

Drona Chartered

AUDIT IN 100 PAGES



CA DHEER MODI

CA FINAL MAY 24

AS PER NEW SYLLABUS



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4. DIGITAL AUDITING & ASSURANCE (58 pages in ICAI SM)

Digital audit is placing assurance on the effectiveness of the IT systems implemented in an org.

KEY FEATURES	ADVANTAGES	CONSIDERATION
Technology advancement	Improved quality of audits	What problem are you trying to solve?
More reliable audit report	Decreasing human dependency	Which technology can help you?
Informed decisions	Increases transparency	How upskill your people & make best use of tech
Standardised process	Automation & Ease	Range of automated solutions
Comprehensive overview	Improved efficiency	<ul style="list-style-type: none"> • <i>Macros & scripts</i> • <i>Robotic process automation</i>
Saves time & human effort		<ul style="list-style-type: none"> • <i>Biz process automation</i> • <i>Intelligent process automation</i>

AREAS TO FOCUS for auditor when performing procedures to understand the changes to company's business

- New activities or *changes to existing processes* due to new technology
- Changes in the *way the entity's system are developed & maintained* & if these introduce new risk
- Impact of new tech as how org obtains or generates & uses info to support *internal controls*

KEY AREAS FOR AUDITOR TO UNDERSTAND IT ENV

- 1 Understand the flow of transactions
- 2 Identification of significant systems
- 3 Identification of manual & automated controls
- 4 Identification of technology used
(*Block chain, Robotics, AI, IoT, Drone, Biometric*)
- 5 Assessing complexity of IT env

UNDERSTANDING & DOCUMENTING AE

- Understand (*SA 315*) & document (*SA 230*) the following:
- ❖ Applications being used by company
 - ❖ Details of IT infrastructure components for each app.
 - ❖ Organisation structure & governance
 - ❖ Policies, procedures & process followed
 - ❖ IT Risk & control

RISK ARISING FROM USE OF IT

Unauthorised access to data	Gaining access privileges beyond those necessary	System downtime
System integration & system compatibility	Data loss or data corruption	Unauthorized changes to IT apps
Increase in risk of regulatory compliance	Inappropriate manual intervention	Failure to update IT Apps

TYPES OF IT DEPENDENCIES

Automated control	Reports	Calculations	Security	Interfaces
Designed into IT env to enforce biz rules. <i>Eg: PO approval</i>	Reports generated by IT systems <i>Eg: Vendor master</i>	A/c procedures performed by IT sys <i>Eg: Invoicing total</i>	Segregation of duties enabled by IT env	Programmed logic that transfer data from IT system to another

General IT controls	Area of general IT control	Controls
	Access security Access to program and data is authenticated	<ul style="list-style-type: none"> • Access requests to the application are properly reviewed & authorized by management • Access of terminated user is removed on a timely basis • Access rights to applications are periodically monitored for appropriateness
	Program change Modified systems continue to meet objectives	<ul style="list-style-type: none"> • Change Management policy and procedures are maintained. • Changes are adequately tracked and recorded • Segregation of duties is maintained between developer and implementor
	Data centre & network op Production system are appropriately backed up	<ul style="list-style-type: none"> • Policies and recovery is maintained • Data is recoverable • Restore

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ASSESSING CYBER RISK

Cyber attack: Attempt to gain unauthorized access to a computing system or network with the intent to cause damage, steal, expose, alter, disable, or destroy data.

COMMON TYPES OF CYBER-ATTACK

1 **Malware:** program or code that is created with the intent to do harm to a computer, network or server

TYPES

Ransomware	Fileless malware	Trojan	Mobile malware
 Victim's data encrypted Decryption key given in exchange for payment	 Legitimate tools built into a system to execute attack	 Malware that appears to be legitimate software	 Malware designed to target mobile devices

2 **Denial of service attack:** Targeted attack that floods a network with false requests to disrupt biz operations
Users are unable to perform routine & necessary tasks like accessing a website. Do not result in loss of data.

3 **Phishing:** Entice a victim to share sensitive info such as passwords or a/c numbers.

