beneficiary survey should be carried out, and (iv) time frame of the beneficiary survey. The committee suggested two All India reviews for the purpose of beneficiary survey (i) National Family Welfare Programme, and (ii) District Primary Education Programme. The C&AG, while approving the proposal of the Committee to outsource the survey, desired that the surveys conducted by the Department of Family Welfare to the extent they provide objective information could be made use of and for the rest, sponsored survey should be able to establish the efficiency of the programme.

During the present C&AG Kaul's tenure, instructions in this regard have been refined much more and form part of Performance Auditing Guidelines. Amongst others, following broad conditions are laid down for engaging a consultant:

- ❖ Document transparently the assessment of knowledge and skill required for each performance audit;
- ❖ Examine and document how the required skill can be fully met in-house, without compromising the audit quality; and
- ❖ Follow the procedure in vogue within the SAI in the matter of procedure for procurement of services of expert/ consultants.

C&AG Kaul commissioned beneficiary surveys for the following schemes:

- (i) Sarvasiksha Abhiyan (Ministry of Human Resource Development)—The Social and Rural Research Institute conducted the survey from December 2005 to March 2006. The results were included in Audit Report placed in Parliament in August 2006. Public Accounts Committee

selected this Report for detailed examination and submitted its Report containing their recommendations to Parliament.

- (ii) Implementation of the Consumer Protection Act and Rules—ORG Marg carried out survey in July–August 2005. The Ministry appreciated the methodology and expressed the view that the findings could be used by them as a benchmark during future evaluation of the impact of the consumer protection measures.

ENGAGING CONSULTANTS

Apart from the beneficiary surveys, another significant development in C&AG Shunglu's time was the engagement of consultant for Audit Report work. It was rather unusual at that point of time to engage an expert for helping audit in their duties but the bold step taken in this matter brought out rich dividends in most of the cases. The consultants who were engaged during that period (1996 to March 2002) related to a variety of audit reviews. Thus, for Defence Audit Report, a consultant, who was a retired Lt. General and had a wide and rich experience in defence equipment purchases, upkeep and maintenance, was drafted to provide technical inputs for the audit review on 'Inventory Management in Ordnance services' for C&AG's Report on Army. By all accounts, his contribution was commendable and the Review was well received. The Report had given several recommendations, most of which were accepted by the Government. Similarly in the performance audit of 'Inventory Management in the Indian Navy', CAG engaged a consultant—an ex senior Naval officer.

An audit review was undertaken on the Commercial Audit side on a major National Programme called 'Golden Quadrilateral Project' which was being executed by the NHAI and which had colossal investment of Rs.58,000 crore; phase-I was to be completed in a time span of five years. A new strategy consisting of two parts was adopted to execute this audit—one of this was to get manpower support from other offices of the IA&AD, mostly Civil Accountants General (Audit) Offices because of the reason that MAB's office did not have either the required number of manpower to carry out this gigantic audit nor had they adequate technical expertise in auditing big works projects. Therefore, civil audit parties were drafted under the overall guidance of Director Commercial Audit to go out to the field formations and to carry out the audit.

The second important decision was to engage the Central Road Research Institute (CRRI), a reputed autonomous organization under the CSIR to (1) provide inputs on technical audit to the auditors, (2) prepare a design for the audit of the NHAI project (Golden Quadrilateral Project) in collaboration with MAB's office, and (3) carry out, at random, technical audit of certain completed works of the project to determine whether these were executed as per the technical specifications laid down for their execution in the project. The outcome of this technical collaboration was tremendous. It was a unique event in many ways—it was perhaps for the first time that a top technical institute was involved in audit work for checking the technical execution of work with significant results. This collaboration between the audit department and the CRRI proved useful and the technical evaluation and quality checks done by the CRRI of the constructed roads disclosed significant shortcomings in the construction of the roads that were detailed in the Report of the C&AG—Public Sector Undertakings for the year 2003–04 (No.7 of 2005).⁴ The impact of such solid findings especially in case of programmes like this one that are still underway, was tremendous. NHAI took due notice of these observations of audit and went in for major overhaul in their future systems and procedures.

The services of CRRI were again availed of for survey in the Performance Audit of 'Pradhan Mantri Gram Sadak Yojana' carried out during 2005. Although, the Ministry had put in place quality assurance measures in their project, the examination by CRRI revealed that quality of roads was deficient involving risks like premature distress, clogging of sand layers, inadequate strength to resist heavy load, etc.

Earlier, the IA&AD in 2001 had another very successful collaboration with a technical consultant for the purpose of redesigning Central (Civil) Audit Report No.1 containing comments on Finance and Appropriation Accounts. The C&AG engaged an economist in February 2001 from the National Institute of Public Finance and Policy as a consultant in HQrs to help drafting the Report. The result again was very satisfying; the Report became a trend setting analytical account of Union Government's fiscal policies and programmes with a wealth of data and trend analysis on important indicators of macro level financial management. Subsequently, of course, HQrs went a step further and appointed a fulltime inhouse economist as consultant by bringing an officer of the Indian Economic Service on deputation to the department. This officer refined the report further in the subsequent years. He was

also made incharge of drafting Chapter-I of the State Audit Reports dealing with the State finances and accounts. These volumes have rich information and data with sharp analyses based on time series data on various parameters. The system of having an economist on deputation has continued since then.

In the case of IT, the C&AG has had the benefit of having a consultant for several years now. A senior officer of the NIC is posted in the HQrs to guide and advise on the IT related issues. Besides, there are other specialists on regular staff of C&AG on deputation like Director (Works) and Statistical Advisor.

AUDIT PLANNING

As far back as 1975, the HQrs in their circular of 5 August 1975, emphasized that annual programming of local audits should be consistent with available staff with a reorientation of frequency and periodicity and consequently there should not be any audits programmed but not carried out. It also said that 'old yardsticks of fixed schedules of annual or biennial local audits in respect of institutions have become obsolete and the concept of any 'arrears' in local audits should therefore not arise'. The principle of working out priorities was also invoked in this circular in the context of un-audited units.

The Conference of the Accountants General in July 1993, amongst other things, discussed a paper on 'Audit Planning' which was part of Dharam Vir Committee Report. The Committee pleaded for more scientific and meticulous audit planning both at the macro level and at the micro level. The objective of audit planning was to ensure that Audit itself fulfils the criteria of the 3 Es i.e. Economy, Efficiency and Effectiveness with a view to review the Government activities. To achieve this, it was imperative that audit should be conducted with minimum of scarce manpower and avoiding wasteful deployment (economy).

In December 1994, the Department issued a circular on 21 December 1994 on the subject of audit planning to the audit offices. It could be said that perhaps in a formal manner, this was the first detailed direction on the reorientation of the concept of audit planning.

Very briefly, the circular laid down four criteria that an efficient audit plan should include viz:

- (a) denovo examination of periodicity of audit and duration of individual audits;

- (b) prioritization of audit assignments;
- (c) matching the available audit resources with the audit requirements; and
- (d) acquiring indepth knowledge of the auditee organization and developing appropriate data base.

It could be said that given the period, when it was issued, the contents produced a significant impact on audit programming, the concept of arrears etc. that seemed quite a deviation from the traditional norms. Firstly, it demolished, in one stroke, the notion that the existing norms relating to periodicity and composition of audit parties are inflexible. Secondly, even more importantly, AGs were empowered to relax the percentage of audit prescribed in the Manual of Secret Instructions. Thirdly, it deployed the concept of matching availability of manpower resources with the audits to be undertaken and for that purpose, a scheme of prioritization was set out in which the first priority was, of course, the statutory and obligatory audits. The mandatory audits naturally did not admit any flexibility. The circular placed All India Reviews and Local Reviews as the next charge on audit resources. The remaining resources were to be used for other local audits.

The circular emphasized the importance of understanding auditee organization and its environment (Auditing Standard 8.3). It stressed building-up necessary data bank and documentation.

The audit plan prepared in the above manner was to be submitted to HQrs, by 15 April every year accompanied by an appreciation note 'indicating the priorities adopted, relaxation in percentage of audit, if any, applied vis-à-vis those prescribed'.

For central audit, the audit plan was to be framed in terms of D.O. letter No. F.102-Audit II/91 dated 29 October, 1993 from N. Sivasubramanian, the then Deputy C&AG.

The above instructions still remain the basis for audit plan and even though these were meant for State (Civil) Audit and Central (Civil) Audit wings, other wings were given the freedom to have their own system of Audit Plan or adapt this suitably. However, the instructions of 1994 have been greatly supplemented by periodical instructions issued from time to time. One of the developments was that from August, 1999, each AG office was to form an Audit Planning Group (APG) that will be responsible for the preparation and monitoring of the implementation of Audit Plan. Interestingly, the Group was also to associate Pr.AG/ AG (A&E) as an invitee 'so

as to benefit from the inputs which can be provided by the Accounts Wing'. The Audit Plans were to be framed for 2 years—a detailed Plan for the year in question and a broad framework plan for the next year. During the year this plan would be updated. Thus, the biennial Audit Plan was a kind of rolling plan.

