

CHAPTER I : INTRODUCTION

1.1 About this Report

Compliance audit refers to examination of transactions relating to expenditure, receipts, assets and liabilities of audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by 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.

There are about 50 Ministries/independent Departments of the Union Government excluding the 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:

(₹ in crore)

Year	Expenditure
2008-09	₹ 31,59,075
2009-10	₹ 41,31,321
2010-11	₹ 40,37,399

In this Report, significant audit findings relating to nine Ministries/Departments have been included in different chapters.

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

1.2 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 13² and 17³ of the C&AG's (DPC) Act⁴. 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.

1.3 Planning and conduct of Audit

The audit process starts with the assessment of risks in the Ministry/Department as a whole and their various units, based on the expenditure incurred, the criticality and complexity of their activities, the level of delegated financial powers, their 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 assessments.

After completion of the audit of the units, Inspection Reports, containing the audit findings are issued to the heads of the units. The units are requested to furnish replies to these findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are 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.

² 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.

³ Audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State.

⁴ Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.