TYPES

Spear Phishing	Whaling	Smishing	Vishing
Targets specific individual. Goal: Steal sensitive info like login credentials	Target senior or C-level executive emp to steal money / access	Sending text messages purporting to be from reputable companies	Same as Smishing but instead uses calls & voice message

4 **Spoofing:** Technique through which a cybercriminal disguises themselves as a known or trusted source

Domain spoofing: Impersonates a known biz or person with fake website to fool people

Email spoofing: Targets biz by using emails with forged sender addresses. Eg: Malicious link or Attachment

5 **Identity based attacks:** A valid user's credentials = compromised & an adversary pretends to be that user

6 **Insider threats:** When current or former employees that pose danger to an org because they have access

7 **DNS tunneling:** Leverages domain name system (DNS) queries & responses to bypass traditional security measures and transmit data & code within the network.

8 **IoT based attacks:** Targets an Internet of Things (IoT) device or network. Hacker can control device

STAGES OF CYBER RISK

STAGE 1: Assessment

- Ransomware disabling org
- Criminals - email phishing
- Insider malicious activities

STAGE 2: Impact

- Regulatory cost
- Data & reputational loss
- Business interruptions

STAGE 3: Manage

- Assess IT & cybersecurity program
- Understand accepted risks
- Holistically understand cyber risk

RISK MANAGEMENT PROCESS

Identify

Develop the org understanding to manage cybersecurity risk to systems, assets, data, and capabilities

- Conduct **periodic risk assessment** which identifies cybersecurity risks
- Periodically review inventory of their info assets- i.e. **Asset Management**
- Business env:** Establish roles and responsibilities over cybersecurity

Protect

Develop & implement the appropriate safeguards to ensure delivery of critical infrastructure services

- Monitor **unauthorized access** to electronic assets
- Formal **training** should be conducted to make the teams aware of the risk
- Implement effective controls for **data security**

Detect

Develop & implement appropriate activities to identify the occurrence of a cybersecurity event

- Controls and procedures** that enable it to identify cybersecurity risks
- Review entity's processes to monitor & detect **security breaches** or incidents
- Monitoring process to review how many events denied by the **firewall**

Respond

Develop & implement the appropriate activities to take action regarding a detected cybersecurity event

- Response planning** in place to capture the details of nature of incidents
- Analyse the impact** & severity of the attack
- Assess Litigation costs, remediation costs as a part of **mitigation process**

Recover

Develop & implement the appropriate activities to maintain plans for resilience

the attack to make sure the business is running upgrades, better controls, improved technology

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CONTROL CONSIDERATION FOR CYBER RISKS



Vendor setup & modification

- Who is responsible to make changes to vendor master?
- Multi factor authentication enable for mails?
- Authentication protocols to verify changes to vendor master data?

Electronic transfer of funds

- Staff responsible for wire transfers educated on relevant threats?
- Authentication protocols defined to verify wire transfer requests
- Systems and tech used to facilitate initiation, authorization & release

Patch management

- Patch management program
- Periodic vulnerability scans to identify missing patches
- Notification of patches by external vendors

REMOTE AUDIT

Remote audit: Auditor uses online or electronic means to conduct the audit.

CONSIDERATION FOR REMOTE AUDIT

- 1 **Feasibility & planning:** Audit timeline, meeting platform, data exchange mechanism. Technology to be used, Competency and resource availability.
- 2 **Confidentiality, Security & Data Protection:** Access to doc sharing platform must be restricted, Data sent across network must be encrypted, Use of VPN to access network, Not take Unauthorised screenshots
- 3 **Risk assessment:** Assessment if remote audit = sufficient - achieve objectives should be done & documented

ADVANTAGES

DISADVANTAGES

Cost and time effective	Network issues may interrupt interviews & meetings
Comfort and flexibility to the audit team. WFH	Can't visualise culture of org, body language of auditee
Time to gather evidence can spread over several weeks	↑ opportunity to present doctored documents, omit relevant info
can get first-hand evidence directly from the IT system	Remote access to sensitive IT systems may not be allowed
Widens the selection of auditors from global network	Lack of knowledge for local L&R could impact audit.

EMERGING TECHNOLOGIES IN AUDIT

Data analytics: Generating & preparing meaningful info from raw system data using processes, tools & techniques

Audit analytics: Analyzing data to find actionable insights, trends, draw conclusions & informed decision making
It helps to discover & analyze patterns; Identifying anomalies & Extract other useful info in data.