December 1994 orders on Audit Planning created some misgivings in the minds of staff associations. They feared that tailoring the quantum of audit according to availability of staff would result in non-filling of even wastage vacancies and at the same time steady decrease in the volume of audit coverage, etc. Their apprehensions were duly removed by HQrs in their letter of 23 February 1995 by AO (JCM) where it was mentioned that audit planning was not a new concept or policy and all that was being advised to the Accountants General was to plan audit by optimum use of available resources, for which purpose, a prioritization scheme had been indicated. The quantum of audit was not necessarily to be reduced where adequate man-power was available and Accountants General could project the requirement of staff based on prescribed quantum and periodicity.

One can argue that C&AG's Memorandum of Secret Instructions was diluted by the 1994 circular. On the other hand, it can be viewed as a very timely and necessary circular to take care of 'real audit requirements' and avoid proliferation of staff in routine audits. The circular, however, had several ramifications for Accountants General. One of them was the availability of information and data on the auditees and another was that the audit plan should be prepared by the Top Management Team itself and not delegated downwards. The concept of a sound data bank of auditee profiles was the key to the success of the Audit Plan.

SAMPLING TECHNIQUES & RISK BASED AUDIT

The era of 1990s marks a quantum shift of IA&AD towards more refined auditing techniques. Some of the techniques that started getting emphasis in nineties were risk based auditing, use of scientific sampling techniques and audit of fraud and corruption. As early as 1991 in the Conference of Accountants General, it was recommended, amongst others, that the use of statistical sampling techniques be promoted to enhance the credibility of audit observations. The Conference of 1996 considered this again and detailed recommendations were made regarding the use of globally accepted techniques for planning and conduct of audit in areas like central

audit of vouchers, audit of DDOs and in the field of financial audit. It also recommended the use of statistical sampling techniques in review of schemes and departments wherever feasible. It, therefore, concluded that the application of statistical sampling be introduced initially in some selected offices involving Civil audit, Railway audit and Commercial audit. It also recommended these offices to be authorized to engage statisticians as consultants to help them in the matter. The desirability of manualising the sampling methodology to achieve transparency in audit methodology was also emphasized. Need for appropriate training to different levels of staff was also emphasized. The Conference expected that detailed guidelines for introduction of statistical sampling may be issued by HQrs and suitable amendments to various provisions of MSO (Audit) also be made. In July 1999,⁵ in the context of formation of Audit Planning Group in each AG/ PD office for the preparation of Audit Plan, instructions were issued to the effect that Audit Plan should also be accompanied by a note on the proposed risk assessment methodology/ techniques adopted. In November 1999,⁶ instructions were reiterated that while detailed audit programme/ plan may be sent in the format as prescribed in DG (Audit)'s letter of January 1997,⁷ this should be accompanied, amongst others by a note indicating the significant high risk and sensitive areas of audit identified as per the indicators suggested in the Report State Wing Circular of 13 July 1999.

The XXI Accountants General's Conference in 2001 again considered both risk based approach and statistical sampling for audit. The Conference made recommendations on various aspects like risk perception, risk identification, risk based audit for certification of accounts, risk based audit in VFM and skill development. The Conference identified expected outputs of risk based and statistical sampling methodology as better use of scarce audit resources, audit attention on priority to significant and high risk items, units, accounts etc. and improved materiality of audit findings and conclusions. It identified expected outcomes also which were: better accountability and transparency in audit, higher credibility of audit and improved planning, execution and reporting. It would be noted that while these new techniques were under the consideration of C&AG for more than a decade, in reality, very little was achieved in terms of the actual application of these techniques in auditing in the sense these were envisaged. These were still broad ideas and not converted into any formal system to be followed by

all offices compulsorily. In that sense, these concepts were still developing even as Department was very much conscious of their advantages.

Time was, therefore, ripe when the topic of risk analysis and statistical sampling was discussed in XXII Accountants General's Conference in 2003 to convert these ideas into operational systems. And that is what happened.

After this, things have moved fast. In 2004, Performance auditing guidelines were issued by the C&AG where main emphasis was on risk based technique in planning, selection and audit of entities and programmes. Individual wings in the Department have either already established the system of risk based planning and auditing or are in the process of doing so as detailed in individual Chapters. As regards State (Civil) Audit Wing, instructions were issued in March 2004 in the context of the Perspective Plan of the Department for 2003-08 on sample selection for audit through statistical sampling and risk analysis. The letter mentioned about instructions already issued on this subject in September 2003 and October 2003 and desired a compliance of those instructions. However, the letter also talked about urgent need to firm up parameters/ weights for risk analysis and sampling techniques to be adopted in selected pilot studies for both financial and VFM audits. The matrices were prepared later and circulated to field offices in May 2006. These were aimed to categorise and classify the auditee units specially for Transaction Audit in Civil and Works Department. An annexure to the letter detailed out these matrices and the weightage to be given. Currently, in the preparation of audit plan, these matrices are being used by the State Accountants General.

There have been more developments regarding audit methodologies. In C&AG Kaul's time, new techniques of evidence gathering have been made a part of formal auditing methodology apart from documentary evidence and analytical evidence. These include questionnaire, interviews, expert opinion, impact evaluation, physical inspections, surveys and photographic evidence.

STRATEGIC PLAN AND PERSPECTIVE PLAN

One significant development that took place in present C&AG's time has been the preparation of a Strategic Plan (2002-08) and a Perspective Plan (2003-08). While the Strategic Plan was prepared basically as an audit strategy using the tenth five year plan document as the base for identifying the key expenditure areas for audit

purposes during the five or six year period, the Perspective Plan represents the overall action plan for the department as a whole which includes, apart from audit wing, the other wings also namely, accounts, training, HRD, administration etc. which have no place in Strategic Plan. It is the Perspective Plan which the department monitors in terms of progress made towards achieving the goals. It conveys the broad contours for medium term progress of the organization. There is a regular monitoring of the achievements of the various goals set out in the Perspective Plan for all the concerned goal supervisors. The progress in implementation of Perspective Plan was discussed at length in AG's Conference of 2005 and suitable directions wherever necessary were also given. The advantage of having these two plans is that while one i.e. Strategic Audit Plan helps the department in identifying the major audit areas, the other that is Perspective Plan gives not only audit related goals but also deals with the important audit methodologies and practices that aim at the quality improvement as also impact of the Audit and also helps in adopting best international practices.

Strategic Plan (2002–2008): The role and functions of Strategic Plan are best described in the document itself:

'The Strategic Plan is a framework for facing impending challenges based on our identification of certain critical themes that would influence the development process. The Plan also outlines our broad goals and strategic objectives, the attainment of which will be in support of our primary task of informing Parliament'.

The Strategic Plan divided the entire audit field for next six years into five broad themes. These were:

- ❖ Human Development
- ❖ Economic Liberalization
- ❖ Infrastructure Modernization
- ❖ Technology upgradation
- ❖ National Security

For each of these themes, the Plan laid out specific audit goals and objectives.

To give two examples of this- for the theme Human Development, the stated goal was to assess the execution of governments' interventions aimed at enhancing the quality of life of the people. Related strategic objectives were to study the implementation of different social sector programmes in the following areas:

- ❖ Poverty Alleviation
- ❖ Health Sector Management
- ❖ Population Stabilization
- ❖ Education
- ❖ Food Security
- ❖ Mainstreaming Gender Equality

The second example is that of the theme Economic Liberalization where the goal was that Audit 'will review measures taken to reopen the process of economic reform and to optimize resource usage.'

The connected strategic objectives were to examine Government interventions in the areas of:

- ❖ Fiscal Management
- ❖ Tax Reform
- ❖ Management of Subsidies
- ❖ Privatization

The Plan closely followed the Tenth Five Year Plan Documents approach and activities listed therein. This was because Audit will mostly be conducted on the expenditure projected for next 5 years on the various schemes and programmes listed in this document. In retrospect, it can be seen that the major Performance Audit Reviews which have appeared in Audit Reports like Food Security, National Highways Project (Golden Quadrilateral Project), Privatization, Subsidy Management etc. are in line with those identified in the Strategic Plan.

The NAO Consultants praised the Strategic Plan prepared by C&AG's office as 'a sound analysis of the future direction of Government programmes and core issues'.

