

CHAPTER I : INTRODUCTION

1.1 About this Report

Compliance audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with. Compliance audit also includes an examination of the rules, regulations, orders and instructions for their legality, adequacy, transparency, propriety and prudence.

Audits are conducted on behalf of the Comptroller and Auditor General (C&AG) as per the Auditing Standards¹ approved by him. These standards prescribe the norms which the auditors are expected to follow in conduct of audit, and require reporting on individual cases of non-compliance and abuse, as well as on weaknesses that exist in systems of financial management and internal control. The findings of audit are expected to enable the executive to take corrective action as also to frame policies and directives that will lead to improved financial management of the organizations, thus, contributing to better governance.

This chapter provides a profile of some of the major auditee Ministries and Departments, explains the planning and extent of audit, and also refers to significant audit observations included in this report.

1.2 Auditee profile

There are about 50 Ministries/independent Departments of the Union Government excluding Ministries of Railways and Defence. The gross expenditure of these 50 Ministries and departments of the Government during the last three years is given below:

Year	Expenditure (` in crore)
2007-08	` 23,45,457
2008-09	` 31,59,075
2009-10	` 41,31,321

¹ www.cag.gov.in/html/auditing_standards.htm

This Report relates to the Civil Ministries/Departments including Department of Posts and Scientific Ministries/Departments. The significant audit findings relating to 17² Ministries have been included in this Report in different chapters. A brief profile of some of the important Civil Ministries/Departments of the Government of India under our audit jurisdiction is detailed in **Appendix-I**.

1.3 Authority for Audit

The authority for audit by the C&AG and reporting to the Parliament is derived from Articles 149 and 151 of the Constitution of India respectively and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. C&AG conducts audit of expenditure of Ministries/Departments of the Government of India under Sections 13³ and 17⁴ of the C&AG's (DPC) Act⁵. CAG is the sole auditor in respect of autonomous bodies under the Civil Ministries/Departments which are audited under sections 19(2)⁶ and 20(1)⁷ of the C&AG's (DPC) Act. In addition, C&AG also conducts supplementary/ superimposed audit of other autonomous bodies under sections 14⁸ and 15⁹ of C&AG's (DPC) Act, whose primary audit is conducted by Chartered Accountants. The principles and methodologies for compliance audit are prescribed in the Regulations on Audit and Accounts, 2007 issued by the Comptroller and Auditor General of India.

1.4 Planning and conduct of Audit

The audit effort can be classified under three distinct types of audits: Financial Audit, Compliance Audit and Performance Audit.

² Includes Department of Space

³ Audit of (i) all expenditure from the Consolidated Fund of India, (ii) all transactions relating to Contingency Funds and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance-sheets and other subsidiary accounts.

⁴ Audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State.

⁵ Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

⁶ Audit of the accounts of corporations (not being companies) established by or under law made by Parliament in accordance with the provisions of the respective legislations.

⁷ Audit of accounts of any body or authority on the request of the President, on such terms & conditions as may be agreed upon between the C&AG and Government.

⁸ Audit of (i) all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of India and (ii) all receipts and expenditure of any body or authority where the grant or loan to such body or authority from the Consolidated Fund of India in a financial year is not less than rupees one crore.

⁹ Audit of grants or loans given for any specific purpose from the Consolidated Fund of India to any authority or body, to scrutinize the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which the grants or loans were given.

Financial Audit is the review of financial statements of an entity that seeks to obtain an assurance that the financial statements are free from material misstatements and present a true and fair picture.

Compliance Audits scrutinise transactions relating to expenditure, receipts, assets and liabilities of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations, and various orders and instructions issued by the competent authorities are being complied with.

Performance Audits are in-depth examinations of a program, function, operation or the management system of an entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources.

The audit process starts with the assessment of risk of the Ministry/Department Organization as a whole and each unit, based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, and assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An annual audit plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the head of the unit. The units are requested to furnish replies to the audit findings within one month of receipt of the Inspection Report. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Important audit observations arising out of these Inspection Reports are processed for inclusion in the audit reports, which are submitted to the President of India under Article 151 of the Constitution of India.