Computer Assisted Auditing Techniques: Use of multiple data analytical tool or visualization tools that can help the auditor to deep dive into the problem statement and hence increase the audit quality. Examples are below:

- 1 **Audit Command Language:** Data extraction & analysis software used for fraud detection & prevention
- 2 **Alteryx:** Consolidate fin / operational data to assess controls. Perform machine learning to search for patterns
- 3 **Power BI:** Tools for aggregating, analyzing, visualizing & sharing data. Easy to find outliers in population
- 4 **CaseWare:** Tools that helps in conducting audit & assurance engagements quickly, accurately & consistently

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AUTOMATED TOOLS IN AUDIT

	Internet of Things	Artificial Intelligence	Blockchain	Robotic process automation
What	Concept of connecting any device to the internet	System or machine that can think and learn	Decentralized and distributed ledger that is secured through encryption	Automation of repetitive processes performed by users. Faster
Audit implications	Need to scope new systems into their audit	Review whether unintended bias has been added to algorithm	Check for weak blockchain application app dev protocols	Understand the RPA process: Data extraction, aggregation, sanitization & cleaning
	Train & upskill auditors to evaluate design of automated controls	Effectiveness of algorithm & whether output is reviewed	Whether data put on blockchain will expose enterprise to liability	Understanding of the tools used to develop and maintain RPA
	Adapt to new ways of transactions	How use of AI affects flow of txns	Governance & security around the txns	Review of source code for comprehensive assurance
Common risks	Device hijacking, Data Siphoning, Denial of service attacks	Security, Wrong configuration, Data privacy	Inability to reverse txn, Cyber attacks, Data hacks	Operation & execution risk, Change management risk, RPA strategy risk



Non-fungible Token: Are unique digital assets. These are tokens to represent ownership of unique items.

Features: Digital asset, Unique, Exchange

Challenges: Copyright concerns, Niche market, Online frauds, Comprehensive code review, Valid contract

EMERGING TECHNOLOGIES IN AUDIT

TECHNOLOGY RISKS WHERE AUDITORS SHOULD TEST APPROPRIATE CONTROLS FOR RELYING ON DIGITAL SYSTEMS

- ❖ Reliance on systems or programs that are inaccurately processing data, processing inaccurate data
- ❖ Unauthorized access to data that might result in destruction of data or improper changes to data
- ❖ Possibility of information technology personnel gaining access privileges beyond those necessary
- ❖ Unauthorized or erroneous changes to data in master files, systems or programs

THINGS TO KEEP IN MIND WHILE AUDITING IN CHANGING TECHNOLOGY ENVIRONMENT

- 🌀 Maintain prof skepticism when reviewing managements risk assessment for new systems
- 🌀 Understand direct & indirect effects of new tech & how its use by entity impacts overall risk assessment
- 🌀 Understand how the technologies impact the flow of transactions & design an appropriate audit response
- 🌀 Appropriateness of mgmt.'s processes to select, develop, operate & maintain controls related to the org's tech

NEXT GENERATION AUDIT

Aims: From sampling populations to Full population analysis; From disconnected tools to Integrated ecosystem services; From Manual work to automation.

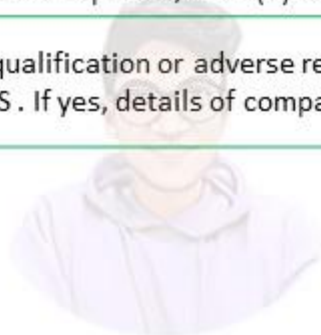
- 1 **Drone technology:** In remote areas for stock count. Photograph & physically examine count of large quantities
- 2 **Augmented reality:** Allows users to view real time environment with augmented elements generated by devices
- 3 **Virtual reality:** Replaces entire real world with simulated environment through digitally generated images
- 4 **Metaverse:** 3-D digital space that allows that uses VR, AR to allow people have lifelike experiences online.

Considerations for future:

- a. Players in metaverse will need to consider how to build digital monetary systems
- b. Governance models will become ever more difficult to balance openness and user contribution
- c. Practical challenge of identity will have to be considered