Perspective Plan (2003–2008): The concept of a Perspective Plan for a five year period was recommended by NAO Consultants in their study Report on SAI, India. Accordingly, a Perspective Plan for the period 2003 to 2008 was prepared. This document is the blue print of the future developments in the Audit Department. The Perspective Plan for the Indian Audit and Accounts Department prescribes the broad contours for medium term progress of the organization. It has set out specific time bound goals that need to be pursued to realize Audit Vision and Mission, and for each goal relevant specific programmes have been detailed (13 goals were identified). The accountability centers i.e. the authorities responsible for implementing them (called Goal Supervisors and Goal Managers) were also identified for each goal. 'Each functional wing will draw

up annual programmes which will reflect the requirements of the perspective plan. Resource commitments and specific activities will be incorporated in these programmes'. In relation to the State Auditing functions contained in the Perspective Plan, a communication from HQrs in March 2004 gave a framework of action on two important programmes listed in the Perspective Plan namely programmes for 'Audit Methodologies' and 'Performance Audit'. The following instructions relating to the specific actions on each item of programme listed in the Perspective Plan were given in the letter.

- (a) All Accountants General were asked to prepare an electronic database of auditable entity profiles, audit plans, audit outputs and follow up of audit observations by September 2004. This was to be updated regularly and improved as per the suggestions of the HQrs, to whom a copy of the initial database was to be sent by 30 September, 2004.
- (b) The updated methodology of sample selection involved more scientific statistical sampling and risk analysis. HQrs had issued several instructions on this subject to the field offices from where compliance was to be ensured. In addition, the letter emphasized that some select pilot studies be done for both financial as well as VFM Audit where the parameters for risk analysis and sampling techniques should be firmed up and used in these pilot studies.
- (c) The letter emphasized upon Computer Assisted Audit Techniques (CAATs)—Instructions on this had been issued in July 2002 and the letter asked the AsG to carry out some pilot projects using the VLC data. This assignment was to be completed by April 2004. It was also enjoined that a cell would be set up and proper training will be imparted to all the cell members by March 2005.
- (d) Categorization of Audit—The letter emphasized the new categorization system of audit into financial/ transaction audit and performance audit and emphasized the necessity to formulate distinct methodology for these audits. Audit personnel should be trained in RTIs and RTCs. The target date set in new methodology was March 2005 and for other related works, March 2006.

- (e) Evidence gathering through modern techniques—the letter impressed upon the adoption of new techniques of evidence gathering like questionnaire, interviews, expert opinion, impact evaluation, physical inspection, surveys etc. Necessary guidelines on how to look for evidence were included in HQrs Circular of 21 October 2003. Whatever be the evidence, it has to satisfy the criteria of competence, relevance and reasonableness. The letter advised that additional evidence techniques should be used in selected audits during 2004-05. It was also enjoined that a workshop should be held to decide on the applicability of new techniques of evidence gatherings.
- (f) Internal Control Mechanism—HQrs had already introduced an evaluation of internal control and internal audit system of government departments from the Audit Report 2003-04. The letter emphasized that the review should be on the lines of INTOSAI guidelines and further the office should develop benchmark for this review based on standards of Institute of Internal Auditors. It was recommended to carry out pilot studies and then frame standards.

The letter advised compliance with reporting standards by all AsG Audit. It also advised them to give 'a balanced appreciation in the administrative context' rather than only indicate shortfalls and weaknesses in Performance Audit Reports. It was also advised that audit should make constructive and practical recommendations after taking into account views of the auditee units.

The letter mentioned about evaluating effectiveness of audit for which a matrix has been devised separately for reviews and paragraphs. Accountants General were also to submit assurance memos and they were also asked to liaise with State PACs requesting them for selective examination of earlier Audit Reports so that their recommendations become more current.

On Performance Audit, the letter asked the AsG to assess the progress of critical programmes of Governments as enunciated in the tenth five year plan with focus on poverty alleviation, health sector management, population stabilization system, education, food security, mainstreaming gender quality for preparing the annual audit plan which should identify thrust area specific to the concerned States. This would also include quality infrastructure for greater

economic growth. A mid term review of the Perspective Plan was done in September 2005 in the XXIII Conference of Accountants General.

AUDIT OF FRAUD AND CORRUPTION

An area which has drawn the attention of present C&AG is the issue of audit of fraud and corruption. The C&AG had participated in discussions in the UN Panel on this issue. It gave him good idea of the role and responsibility of Audit in the area of fraud and corruption. His initial impulse to activate and include this system of audit in SAI-India system, came from these discussions in the UN Panel.

C&AG set up a Committee in August 2003 to examine the issues involved and submit recommendations for setting up of 'fraud detection mechanism' and road map to 'identify areas, conceptualize audit methods, to train staff and manualise' the system of fraud examination in the IA&AD.

The Committee's draft report was discussed in a meeting of Senior Management with C&AG in December 2003 and based on the inputs, the report was revised and the final report was approved by the C&AG on 31 December 2003. In April 2006, HQrs issued instructions on the subject which were to be followed by the concerned audit offices from the financial year 2005-06 for all transaction Audit Reports of the Union Government and transaction audit chapters of the State Audit Reports. These, *inter-alia*, included the following:

- (i) A review of audit plans to focus on high risk areas, specially those that were highlighted by the Chattopadhyay Committee and in para 2.28 of the ASOSAI Guidelines dealing with fraud and corruption;
- (ii) Paras relating to fraud and corruption should be printed in bold type in Audit Reports;
- (iii) Submission note relating to Bond copy should make a specific mention of these cases;
- (iv) C&AG's annual post-audit report letter to Chief Ministers should also make a mention of these cases in the Audit Report; and
- (v) All such cases should be taken up with appropriate authorities after the approval of bond copy, which contain these paras along with others.

It was also mentioned in the said letter that standing orders/ guidelines on the audit of fraud and corruption were under preparation and would be issued soon. The above instructions were circulated to the DAIs/ ADAIs by DAI (LB) with the request that within their respective charge they may issue necessary instructions to the field offices.

In September 2006, HQrs issued standing orders on role of audit in relation to cases of fraud and corruption. Detailed guidelines were to be issued 'as and when the need arises'. While dealing with the role of audit, the HQrs letter made it clear that the responsibility for prevention and detection of fraud and error primarily rests with the management through implementation and continued operation of accounting and control systems designed to check frauds. Audit role was to evaluate and report on the adequacy of systems in place and competence with which management has discharged its responsibility regarding prevention, detection, response and follow up measures in relation to fraud and corruption. The audit does not make legal determination of whether fraud has actually occurred—what audit teams and officers can do is to put red flags (which is an indicator that further scrutiny of the concerned transaction or item would be needed) which need further investigation by appropriate agency. Where evidence is clear, audit can come to a conclusion about a suspected fraud and include in their findings.

The instructions were detailed and defined audit responsibility in fraud examination. They defined characteristics of corruption and fraud as also nexus between fraud and corruption. The order emphasized the importance of independent risk assessment at audit planning stage—audit plan in relation to fraud and corruption should focus on high risk areas. It identified by way of illustrations some of the more prominent and common high risk areas. At the audit execution stage, the audit teams should be vigilant and seek explanations wherever they come across possible fraud indicators.

The instructions focused extensively on IT frauds and gave detailed instructions on how to deal with them. Regarding the reporting and follow up, a procedure was laid out. The initial report of individual case of fraud or corruption should be confidentially reported to the controlling authority concerned with the approval of group officer. More serious cases should also be reported to the Secretary of the Administrative Department and investigative authorities like Central Vigilance Commission (CVC), State Vigilance Authorities or Lok Ayukta over the signature of the Accountant General or with his approval. It was also enjoined that cases of

suspected fraud and corruption should be specially highlighted by printing them in bold type in the IRs and Audit Reports. There has to be a clear distinction between an audit para on mismanagement and one on fraud and corruption. A para that reaches the benchmark specified in the instructions alone will qualify to be a para on fraud and corruption.

At the bond copy stage of the Audit Report, the Accountant General should indicate in his/ her forwarding letter the number of cases of fraud and corruption included in the report.

After approval of the bond copy, these cases should also be taken up with respective vigilance authorities in Central and State Governments.

An important instruction in the circular of September 2006 required the audit teams to provide a memorandum/certificate of assurance which will include, *interalia*, examination of issues relating to fraud and corruption.

Results of these instructions are encouraging. In the latest Audit Reports, there is a marked increase in audit paras dealing with fraud and corruption.

While the foregoing instructions have laid out the latest drill of the audit of fraud and corruption and its follow up, there was some system in place earlier also on the subject including coordination⁸ between C&AG and CVC as well as State Vigilance or Lok Ayukta authorities. As per instructions issued in August 1997, Accountants General/ Principal Directors of Audit were required to suggest to respective ADAIs cases of fraud and corruption included in the audit report for the purpose of bringing them to the notice of investigating agencies. Similarly, in regard to Audit Reports of Union Government a similar decision to forward the suspected cases of fraud and corruption to the Central Vigilance Commission was taken in February 2001. The CVC in turn directed⁹ all his CVOs to scrutinize the audit reports of C&AG for necessary follow up or vigilance action (in respect of Central Reports only). Instructions in the matter were also issued in August 2003¹⁰ and September 2006 on follow up of these cases.