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PARA #	REPORTING AREA	REPORTING REQUIREMENTS
3(13)	Transaction with RP	In compliance with Sec 177 & 188
3(14)	Internal audit system	a) Company has internal audit system as per commensurate with size of biz b) Reports of Internal auditor under audit were considered by stat auditor
3(15)	Non cash transaction with directors	Whether provisions of sec 192 complied with
3(16)	Registration with RBI	a) Required to be registered u/s 45-IA of RBI act? Has obtained registration? b) Conducted NBFC activities without valid certificate of registration from RBI c) Is company a core investment company? Whether it still fulfils criteria d) Group has more than one CIC? If yes, indicate number of CIC
3(17)	Cash losses	Amount of cash losses
3(18)	Consideration of issues raised by outgoing auditor	IF any stat auditor resigned in current year, whether auditor has taken into consideration the issues, objections or concerns raised by outgoing auditor
3(19)	Existence of material uncertainty as to company ability to meet liabilities	On basis of ratios, ageing etc, whether auditor is of opinion that no material uncertainty exists on date of audit report regarding ability of company to meet liabilities that fall due within 1 year from BS date
3(20)	Transfer of unspent CSR amount	a) Other than for ongoing projects, company has transferred unspent amount to fund specified in Sch VII within 6m from end of FY as per 135(5) b) Amount unspent u/s 135(5) transferred to special account as per sec 135(6)
3(21)	Qualification / adverse remarks in CARO reports of group companies	Any qualification or adverse remarks in CARO reports of companies included in CFS . If yes, details of companies & para#



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5. GROUP AUDITS (44 pages in ICAI SM)

CFS includes

Consolidated balance sheet	Consolidated statement of P&L	Consolidated cash flow statement	Consolidated statement of change in equity	Explanatory note annexed
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CONSOLIDATION OF FS – MANDATORY UNDER COMPANIES ACT 2013

- Company with one or more subsidiaries, including AC and JV, shall, in addition to its own FS prepare a CFS of the company and of all the subsidiaries (*Sec 129(3) of the Companies Act, 2013*).
- CFS shall also be approved by the BoD before they are signed on behalf of the Board, along with its SFS and shall also be laid at AGM of the company along with the SFS.
- If **required to prepare CFS** under AS, CFS shall be *made as per provisions of Sch III + AS*.
If **NOT required to prepare CFS** under AS, shall be sufficient if the company *complies with provisions of CFS provided in Schedule III of the Act*.

NOT REQUIRED TO PREPARE CFS IF (All to be satisfied)

1. It is a wholly / partially-owned subsidiary of another company and all its other **members**, having been **intimated in writing**, **DO NOT** object to the company not presenting CFS
2. Its **securities are not listed** / not in the process of listing on any stock exchange, in / o/s India
3. Its ultimate or any intermediate **holding company files CFS** with the Registrar

Investment entity need **NOT** present CFS if it is required to measure all of its subsidiaries at FVTPL

Obtains funds from 1 or more investors for providing them investment management services;

Business purpose is to invest funds solely for returns from capital appreciation, investment income

Measures & evaluates performance of substantially all its investments on a FV basis

RESPONSIBILITY OF PARENT

Identifying components and financial information of the components to be included in CFS

Identifying reportable segments for segmental reporting	GAAP conversion , where applicable
Obtaining complete financial information from components	Identifying RP and RP transactions
Harmonization of accounting policies and accounting framework	Making consolidation adjustments

RESPONSIBILITY OF THE AUDITOR OF THE CFS

Validate **requirement of preparation of CFS** for company as per applicable FR framework

Satisfy himself that the CFS have been **prepared as per applicable FR framework**

Enable himself to **express an opinion** on the true and fair view presented by the CFS

Enquire into the matters as specified in **section 143(1)** of the Companies Act, 2013

Report on the matters given in the **clauses (a) to (i) of section 143(3)** of the Companies Act, 2013

Auditors, while conducting the audit of CFS are expected to:

- **Plan their work** to enable them to conduct audit in an efficient and timely manner
- **Understand the accounting and internal control** system to plan the audit and determine NTE of his audit procedures. Would help the auditors to adopt a risk based audit approach
- Use prof judgement to assess audit risk & design audit procedures to ensure - **risk reduced to an acceptable level**

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AUDIT CONSIDERATIONS

Following features of CFS have an impact on the related audit procedures

- The CFS are prepared on the basis of separate FS of the parent and its components, using the consolidation procedures prescribed by AS under applicable FR framework
- The auditor of the CFS may use the work of other auditors as per requirement of Standards on Auditing unless the auditor of CFS = auditor of the other components of the group.