While earlier a system of reporting of suspected fraud/ corruption cases to the appropriate administrative and vigilance authorities was in place, a paradigm shift in audit policy has taken place now. This shift concerns audit approach towards its responsibility in detecting cases of suspected fraud and corruption. Not only is there recognition now that audit has a definite role in

this regard, the new instructions have given the broad road map to audit laden with techniques and approach to detect such cases both in the case of traditional regularity (transaction) audit and for IT related transaction audit. To that extent, one would expect better findings from audit in this area. In fact, audit results on fraud and corruption, as discussed in Chapter on Audit Reports have shown significant cases of suspected fraud and corruption detected by Audit.

QUALITY ASSURANCE: PEER REVIEW

More and more SAIs across the World are getting to the view that just as they (SAIs) assess the accountability and effectiveness of the executive and their programmes, the SAIs also ought to be measured on the same scale and this will require that the SAIs should also be subject to some external and independent peer review besides independent financial audit. United States General Accounting Office (GAO) (now renamed as Government Accountability Office) and the Canadian Auditor General's office both have underwent independent peer review done by external auditors. In the case of GAO, the peer review was conducted in April 2005 by a multi member team of SAIs led by the Office of Canadian Auditor General with other members drawn from counterpart Supreme Audit Institutions of Australia, Mexico, Netherlands, Norway, South Africa and Sweden. In essence they 'reviewed the quality assurance system that the GAO has established for managing its performance audit practice'. The Canadian Office of Auditor General was, in fact, the first Supreme Audit Institution that underwent a peer review in 1999 by an international team of SAIs led by the National Audit Office of the UK.

In the case of SAI India, the situation is somewhat different: while a formal review by an independent multinational audit team has never been conducted, in 2002, the National Audit Office of UK was commissioned as Consultants under an IDF Grant 'to assist the office of the C&AG to improve the efficiency and effectiveness of the public audit function in India'. The report of the National Audit Office, UK team was given in January 2003. The report, in many ways, was first attempt, of an independent review of the C&AG's organization by an external body.

The objective of this evaluation study was 'to assist/ advise the C&AG's organization in devising a strategic plan for the

development of a vision, mission and related assessment of core capacities of the office of C&AG'. Specifically, the National Audit Office Consultants was to carry out the following tasks:

- ❖ study the existing institutional systems of public auditing by the C&AG and identify requirements for strengthening the institutional capacity of the C&AG's organization;
- ❖ moderate a seminar with facilitation and content expertise;
- ❖ help in finalizing a strategy plan for strengthening the institutional capacity for skill development in areas to be identified; and
- ❖ help in designing an action plan with a definite timeframe for implementation of the strategy.

The Consultants after their study, made a number of recommendations to improve the matters even as they asserted that their findings and recommendations are to be reviewed 'against the considerable strengths that the IAAD has and its pivotal role in promoting better governance in India'. They recognized the 'strong legal independent frame work in which the C&AG operates' and very effective process of developing a well respected cadre of senior staff to lead the organization as they are the key strengths of the organization.

The Consultants wanted that a clear vision for the organization must be stated that would take a longer term view of the changes that may be required and establish clear objectives and milestones against which progress can be measured. The Consultants hoped that their recommendations, if implemented, will expand the current character of the C&AG's office from primarily a policing role to a more effective agent for change. Against this background, following major recommendations were given:

- (i) There was a need to develop and implement a Corporate Plan, that included a statement of vision and mission to act as a focus for further development of the Organisation;
- (ii) A policy unit in C&AG's office should prepare the Corporate Plan and a comprehensive management information system;
- (iii) The Audit Department should establish a Human Resource Unit to develop strategy to address issues of recruitment, promotions and staff evaluation;
- (iv) A review of existing training provision should be carried out;
- (v) The strategic audit plan should be developed further and indicate clearly resources to be applied to achieve the strategic plan;

- (vi) Various audits undertaken by C&AG should be clubbed into two categories i.e. financial and performance audit with clear objectives for each.
- (vii) Greater use of risk based auditing should be undertaken with statistical sampling techniques and audit should develop additional approaches to gathering audit evidence. Initially, pilot audits should be conducted on the basis of this new approach and results of these evaluated before any changes are fully introduced.
- (viii) Department should establish financial and performance audit methodology teams.

Audit Reports should be more balanced and even-handed. The Audit Report findings should be set in a clear context and offer constructive and practical recommendations for improvements. The IA&AD should consider alternative ways in which the results of its work can be disseminated.

The Department should develop a strategy for external relations that will identify a number of key messages that it wishes to get across and means of delivering those messages. In this context, it was recommended that the strategy should include a sub-strategy for dealing with the media.

Senior management of the Department should continue to meet their counterparts in the audited organizations on a regular basis to discuss important issues.

An important recommendation was that senior staff involved in the finalizing C&AG's reports should be involved much earlier for discussion with the auditable entities about the contents of the Audit Report.

There was a need for fundamental review of the organisational structure for efficient and effective operation of the Department.

The Consultants wanted IA&AD to consider establishing specialist Value for Money teams both at Union and State level, establishing a job-costing system to allow the costing of individual audits, and other activities like training to be accurately measured. A methodology for assessing the impact—financial or otherwise—of the C&AG's work should be developed initially on a pilot basis.

FUTURE ROADMAP

The AG's Conference in 2003 recommended a four step strategy for future roadmap as indicated below:

- ❖ Review all our existing systems and procedures in the light of NAO recommendations. Complete the necessary adjustments/ restructuring by March 2005. Plan for joining the GWG initiative from April 2005. Open up financial and VFM audit practices to Peer Review thereafter.
- ❖ Obtain ISO 9002 certification for entitlement services for one office on a pilot basis. Extend gradually to others.
- ❖ Engage peers for IT audit of VLC applications.
- ❖ Associate NCAER, NIPFP or an IIM for peer reviews of major performance audits, particularly those entailing evaluation of impact of government programmes.

ASSIGNMENT OF ORIGINAL WORK IN LOCAL AUDIT TO GROUP OFFICERS

A circular assigning original work in local audit to group officers was issued in February, 1996 with a view to improving the quality of audit and upgrading the audit skills of group officers. Its importance has been reiterated by DAI's Committee also. In undertaking original work, all queries and audit memos had to be drafted/ issued by group officers. Group officers could take their personal assistants on tour, if necessary, for secretarial assistance. Specific mention of the extent/ quality of direct work done by Group Officers was to be made in their annual confidential reports. The areas of work in various wings which were assigned to group officers were also specified in the circular. HQrs had observed in March 2002 that there were significant shortfalls in supervision carried out by the group officers of the field audit parties. In some cases, even cent percent shortfall was noticed. Field offices were requested to ensure that the group officers overcome shortfalls in future and adhere to requirement of minimum seven days supervision.

Actual number of days spent by a group officers in most offices was far less than prescribed 7 days. With regard to their contribution to the Audit Report material, most of the offices drew more or less blank but there were some notable exceptions. These are good signals and eventually the role of group officers will be crucial in Audit. In 2007, it was decided to increase the supervision by group officers from 7 days to 10 days in a month. Of these, atleast 5 days must be outside their HQrs.

RANKING THE PERFORMANCE OF AUDIT OFFICES

For the first time, the Department devised a system for ranking the performance of audit offices in terms of 10 parameters which were prescribed by the HQrs and transparently included in the scheme of ranking system. Amongst these 10 are: quality of Audit Reports, quality of implementation of audit plan, quality of timely issue of inspection reports, group officers' supervisions and their impact, dispatch of material for Audit Reports to HQrs in terms of specified milestones and training of personnel, specially utilization of slots allotted by RTI and percentage of earmarked trainings conducted. Timely issue of audit certificates is also a criteria. The system was notified in November 2004. A matrix devised for each parameter was also explained in the November 2004 letter but the application of the matrix for the first time for the purpose of ranking was done in the year 2006. The points and the grade earned by individual offices were circulated to them for the first time in November 2007. Some skewedness had been observed in the application of the matrix and efforts are on to perfect the matrix to get as appropriate a ranking as possible.

While it is too early to make any comment on the impact of this system on the efficiency and motivation for the offices, the fact that a system of ranking the offices on transparent parameters is in place, would surely motivate the offices to go in for excellence.

MEASURING AUDIT EFFECTIVENESS

A Committee was constituted by C&AG in May 2003 to examine the issue of audit effectiveness and develop appropriate criteria for the purpose of:

- (i) external dissemination of the contribution made by us towards the larger end of improved governance and to meet public expectations; and
- (ii) internal evaluation so that performance could be assessed and benchmarks could be set for enhancing results in future. Such internal evaluation would take into account the different circumstances in which offices function and comparisons of performance would necessarily be inter temporal rather than inter state.

As per decision taken on the Report of this Committee, each functional wing in the HQrs office was to determine the weightages to be assigned to various paragraphs which were included in the Audit Reports related to their wings. Apart from this, the wings such as Railway Audit Wing which are concerned with certification of various finance accounts and related statements were also

required to determine the additional parameters that were necessary to make a proper assessment. This matrix was used for the audit reports for the year 2002–03.

In January 2004, C&AG decided to get the matrix reviewed by a Committee of senior officers which included Economic Advisor M.C. Singhi, besides five Principal Directors of various functional wings of C&AG office.

The Committee dwelling on the logic and purpose behind the development of matrix said that while earlier also a money value for draft para was assigned, this new system of matrix was an attempt 'to systematize the assigning of weighted money values on a more sound basis. It placed audit findings on a hierarchical basis i.e. greater emphasis is placed on audit findings which have a more significant impact.'

The Committee concluded that the existing matrix may continue with minor adjustments in some cases.

INTERNAL AUDIT IN GOVERNMENT

On the basis of his experience of evaluation of internal controls which is being carried out now since the year 2003 as a standing practice in atleast one Ministry/Department for incorporation in the Audit Report, the C&AG came to the conclusion that there were serious deficiencies in the existing system of internal controls including internal audit. His impression was that the internal audit arrangements as they existed were ineffective and 'fail to support openness, integrity and accountability in Government in any substantial measure'. In his view this also had an adverse impact on governance.

The C&AG felt so much concerned about this state of affairs that he decided to take up the matter with the Finance Minister whom he addressed in May 2006. In this communication, he gave six suggestions to completely overhaul the internal audit arrangements in the government. These included securing independence for internal auditors functioning in various Ministries/Departments of Government of India, broadening the audit mandate to include performance audit for internal audit, proper and systematic audit planning, development of a clear set of internationally benchmarked standards for internal audit, training for development of skills where he offered the services of his organization and, finally, he pleaded for an effective follow up of

internal audit findings by strong Audit Committees with a majority of independent members on the pattern of UK.

The Government responded by requesting C&AG to set up a small group that could go into the benchmarking of the status of internal audit in Government of India and identify the specific areas that needed improvement. The C&AG accordingly set up a Task Force¹¹ in July 2006 which submitted its Report in October 2006. The C&AG accepted the findings of the Task Force both on the status of internal audit in the Central Government and also its specific recommendations for measures required to bridge the gap between existing standards and global standards of internal auditing in Government. The recommendations of Task Force interalia were on issues relating to the mandate, independence and auditing standards needed for internal audit in India, requirements for training, reporting and follow up. Finally, the Task Force suggested the constitution of a Board of Internal Audit and in that context also examined the question of improving synergy between the internal and external audit. The C&AG forwarded the Report of the Task Force to the Government in November 2006 suggesting that this could form the basis of internal audit reforms in Government of India.

AUDIT ADVISORY BOARD

An institutional mechanism of considerable significance was established when in March 1999, C&AG V.K. Shunglu constituted an Audit Advisory Board to provide him with inputs for audit planning and for setting overall audit objectives. Senior Management Team of the C&AG (initially all DAIs and ADAIs were Ex-officio members along with DG (Audit) as Secretary of the Board, at present only 3 DAIs are ex-officio members of the Board), and outside members numbering 12 (comprising persons of eminence in various disciplines or fields such as academics, medical profession, engineering profession, civil services, industry leaders, civil society) constitute this Board. The President, Institute of Chartered Accountant of India by convention is also ex-officio member.

A look at proceedings of various meetings of the Advisory Board suggests that the Advisory Board, besides discussing the Audit Reports of the C&AG, discussed concurrent and interesting themes. In February 2003, the Board discussed highly relevant contemporary subjects namely Strategic Plan of the Department for 2003-08 and the Report and Action Plan of NAO Consultants. In February 2004,

the Advisory Board discussed a very interesting theme, namely, role of C&AG as an instrument of reconstruction rather than an agent of criticism and ways of fulfilling his mandate in respect of financial accountability. In the same meeting the Board also deliberated role of audit in detecting fraud and corruption, nature and scope of performance audit and need for a more pragmatic approach. In September 2004, the Board had presentations on the following important themes by the eminent persons as noted against each:

- ❖ Information Technology (theme paper by Shri N.R. Narayana Murthy)
- ❖ Development of an appropriate audit strategy for audit of receipts—by Shri N. Rengachari
- ❖ Development of indicators for audit of environment and related issues—by Shri R.K. Pachauri.
- ❖ Reliable and effective model for audit of social projects—by Dr. Y.K. Alagh.

Further, the Board discussed in April 2005 the papers on 'Accountability reforms and movement from a cash basis of accounting to accrual system' and 'Audit of Scientific Departments'.

Besides, the Board also discussed issue of audit planning in March 2000. In October 2000, discussions were held on audit reports for the year ended 31st March 1999, Receipt Audit Reports and Reports on Voluntary Disclosure of Income Scheme (VDIS), Audit Report on Public Distribution System (PDS) and Audit Plan for the year 2000–01. It further discussed in March 2001 Audit Report of Central Government for the year ended March 2000, present position of Centre/ State Finances and the financial position of the Electricity Sector (Electricity Board and Companies) and Road Transport Sector.

The Audit Advisory Board mechanism has given a definite edge to the Department in as much as it gets the opinions and suggestions of the most eminent persons in the concerned area which goes a long way in shaping the audit strategy and audit philosophy regarding its role as the Supreme Audit Institution of the Country.

KNOWLEDGE SHARING AND DISSEMINATION OF INFORMATION

The Audit Department is unique and somewhat different from others in one respect. It continuously needs to widen its knowledge base, upgrade its skills as an auditor and financial analyst and generally

grasp and adjust to the developments or changes across the public administration and socio-economic areas. An excellent beginning towards exchange of ideas and knowledge sharing was made by C&AG V.K. Shunglu during his period (1996–2002). Every year, the C&AG would hold at least two seminars devoted to a specific theme of contemporary interest in which eminent persons from outside were invited to participate. Besides, the seminars were attended by a number of officers of the IA&AD—while most of these were attended by all the DAIs and ADAIs, a fair number of participants were Pr.AGs/ AG level officers. The seminars were mostly held in NAAA, Shimla and after the new building of Academy came up in 2001, the intake of participants also increased because of better infrastructure facility available. The present C&AG V.N. Kaul also continued the practice of holding seminars on important subjects.

Seminars have been held on a variety of subjects and themes which included:

1. Liberalization and After (13–14 September 1996)
2. Fiscal Deficit (1–2 May 1997)
3. Fiscal Deficit in States (18–19 September 1997)
4. Financial Sector Reforms (27 April 1998)
5. Financial Health of State Governments (8–9 October 1998)
6. State Level Public Sector Undertakings (6–7 May 1999)
7. Accountability of Local Bodies and DRDAs (15–16 September 1999)
8. Voucher Level Computerization (May, September 2000)
9. Impact Evaluation of Government Programmes (21–22 June 2001)
10. Government Assets (1–2 September 2003)
11. Performance Indicators—Economic and Social Sectors (8 June 2005)
12. Accountability of Local Bodies and Role of CAG (26–27 June 2007)

Besides Shimla, a couple of national seminars were held in Delhi also. These included Seminar on Disinvestment and a follow up of the Seminar on Impact Evaluation of Government Programmes at Neemrana (Rajasthan).

NOTES: CHAPTER-4

¹ This Chapter is mostly concerned with Audit Systems, Procedures etc. in Civil Audit. However, developments common to all streams of Audit are also included in this Chapter.

² This was done by new Government under the Prime Ministership of Shri Morarji Desai.

³ MOF DEA Budget Division No. 6(5)-B (R)/99 dated 13 June 2006.

⁴ Report of the Comptroller and Auditor General of India for the year ended March 2004, Union Government (Commercial), National Highways Development Project of National Highways Authority of India, No.7 of 2005

⁵ No. 742-Rep(S)/116-99 dated 13 July 1999

⁶ P.K. Mukhopadhyay, Pr. Director (RS) D.O. No. 1161-Rep(S)/112-99 dated 29 November 1999

⁷ DG Audit No. 54-Audit(Audit Planning)/193-94 dated 24 January 1997.

⁸ N Vittal's DO No. CVC /2001/570 dt. 8 May 2001

⁹ CVC letter No. 001/VGL/5 dt. 8 May 2001.

¹⁰ Divya Malhotra, Director (RS) D.O. No. 1149- Rep (S)/187-2003 dt. 28 August 2003.

¹¹ The Task Force was headed by Dr. AK Banerjee, Director General of Audit, Central Revenues.