Principal auditor, if he decides to use the work of another auditor in relation to the audit of consolidated financial statements, should comply with the requirements of SA 600

MATERIALITY WHILE CONDUCTING AUDIT OF CFS

- Materiality to be determined for **group as a whole**. This materiality used to assess the **appropriateness of the consolidation adjustments** made by management in the prep of CFS
- Can also use the materiality computed on the group level to determine whether the **component's FS are material** to the group. Whether to use the work of other auditors?
- The principal auditor also computes materiality for each component and **communicates to the component auditor**, if he believes is required for true and fair view on CFS.
- The principal auditor also **obtain confirmations from component auditor** like independence, code of ethics, certain information required for consolidation and disclosure requirements etc.

AUDIT CONSIDERATIONS

PLAN HIS WORK TO ENABLE HIM TO CONDUCT EFFECTIVE AUDIT IN EFFICIENT MANNER

- a) Understanding of the group **structure** and group-wide **controls** including assessment of IT system
- b) Understanding of **accounting policies** of the parent and components as well as of the consolidation process including the process of translation of FS of foreign components
- c) Determining and programming the **NTE** of the audit procedures to be performed based on the assessment of the risk of material misstatement in consolidation process
- d) Determining the extent of use of **other auditor's work** in the audit.
- e) **Coordinating** the work to be performed

AUDITOR TO VERIFY THAT ALL COMPONENTS HAVE BEEN INCLUDED IN CFS

- a) Review his **working papers** for the prior years for the known components
- b) Review the **parent's procedures** for identification of various components
- c) Make **inquiries** of the management to identify any new components
- d) Review the **investments** of parent & components to determine the SHing in other entities
- e) Review the **joint ventures** and joint arrangements
- f) Review the **other arrangements** entered into by parent that have **NOT** been included in the CFS

REASONS FOR EXCLUSION OF A SUBSIDIARY, ASSOCIATE or JV

1. Relationship of parent with the subsidiary, associate or JV is intended to be **temporary**
2. Severe **long-term restrictions** which significantly **impair its ability to transfer funds** to parent

AS	IND AS
21 : Consolidated Financial Statements	110 : Consolidated Financial Statements
23 : Accounting for Investments in Associate	111 : Business combination
27 : FR of Interests in JV	112 : Investments in Associates and Joint Ventures
	113 : Joint Arrangements

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SPECIAL CONSIDERATIONS

PERMANENT CONSOLIDATION ADJUSTMENTS

Adjustments that are made only on the first occasion or when SHing changes.

These adjustments are:

1. Determination of **goodwill or capital reserve**
2. Determination of amount of **equity attributable** to minority/ non- controlling interests

AUDITOR TO

- Pay attention to the determination of **pre-acquisition reserves** of the components.
- Examine whether the pre-acquisition reserves have been **allocated** appropriately between the **parent** and the **MI / NCI**
- Verify the **changes** that might have taken place due to subsequent acquisition of shares / disposal in the components in the subsequent years

It may happen that there is Goodwill in 1 subsidiary & CR in another subsidiary. Parent may chose to show netted off amount in CFS. Auditor to ensure that gross amount has been disclosed in notes.

CURRENT PERIOD CONSOLIDATION ADJUSTMENTS

Adjustments that are made in the accounting period for which the consolidation of FS is done.

These adjustments include:

1. Intra-group **interest** paid and received, or management fees, etc.
2. Unrealised intra-group **profits on assets** acquired/ transferred from/ to other subsidiaries
3. Record **deferred taxes** on unrealised intercompany profits elimination [Ind AS 12]
4. Intra-group **indebtedness**
5. Harmonising different **accounting policies** being followed by the parent and its components
6. Adjustments to the FS for recognized **subsequent events**
7. In case of a foreign component, adjustments to convert component's audited fs prepared under the component's local GAAP to the **GAAP** under which the CFS are prepared
8. Determination of **movement in equity** attributable to the MI / NCI. [*in IND AS, NCI can be (-)ve*]

Adjustments required for preparation of CFS are made in memorandum. The auditor should review the memorandum records to verify the adjustment entries. Auditor should also verify that:

Intra group transactions & a/c bal have been **eliminated**

CFS have been prepared using **uniform accounting policies**

Adequate **disclosures** have been made as per AS 21 in the CFS of application of **different accounting policies** in case, it was impracticable to harmonize them

Adjustments made to **harmonise the different accounting policies** to convert a component's FS prepared under the component's GAAP to the GAAP under which the CFS are prepared

Calculation of **MI / NCI**

Adjustments relating to **deferred tax** arising out of elimination of profit and losses resulting from intergroup transactions (where the parent's accounts are maintained in Ind AS);

Income and expenses of the subsidiary from the **date it gains control** until the date when the **entity ceases to control**

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- Also check for impairment loss on goodwill arising on consolidation. Tested every year.
- If components FS date is different than that of parent, adjustments should be made for the effect of significant transactions that occur between components & parents B/s date. Difference between reporting dates should **NOT** be more than
 - **6m** in case of FS under AS
 - **3m** in case of FS under Ind AS

AUDITOR SHOULD

- a) Examine that the notes required by the applicable standards necessary for presenting a T&F view of the CFS have been included
- b) Examine that additional statutory information disclosed in the separate FS of the subsidiary and/or a parent having bearing on the T&F view of the CFS have been disclosed in the CFS.

INFO NOT NEEDED TO BE DISCLOSED IN CFS EVEN IF DICLOSED IN SEPARATE FS

- Source from which bonus shares are issued. [*Capitalisation of profits or reserves or from SP account*]
- Disclosure of all unutilised monies out of the issue + where such unutilised funds have been invested
- Disclosure required under MSME Development Act, 2006.
- A statement of investments with names in whose shares / deb, investments have been made
- Value of imports [C.I.F. basis] by the company during the FY in respect of:
 - (a) raw materials
 - (b) components and spare parts
 - (c) capital goods
- Expenditure in foreign currency on royalty, know-how, professional and consultation fees, interest, etc
- The amount (Dividend) remitted during the year in foreign currencies
- Earnings in foreign exchange classified under the following heads, namely:
 - (a) export of goods calculated on F.O.B. basis
 - (b) royalty, know-how, professional and consultation fees
 - (c) interest and dividend;
 - (d) other income, indicating the nature

MANAGEMENT REPRESENTATION

SA 580, requires auditor to take WR from management (Parent) acknowledging its responsibility for T&F presentation of CFS. Auditor also takes representations on matters material to CFS like

- *Completeness of components* included in the CFS
- Identification of *reportable segments* for segmental reporting
- Identification of *related parties and related party transactions* for reporting
- Appropriateness and completeness of *permanent and current period consolidation adjustments*

REPORTING

The auditor should, while preparing the report, consider SA 700, SA 705, SA 706, SA 600.



Parents auditor = Component auditor

- Auditor to report whether principles & procedures for preparation & presentation of CFS as stated in AS have been followed.
- Auditor to express an opinion whether CFS (including cash flow) give a T&F view of state of affairs of group.

Component Accounting Framework ≠ Parent

- Components' audited FS converted to the framework under which the CFS are prepared. The conversion adjustments are audited by the principal auditor.
- Else, component may prepare FS as per group a/c policies & auditor shall perform procedures to determine compliance of group accounting policies with GAAP applicable to parents FS.

Parent's Auditor ≠ Components auditor

- Auditor to consider requirement of **SA 600**
- As per **SA 706**, auditor to disclose magnitude of portion of FS audited by other auditors (In ₹ or %)
- The fact that part of the audit of the group was made by other auditor(s) is **NOT** to be construed as a qualification of the opinion but rather as an indication of the divided responsibility between the auditors of the parent and its subsidiaries

Components auditing framework ≠ Parent

Normally, audits of FS, are performed under auditing standards generally accepted in India ("Indian GAAS"). To maintain consistency of the auditing framework and to enable the parent auditor to rely and refer to the other auditor's audit report in their audit report on the CFS, the components' FS should also be audited under a framework that corresponds to Indian GAAS

Components Not Audited

- Generally, FS of all components shall be audited. However, if not audited, the auditor reporting on the CFS should consider unaudited components in evaluating a possible modification to his report, as he has not been able to obtain SAAE in relation to such consolidated amounts/balances. Auditor should evaluate both qualitative and quantitative factors on the possible effect of such amounts remaining unaudited when reporting on the CFS using the guidance provided in **SA 705**.