LIST OF KEY EVENTS

5 August 1975	Orders were issued placing emphasis on annual programming of local audits consistent with available staff with a reorientation of frequency and periodicity.
1991	First Edition of Manual of Standing Orders (Audit) was issued after bifurcating existing MSO (Tech) into two separate Manuals one for Audit offices and MSO (A&E) for A&E offices.
1994	Norms of basic principles and practices which Government auditors are expected to follow were prescribed by the C&AG in Auditing standards.
21 December 1994	Format of Audit plan for Local Audit and Central Audit, distribution of men in position, deployment of parties, target of DPs, etc prescribed.
3 January 1995	C&AG wrote to Minister of Urban Development regarding allotment of accommodation in a manner not commensurate with guidelines of Government and alerting the Minister, so that action was taken to streamline the allotments.
31 March 1995	C&AG wrote to Minister for Urban Development for making available files relating to out of turn allotments.
30 April 1995	Minister of Urban Affairs and Employment replied to C&AG that files relating to out of turn allotments need not be made available to Audit in routine.
30 May 1995	C&AG wrote to Prime Minister for providing guidance to the Minister of Urban Affairs and Employment in the matter of production of records to Audit.
15 June 1995	C&AG wrote to Minister of Urban Affairs and Employment welcoming the latest instructions issued by the Ministry in the matter of allocation of Government accommodation.
5 August 1997	DG (Audit) issued instructions indicating that while forwarding Bond copies of Audit Reports, Pr. AG/AG would suggest issues concerning corruption, malpractice which could be brought to the notice of the investigating agency.
5 June 1999	ORG-MARG engaged as consultant for beneficiary survey of Public Distribution System.
30 July 1999	It was decided that in each AG/PD office an 'Audit Planning Group' will be formed. PAG (Audit)/AG(Audit) will be the convener of Audit Planning Group.
1 January 2000	Agreement concluded by the Headquarters office with M/S Generals Combine for study of management of inventory held by DGOS and Corps of Engineers which included assistance right from framing audit objectives till finalization of Draft Review

11 February 2000	A circular was issued to State AsG to take up at least one District in their State for complete audit.
1 April 2000	Agreement concluded with M/S 'Generals Combine' for assistance in conducting Performance Audit of Directorate General of Quality Assurance.
23 May 2000	ADAI (R-C) approved the need for beneficiary survey for Family Welfare Programme and District Primary Education Programme.
24 January 2001	C&AG approved engaging NIPFP as Consultant for improving upon the economic analytical content of Report No. 1 (Civil) relating to Accounts of the Union Government.
8 May 2001	CVC stated that serious cases of malpractices having vigilance angle would also be sent to them by C&AG for examination and follow up action.
31 August 2001	Instructions were issued by Headquarters that fraud and corruption cases appearing in Audit Reports which warrant vigilance investigation would be communicated to Chief Secretary and Administrative Secretary for taking up the matters with State Vigilance Authority
6 March 2002	Issue of Revised edition of Auditing Standards adopting suitably the restructured Auditing Standards issued by the INTOSAI in 2001.
7 March 2002	Second Edition of MSO (Audit) incorporating latest instructions and wherever possible best international audit practices consistent with IA&AD's mandate, was issued.
2003	Perspective Plan containing interalia 'Vision of SAI India' and 'Mission of SAI India' issued.
January 2003	National Audit Office of UK submitted a Report regarding modernization and capacity Building of the office of the C&AG of India.
14 July 2003	DG (Audit) circulated Report of the Committee on 'Measuring Audit Effectiveness' and format for 'Weighted aggregate of Money Value' to DAIs/ADAs of functional groups.
4 March 2004	Programmes for the 'Audit Methodologies' and 'Performance Audit' and action to be taken on those was circulated to all Pr. AG (Audit)/AsG (Audit) .
July–August 2005	ORG MARG engaged to carry out survey for the Performance Audit of 'Implementation of the Consumer Protection Act and Rules'.
December 2005– March 2006	Social and Rural Research Institute carried out beneficiary survey for 'Sarvasiksha Abhiyan'.
17 March 2006	C&AG wrote to PM (Manmohan Singh) requesting his intervention to ensure that Performance Audits of Economic and Commercial Wings of the Indian Missions and Passport, Visa and consular services were allowed to proceed.

DOCUMENTS

1

No. 380-Codes.I/41-74/Gr.V

Dated 5.8.75

To
The Accountants General

Sub: Arrears in local audits programmed but not conducted during 1974-75.

Sir,

Kindly refer to the Annexure II to this office letter communicating approved provisions allowed for inclusion in the Revised Estimates 1974-75 (Extracts enclosed). It was requested therein that you may organize the local audit programme in such a way as to ensure that audit of bodies and authorities selected under Section 14 & 15, Corporations and other Institutions audit of which is entrusted under Section 19 or under any law made by Parliament is completed according to prescribed schedule. The reviews of schemes selected, was also required to be completed with the existing staff. The balance of staff were then to be deployed on the normal OAD work which was to be phased in a suitable manner. In this context therefore the old yardsticks of fixed schedules of annual or biennial local audits in respect of institutions have become obsolete and the concept of any "arrears" in local audits should therefore not arise. Our intention was that all institutions should be covered in local audit over a period of time without any fixity of schedules. The period for which the institutions which were not audited during 1974-75 would no doubt be taken into consideration while working out priorities for future annual programmes.

As the emphasis is now on annual programming local audits consistent with available staff with a reorientation of frequency and periodicity, there should normally not be any audits programmed but not carried out.

You may kindly confirm that the annual programming of local audits is being done accordingly.

Yours faithfully,

Sd/-

(Vijay Kumar)

Deputy Director (Codes)

2

Copy of letter No.79-Audit (Aud.Plg.)/9-96 dated 1st February, 1996 issued under Circular No.2 of 1996 by Mrs. Pravin Tripathi, Principal Director (Audit), O/o the C&AG of India, New Delhi addressed to All Principal Accountants General/Accountants General (Audit) and All Directors General of Audit/Principal Directors of Audit (including P&T, Defence, Railway and Commercial Audit offices).

Sub: Assignment of original work in local audit to Group Officers.

Sir,

The issue regarding assignment of original work in local audit to Group Officers in various wings was under consideration of this office for some time past. It has now been decided to make a beginning in this regard. Such assignment is intended to serve two distinct purposes, i.e. (i) to improve the quality of audit and (ii) to upgrade the audit skills of Group Officers. The areas in which original work is to be handled by Group Officers are given in the annexure. These would be reviewed in due course in the light of experience gained.

2. In operation of these instructions, the following points may be noted:

- (i) The direct work so done by the Group Officers would be reckoned towards the presently prescribed minimum monthly supervision by them.
 - (ii) In undertaking original work, all queries and audit memos would be drafted/issued by Group Officers. They may take their personal assistants on tour for secretarial assistance, if considered necessary.
 - (iii) The Group Officers would report to the Heads of offices on the direct work done by them immediately on conclusion of each spell.
 - (iv) The Heads of the offices may give further directions to the Group Officers, as considered necessary.
 - (v) The Heads of the offices should make a specific mention of the extent/quality of direct work done by the Group Officers in the annual confidential reports.
3. Please acknowledge receipt.
 4. Hindi version will follow.

ANNEXURE

Statement showing areas of work in various wings which are to be assigned to Group Officers for doing original work in local audit.

- (1) Civil Audit
 - (i) Detailed planning, pilot studies, field work and drafting of review by the Group Officer; the Group Officer will personally supervise the pilot studies and also undertake audit of one of the units selected for detailed audit for preparing a review.
 - (ii) Purchase cases/supply orders, contracts of over Rs.25 lakhs.
 - (iii) Audit of one Autonomous Body involving certification of accounts.
- (2) Public Works Department
 - (i) Detailed audit planning, pilot studies for the projects selected for review for the Audit Report.

- (ii) Audit of one construction division in a quarter with annual expenditure of Rs.1 crore and above.
- (iii) Allotment of contracts over Rs.1 crore and above.
- (3) State Receipt Audit
 - (i) At least 20 assessments in a major sales tax circle headed by Deputy Commissioner/Assistant Commissioner.
- (4) Central Excise Audit
 - (i) One unit each of small scale industries and the units manufacturing a commodity selected for detailed system appraisal.
 - (ii) One unit with revenue yield of Rs. 2 crores and above.
- (5) Customs
 - (i) Audit of cases relating to Advance Licensing Scheme and Export Promotion Capital Goods Scheme where duty foregone exceeds Rs. 25 lakhs.
 - (ii) Review work which needs effective supervision and close liaison with other agencies.
 - (iii) Audit of end use based exemption notifications where the duty foregone exceeds Rs. 20 lakh [e.g. import of (a) donation goods by charitable organizations, (b) instruments and apparatus by hospitals, and (c) concessional/duty free import by the electronic industry etc.)].
- (6) Income Tax Receipt Audit
 - (i) Overall supervision of an assessing officer of an important charge viz. Dy. Commissioner (Special Range), Asst. Commissioner (Company Circle) etc. The Group Officer must spend at least eight days in a quarter in one spell, or in two spells of four days each, in auditing one such assessing officer and should personally scrutinize not less than 20 assessment cases.
 - (ii) Intensive involvement in the system appraisals. This would include supervision of all aspects of any pilot study either assigned by Headquarters or selected by the AG. For other reviews the Group Officer should, besides monitoring the progress from local Headquarters, visit at least one party for each review and supervise a part of its work.
- (7) Commercial Audit
 - (i) At least one company in a year at the time of supplementary audit of accounts.
 - (ii) One major contract for purchases.
 - (iii) One major investment proposal.
- (8) Railways
 - (i) Procurement of stores over Rs. 1 crore.
 - (ii) Works programme over Rs. 5 crores.
 - (iii) One major investment proposal.