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7. AUDIT OF PUBLIC SECTOR UNDERTAKING (40 pages in ICAI SM)

3 categories for organisation of PSU (owned i.e. atleast 51% by CG / SG)

Departmentally managed undertakings
(Indian railways, Postal service)

Government companies

Corporations setup under specific acts
(LIC, Unit trust of India)

Comptroller & Auditor General of India [CAG]

- Appointment & salary determined by president
- Can be removed if misbehavior / Incapacity
- Hold office for **6 years** or age upto **65**

EARLIER

- Audit reports of CAG

Relating to a/c of	Submit to	Laid before
Central Gov	President	Parliament
State Gov	Governor of state	State leg. assembly

Parliament & State legislature have constituted specialized committees [©] like **Public Accounts © (PAC)**, **Estimates © & © on public undertakings (COPU)** to which these audit reports automatically stand referred

Audit of Government company

Company where equity held by Gov \geq 51%
CAG to appoint auditor, give directions
CAG can

- 1 Comment on report
- 2 Conduct supplementary audit
- 3 Cause test audit

CAG's role

- Reports form basis for committees workings
- Scrutinises notes submitted by ministries to committee and helps check facts & figures.
- Audit reports which could not be discussed by committees, written answers obtained from department / ministry concerned

Public Accounts ©

Duty of committee to satisfy itself that:

- Money distributed legally for purpose for which they were applied
- Expenditure incurred was authorised
- Re-appropriation has been made in accordance with provisions
- Examine statement of accounts of auto & semi-autonomous bodies

Estimates ©

Examines estimates with a view to:

- Report what economies, efficiency reform, improvements, consistent with the policy may be effected
- Suggest alternative policies
- Examine whether money is laid out within limit
- Suggest form in which estimates shall be presented to parliament

© on public undertakings

Same financial control on PSU as PA© exercises on Gov depts.

Examines:

- Reports & accounts
- Report of CAG
- Autonomy & efficiency. Whether PSU managed as per sound business principles & prudent commercial practices

OBJECTIVE & SCOPE OF PUBLIC ENTERPRISES AUDIT

- 1. Not constrained to financial & compliance audit:** Also check efficiency, economy & effectiveness.
- 2. Propriety audit:** Examination of mgmt decision. Whether taken in best interest of undertaking.
- 3. Comprehensive audit:** Whether undertaking has fulfilled objective for which it is established, whether value for money spent has been obtained. Decisions-reviewed. Performance-appraised.
- 4. Org decisions to be taken by competent authority:** Whether decisions taken by right authority
- 5. Helping government:** By improving efficiency & effectiveness, Analysing causes for shortfall.
- 6. Highlighting issues of efficient & economic operations**
- 7. Fiscal & Managerial accountability:** Audit of provision of funds, sanctions, compliances, Propriety
: Audit of efficiency, economy & effectiveness

Supreme audit institution of India = CAG + Indian Audit & Accounts Dept

Responsible party: Auditable entities + TCWG

Intended users: Users for whom report is made

Subject matter: Information / activity that is being

Criteria: Benchmark used to evaluate subject matter

Subject matter info: Outcome of measuring the subject matter against criteria

TYPES OF ENGAGEMENT

Attestation engagement: Responsible party measures subject matter against criteria & submits info to auditor who gathers SAAE to form opinion (Financial audits)

Direct Reporting engagement: Auditor measures the subject matter against criteria

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PRINCIPLES OF PSU AUDIT



PRINCIPLES RELATED TO AUDIT PROCESS



AUDIT OF GOVERNMENT COMPANIES - Steps



FINANCIAL AUDIT: Conducted to ① Express opinion on FS ② Enhance degree of confidence of intended users in FS

COMPLIANCE AUDIT

Independent assessment of whether given subject matter is in compliance with applicable criteria.

Compliance audit is concerned with

Regularity

Adherence of subject matter to the formal criteria emanating relevant laws, regulations & agreements applicable to the entity

Propriety

Observance of general principles governing sound FM & ethical conduct of officials

Compliance audit is generally conducted either

With audit of FS

Separately as individual audit

In combination with performance audit

When compliance audit is part of performance audit, compliance is seen as one of the aspects of **economy, efficiency & effectiveness**

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PERFORMANCE AUDIT

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

Conducted by CAG through various subordinate offices of IAAD (Indian Accounts & Audit Dept)

Improves performance through examination of whether:

- 1 Decisions by the legislature / the executive are efficiently & effectively prepared & implemented
- 2 Taxpayers have received value for money

ADDRESSES ISSUES REGARDING

ECONOMY	EFFICIENCY	EFFECTIVENESS
Minimising cost of resources used for an activity, having regard to appropriate quantity, quality & best price	Input-output ratio. Max output with min input. Points to check while auditing <ul style="list-style-type: none"> Sound procurement practices are followed Resources are protected & maintained Resources are efficiently used Optimum amount of resources are used in producing appropriate quantity & quality. Efficient operating procedures are used Objectives of public sector programmes are met cost effectively Public sector programmes are met cost effectively 	Extent to which objectives are achieved. Intended impact V/s Actual impact Points to check while auditing <ul style="list-style-type: none"> Determine extent to which a program achieves desired level of results Whether social & economic impacts of a policy are due to policy or other causes Identify factors inhibiting goal fulfilment Assess effectiveness of program Identify ways to make program work more effectively Assess compliance with laws & reg

OBJECTIVES OF PERFORMANCE AUDIT

Objectives of performance audit are evaluation of **economy, efficiency & effectiveness** of programmes, organisation & management.