- (9) Defence Audit
 - (i) One major purchase transaction over Rs.1 crore.
 - (ii) One major civil work over Rs. 5 crores.
- (10) P&T Audit
 - (i) One major purchase contract over Rs.5 crores.
 - (ii) One major civil/exchange work costing over Rs.10 crores.

3

DO No. 472-Audit (MOM) 217-97

Dated: 05.08.1997

Sub: Reporting cases of fraud or corruption to Vigilance and Investigative authorities and Holding of Press Conference after the audit Report is tabled: Recommendations No. 2.1.1 and 3.1.6 of the XIX Conference of Accountants General.

Dear

Kindly refer to recommendation No. 2.1.1 of the XIX conference of Accountants General held in November 1996 regarding extension of co-operation and assistance to vigilance and investigative authorities by reporting cases of fraud or corruption noticed during the course of audit.

2. The matter has been further examined. It has been held that if a particular case of fraud/irregularity is considered serious enough to merit attention of the investigative authorities, it ought to find mention in the Audit Report and as the Audit Reports are published and available to all concerned, sufficient dissemination and information is available to the public. It has been decided that Accountants General/Principal Directors of Audit etc. shall not report on their own any case to vigilance or any investigative authority nor will they endorse a copy of extracts from the Inspection Report to any such agency. While forwarding the Bond Copy of the audit report to Headquarters, the Accountants General/Pr. Directors of Audit would suggest to respective ADAI cases which ought to be brought to the notice of an investigative agency. Only such of the cases which have the concurrence of ADAI will then be brought to the notice of investigative agencies like CBI/CVC/State Vigilance and Intelligence Agencies/Lok Ayukta. While forwarding the cases to the investigative agencies Accountant General/Pr. Directors would appropriately state the subject and may also, where necessary, send details of the case indicating names of individuals, firms, addresses etc. which may be available in his office but not mentioned explicitly in the audit report. The entire exercise may be completed without waiting for the availability of printed audit reports. Similar procedure may be followed in respect of audit reports relating to Railways and Commercial Wings.

3. Reference is also invited to item No. 3.16 of the recommendation wherein Accountants General were advised to call for a Press Conference to apprise the media about the highlights of the report and to arrange panel discussion on television after the Audit Report is tabled. After reconsideration it has been decided that Accountants General etc. should not hold press conference as a matter of routine or hold a panel discussion on television. Only under exceptional

circumstances the Accountants General etc. should brief the press after obtaining prior approval from the Headquarters by approaching the DAI/ADAI concerned. However, existing practice of issuing a press brief based on the 'Overview' of Audit Reports in terms of Headquarters circular letter No. 1321-Rep(S)/97-87 dated 30th November, 1988 will continue.

With regards,

Yours sincerely,
Sd/-
(Sudha Rajagopalan)

Shri V. Srikantan,
A. D. A. I
O/o the Director General of Audit,
Defence Services,
L-11 Block, Brassey Avenue,
NEW DELHI-110001.

4

001/VGL/5
Government of India
Central Vigilance Commission
Dated the 8th May 2001

Subject: System improvement to fight corruption through better synergy between C&AG and CVC.

Under the powers vested in the DOPT Resolution No. 371/20/99-AVD-III dated 4th April 1999, para 3 (v) the following instructions are issued:

The audit reports of the Comptroller and Auditor General many a time reveal not only administrative and financial irregularities but also actual cases of corruption. The C&AG reports are generally well documented and would be useful in bringing the corrupt public servants to book.

There is a need for introducing a system for prompt follow up action in the cases of corruption brought out by the C&AG in its audit reports. The Public Accounts Committee and the Committee on Public Undertakings which scrutinize the C&AG reports may not have the time to scrutinize all the reports and all the paragraphs. At the same time, the valuable information available through the C&AG audit reports in the form of documented cases of corruption call for prompt action on the part of the disciplinary authorities.

It is therefore decided that with immediate effect the CVOs in all the organisations must scrutinise the C&AG audit reports issued after the date of this circular to check whether any cases of corruption are revealed in them. In all such cases immediate action must be initiated against the public servants concerned through the standard practice of referring vigilance cases to CVC.

The Commission had also been in correspondence with the C&AG on this subject. It has been agreed that all serious cases of malpractices reported by C&AG which are perceived to have a vigilance angle would be sent to the Commission for examination and follow up action. On receiving such references

from C&AG, the CVC would take follow up action with the disciplinary authorities. In this way, it will be ensured that the cases of corruption and issues having a vigilance angle are not lost sight of and there is effective synergy between C&AG and CVC to strengthen the system to fight corruption.

This instruction is also available on the CVC web site at <http://cvc.nic.in>.

Sd/-

(N. VITTAL)

CENTRAL VIGILANCE COMMISSIONER

5

D.O. No. CVC/2001/570

Dated May 8, 2001

N. VITTAL

Central Vigilance Commissioner

Dear Shri Shunglu

You may kindly recall that we have been discussing from time to time the issue of synergy between C&AG and CVC to strengthen the forces against corruption. In this connection, I enclose herewith copy of an order we have issued under CVC powers arising from para 3 (v) of DOPT Resolution dated 4th April 1999.

I shall be grateful if you could kindly nominate a suitable officer from your organization to ensure coordination with CVC.

With regards,

Yours sincerely,

Sd/-

(N. Vittal)

Shri V.K. Shunglu

Comptroller and Auditor General of India

10, Bahadur Shah Zafar Marg

New Delhi- 110 002

Encls: a/a

6

DO No. 1149- Rep (S)/187-2003

Dated: 28th August, 2003

Divya Malhotra

Director (RS)

Dear

As per instructions contained in Headquarters letter No. 843-Rep (S)/40-2001 dated 31.08.2001, cases of Fraud and corruption appearing in the Audit Report which warrant vigilance investigation are to be communicated by the Accountant General (Audit) to the Chief Secretary / Administrative Secretary to the State Government for taking up the matters with State Vigilance

Authority. It was further clarified in Headquarters letter No. 932-Rep (S)/187-2003 dated 30.6.2003 that such cases should be forwarded for obtaining prior approval of the Headquarters only after the Audit Report has been approved.

In order to streamline and regulate the process, it has now been decided that all Group Officers, while approving an Inspection Report should identify and submit to the Principal Accountant General/Accountant General the cases of suspected fraud, malafide and corruption warranting vigilance investigation. Accountant General would examine the cases and record speaking orders before forwarding the extracts of Inspection Report paras to the Administrative Secretaries of the Department concerned demi-officially in strict confidentiality, highlighting the need of making vigilance investigation under intimation to the ADAI. The matter would be followed up with the Government till finality. Meanwhile, in case the matter is proposed for inclusion in the Audit Report, the fact of having intimated the State Government for taking urgent action on the matters may also be mentioned in the final Audit Para.

Kindly acknowledge the receipt of this letter.

Yours sincerely,
Sd/-
(Divya Malhotra)

7

F. No. 6(5)-B(R)/99
Ministry of Finance
Department of Economic Affairs
Budget Division
New Delhi the 13th June, 2006

OFFICE MEMORANDUM

Subject : Performance Audit by Comptroller and Auditor General of India

Clarification has been sought whether Performance Audit falls within the scope of audit by C&AG under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

2. The Government has considered the matter. Under the section 23 of the DPC Act, 1971, the Comptroller and Auditor General of India has the powers to make regulations for carrying into effect the provisions of the Act in so far as they relate to scope and extent of audit. In pursuance of these provisions C&AG has been conducting performance audits in addition to financial audits and compliance audits based on guidelines/principles/regulations framed for the purpose. All audit reports of the C&AG are placed before Parliament and State legislatures, as the case may be, as constitutionally mandated.

3. It is therefore, clarified that performance audit, which is concerned with the audit of economy, efficiency and effectiveness in the receipt and application of public funds is deemed to be within the scope of audit by Comptroller and Auditor General of India for which Performance Auditing Guidelines drawn up by the Comptroller and Auditor General of India already exist.