Promotes accountability by assisting TCWG & oversight responsibilities to improve performance & transparency. Focuses on areas in which it can add value which have the greatest potential for development.

PLANNING FOR PERFORMANCE AUDIT

Understand the entity through Documents of entity Legislative documents Policy documents Special research Past audits Media coverage Special focus groups	Define objectives & scope of audit <u>Objectives:</u> Defined in a succinct manner as they will impact nature of audit & affect audit conclusions <u>Scope:</u> Constricts audit to significant issues. Focuses on NTE of audit.	Determining audit criteria (Standards) Obtained from Procedure manuals of entity, Policies, standards, guidelines, Independent expert opinion, Criteria used by same entity, Scientific knowledge Research papers	Deciding audit approach Methods: Analysis of procedures Case studies Use of existing data Surveys Analysis of results Quantitative analysis
Developing audit questions Prepare list of questions to which they seek answers	Assess audit team skills & whether outside expertise req May use of work of audit team still retain responsibility for e of opinion in audit report	Preparing audit design matrix highly focussed design a e audit study	Establishing time table & resources Required V/s actual time should be compared & approved from authority

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COMPREHENSIVE AUDIT

ISSUES EXAMINED IN COMPREHENSIVE AUDIT

Efficiency-cum performance audit conducted by CAG for fields other than those covered by internal audit.

Areas covered generally are:

- Investment decision,
- Project formulation,
- Organizational effectiveness,
- Capacity utilization,
- Production performance,
- Budgetary & internal control system

Overall capital cost of project compare with approved planned cost

Cost control measures adequate?

Adequate system of repairs & maintenance?

Purchase policies adequate?

Procedures effective & economical?

Planned rate of return been achieved?

Planned production / operational outputs been achieved?

Systems of project formulation & execution sound?

Insufficient or ineffective project planning?

PROPRIETY AUDIT

Verification of transactions on the test of public interest, commonly accepted customs and standard of conduct. Emphasis on substance of transaction & consideration of financial prudence. Auditors highlight, avoidable expenditure. Expenditure may satisfy all rules but still might be wasteful.

Eg: School constructed but used 5 years after completion of construction = Avoidable exp

PRINCIPLES

- 1) **Expenditure is not more than the occasion demands.** Officer – vigilance – Ordinary prudence
- 2) Authority exercises its powers of sanctioning exp which will **not accrue to own advantage**
- 3) Funds are **not utilized for benefit of a particular person** / group of persons
- 4) **Apart from agreed remuneration**, no avenue is kept open for management personnel to benefit

AREAS OF PROPRIETY AUDIT u/s 143(1)

- 1) Whether terms on which secured **loans & advance** made are **prejudicial** to interest of company.
- 2) Transactions of Co represented merely by **book entries** prejudicial to interest of company?
- 3) Investments sold at **price lower than cost**
- 4) Loans & advances made by Com shown as **deposit**
- 5) Whether **personal exp** been charged to revenue
- 6) **Cash actually received** against shares allotted for cash

PROPRIETY ELEMENTS IN CARO 2020

Clause iii) – b, c, d, f	Clause iv)	Clause viii)	Clause ix) – b, c, d, e, f
Clause x) – a, b	Clause xi) – a, b, c	Clause xiii)	Clause xv) Clause xviii)

Please refer Chapter 5 Company audit (CARO) notes to understand Clause references 😊

AUDIT REPORT OF COMPTROLLER & AUDITOR GENERAL

Reports of CAG on audit of PSU presented to parliament in several parts consisting of following:

1. Introduction containing general view of working results of gov companies
2. Results of comprehensive appraisals of selected undertakings conducted by audit board
3. Resume of company auditors' reports submitted by them under the directions issued by CAG & that of comments on the accounts of company
4. Significant results of audit of undertakings & appraisal by Audit Board

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