4. All the Ministries/Departments are accordingly expected to facilitate the conduct of audits including performance audits by providing access to all the documents required by C&AG in connection with such audits. In this regard attention of all the Ministries is invited to O.M.F. No. 1(43)-B/78 dated 23rd September, 1978 issued from the Ministry of Finance, clarifying the procedure in respect of submission of official documents for audit without any apprehension and with due care with respect to custody and handling of classified files in accordance with standing instructions.

5. The respective subordinate offices and other entities that come under the purview of the C&AG audit may also be advised accordingly.

Sd/-

(P.R. Devi Prasad)

Officer on Special Duty (FRBM)

To

1. Secretaries to Government of India (All Ministries/Departments)
2. Chief Secretaries of State and Union Territory Governments.
3. Financial Advisers (All Ministries/Departments of Government of India)
4. Copy for information and record to:
 - (i) The Cabinet Secretariat and
 - (ii) The Office of the Comptroller and Auditor General of India.

8

No. 126/Audit (AP)/1-2004

Dated : 06.09.2006

To

All Directors General (Audit)/Principal Accountants General (Audit) / Principal Directors (Audit) / Accountants General (Audit) (as per the mailing list)

Sir/Madam,

Sub: Standing Order on role of Audit in relation to cases of Fraud and Corruption

Introduction

Examination of system for detection and prevention of fraud and corruption will henceforth be an integral part of all regularity audits and also of performance audits, whenever it forms one of audit (sub) objectives. The standing order in the Annexe to this communication is issued in supersession of the existing instructions on the subject. As and when the need arises detailed guidelines will be issued. Some of the important points to be kept in view are as under:

(1) Corruption and fraud are generally interlinked. In fact corruption is a special type of fraud and treated as such in many jurisdictions. In any case audit teams/

officers should be well aware of the complex distinction as well as correlation between the two. Appendix-A to the Annexe contains some illustrative (not exhaustive) types of fraud and corruption that the audit teams may come across.

Fraud examination

(2) Fraud examination is a part of the normal auditing procedures. Fraud has a legal (criminal) connotation. Audit teams/officers do not make legal determinations of whether fraud has actually occurred. Hence, audit teams/officers can put red flags (an indication that further scrutiny of the items would be required) which need further investigation by appropriate agencies. When the evidence is clear, audit teams/officers can come to a conclusion about a suspected fraud and include it in their findings.

Respective responsibilities of management and audit

(3) The responsibility for the prevention and detection of fraud and error rests primarily with the management of the audited entity through the implementation and continued operation of accounting and control systems designed to check fraud. Audit must, however, evaluate and report on the adequacy of the systems in place and competence with which the management has discharged its responsibility in relation to prevention, detection, response and follow-up/remedial measures in relation to fraud and corruption.

(4) During audit of financial statements, two types of intentional misstatements are relevant to the audit teams/officers viz, misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Similar considerations apply in case of performance audits. In performance audits, while selecting themes and issues/sub-issues, the vulnerability to fraud and corruption should be given due consideration.

Professional skepticism

(5) Audit teams/officers should maintain an attitude of professional skepticism (an attitude that includes a questioning mind and a critical assessment of audit evidence) throughout the audit.

Fraud awareness at the audit planning stage

(6) The field offices should carry out independent risk assessment and prioritize their audit planning accordingly. The audit plans in relation to fraud and corruption should focus on high risk areas. Some of the common high risk areas (illustrative) are contracts of service/procurement, inventory and asset management, sanctions/clearances, performance information, revenue receipts, cash management, general expenditure, grants, financial statements, operating information, computerized environment, privatization of government entities and any other areas involving public interface.

(7) While planning audit, the field Accountants General, etc. should assess the risk that fraud may cause to the financial statements to contain material misstatement or record material irregular transactions. Based on the risk assessment, the Accountants General should develop the audit objectives and design audit procedures so as to secure reasonable expectation of detecting

and evaluating material misstatement and irregularities arising from fraud and corruption.

Vigilance about fraud at audit execution stage

(8) At the commencement of each audit, information about the fraud and corruption awareness, detection and prevention policy and related environment (including any instances of fraud and corruption noticed since last audit and action taken on such instances including strengthening of internal control systems) should be collected from the audited entity management.

(9) During the course of audit work, the audit teams/officers should be vigilant and seek explanations, if they come across possible fraud indicators. Some illustrative fraud indicators (red flag areas) are given in Appendix-B to the Annexe.

Audit evidence and documentation

(10) Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit finding/opinion should cause the audit teams/officers to extend procedures to confirm or dispel such suspicious. Instructions regarding the illustrative procedures to be adopted are given in the Annexe. If the irregularities had a material effect on the accounts, suitable reporting and qualification in the audit opinion may be warranted. Audit should also recommend improvement in the control procedures to management.

(11) IT fraud is an area of concern for Audit. Collecting computer evidence requires careful planning and execution. Audit teams/officers should examine whether appropriate controls are in place in order to ensure the authenticity of computer evidence.

(12) The audit teams /officers should check compliance with the provisions of Rules 29,33,34,37 and 38 of the General Financial Rules (GFRs) 2005 (Appendix-C to the Annexe).

(13) The audit teams /officers should clearly understand that the audit evidence obtained can be only persuasive and not conclusive. While reporting all cases of suspected or presumptive fraud or corruption, they should refrain from making any judgment regarding the existence of fraud or corruption. The evidence should also be capable of proving that the audit teams/ officers have discharged their functions with reasonable care and due diligence.

Reporting and follow-up

(14) Reports of individual cases of suspected fraud/corruption should be confidentially addressed, in the first instance, to the controlling authority concerned, with the approval of Group Officers. More serious cases should also be confidentially reported to the Secretary of the Administrative Departments (where they are not the controlling officers) concerned and the investigative authorities like Central/State Vigilance Commission, Lok Ayukta, etc. as applicable in the manner indicated in the Annexe either over the signature of the Accountant General or with his /her approval.

(15) Cases relating to suspected/presumptive fraud and corruption should be specially highlighted in the concerned Inspection Reports, Audit Notes, etc. and also in the Audit Reports. All such cases should be printed in bold type.

(16) While forwarding the Bond Copy of the Audit Reports to Headquarters, the Accountant General should indicate in the forwarding letter the number of cases of fraud and corruption included in the Report together with the money value of the concerned paras. In the submission note of the file relating to the bond copy, the number of cases of suspected/presumptive fraud and corruption in the Report should be highlighted together with the money value of concerned paras.

(17) The draft of the annual post-audit report letter to the Chief Minister should have a brief mention of issues relating to suspected fraud and corruption where such cases appear in the Audit Reports and the system put in place by the field AsG, etc. to monitor paras relating to fraud /corruption. In addition, all such cases should be taken up immediately after approval of the bond copy with appropriate authorities in the Union and State Governments, viz., Central / State Vigilance Commission, etc. as a follow up. If such cases have been reported earlier by the AG, reference may be drawn to them with the additional information that these cases have been included in C&AG's Audit Report to the Parliament /Legislature.

Miscellaneous

(18) The Accountant General may require the Audit teams/officers to provide a Memorandum/Certificate of Assurance which will include, inter alia, examination of issues relating to fraud and corruption.

(19) The Accountants General should develop sector specific guidelines/checklists for audit of fraud and corruption in the audit of entities belonging to specific sectors (viz., health, education, works, etc.), for the guidance of the field staff deployed in such audits and furnish a copy of such guidelines/checklists to DG (Audit).

(20) The field offices should submit half-yearly reports on cases of material fraud and corruption noticed by them to the Headquarters Office or through the rationalized management information system, when introduced.

Yours faithfully

Sd/-

(Ajanta Dayalan)

Director General (Audit)

Dated: 06.09.2006

No. 127/Audit (AP)/1-2004

Copy to all Officers in Headquarters Offices

Sd/-

(Ajanta Dayalan)

Director General (Audit)

GLOSSARY OF ABBREVIATIONS

CA	Chartered Accountant
CAAT	Computer Assisted Audit Techniques
CAP	Central Audit Party
CASS	Central Audit Support Section
CCO	Chief Controlling Officer
CRRI	Central Road Research Institute
CSIR	Council of Scientific and Industrial Research
CVC	Central Vigilance Commission
CVO	Central Vigilance Officer
DDO	Drawing and Disbursing Officer
ECPA	Efficiency-cum-Performance Audit
GAO	General Accounting Office now named Government Accountability Office
GWG	Global Working Group
HRD	Human Resource Development
IIM	Indian Institute of Management
MAB	Member, Audit Board
NCAER	National Council of Applied Economic Research
NHAI	National Highways Authority of India
PSU	Public Sector Undertaking
U.N.	United Nations
VDIS	Voluntary Disclosure of Income Scheme
VFM	Value for Money