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AUDIT-95

CA Final & CA Inter Audit

Abki Baar Audit Mei Exemption Paaar!



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AIR 5,6,32

*Free Revision
Videos &
Notes*

Brief about Author

- All India Ranker at all 3 levels of CA
- Scored 95 Marks in Audit - Highest marks in history of ICAI till Nov 23
- Articleship at KPMG, Mumbai in Statutory Audit Domain
- Industrial Training at DBS Bank

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PSU Audit

<ul style="list-style-type: none"> • Govt audit is performed by independent constitutional authority - Comptroller & Auditor General (C&AG), through Indian Audit & A/c Dept • Article 148 of Constitution - Appointment of C&AG by President. Removal of C&AG only on ground of proven misbehaviour/incapacity • Article 151 - Audit reports of C&AG on a/c of CG/SG shall be submitted to President/Governor of State who shall lay them before Parliament/State Legislative Assemblies • C&AG Act, 1971, prescribes that C&AG shall hold office for term of 6 years/upto age of 65 years, whichever is earlier. He can resign at through letter addressed to President • <u>C&AG audits below org</u> - <ul style="list-style-type: none"> ○ All CG & SG depts & offices ○ Public commercial org controlled by CG & SG ○ Non-commercial autonomous bodies & authorities owned/controlled by CG/SG ○ Authority substantially financed by CG/SG • <u>Audit of Govt Co. (Commercial Audit)</u> - Co. whose 51% or more equity is held by Govt is Govt Co & also includes subsidiary of Govt Co. • Their Auditors are appointed by C&AG, who gives directions for conducting audit & auditor shall submit report which include directions of C&AG, action taken & its impact on FS of co. • C&AG can also comment/supplement audit reports - which shall be treated in same manner as Audit Report. • He may also conduct supplementary audit (within 60 days of receiving audit reports) & test audit 	<p>Audit Boards constituted by Indian Audit & A/c Dept have no separate legal entity & work under control of C&AG</p> <p>Action on Audit Reports - Scrutiny of Annual A/c & Audit Reports will be done by below Committees (instead of Parliament) -</p> <ul style="list-style-type: none"> • <u>Public A/c Committee (PAC)</u> - Satisfy that - <ul style="list-style-type: none"> ○ Moneys were disbursed legally to which they were applied ○ Expenses was authorised ○ Re-appropriation is made as per provisions ○ It examine statement of a/c of autonomous & semi-autonomous bodies, whose audit is conducted by C&AG either under directions of President/by Parliament • <u>Estimates Committee</u> - Examine estimate to - <ul style="list-style-type: none"> ○ Examine if money is laid out within limit ○ Report what economies, improvements in org, efficiency may be affected ○ Suggest alternative policies ○ Suggest form to present estimates to Parliament ○ It does not comment on policy approved by Parliament, but if evidenced that particular policy is not leading to desired results/is waste, it shall bring it to notice of House • <u>Committee on Public Undertakings (COPU)</u> - It exercises same control on PSU as PAC exercises over Govt depts. Functions are to - <ul style="list-style-type: none"> ○ Examine autonomy & efficiency of PSU ○ Examine reports & a/cs of PSU ○ Examine reports of C&AG on PSUs ○ Exercise functions of PAC & Estimates Committee as not covered above
<p>C&AG's Role as 'friend, philosopher & guide' -</p> <ul style="list-style-type: none"> • His Reports form basis of Committees' working, though they are not prohibited from examining issues not in his Reports • He scrutinises notes which Ministries submit to Committees 	<p>Basic Elements of PSU Audits</p> <p>1. 3 parties</p> <ul style="list-style-type: none"> • <u>Auditor</u> - Supreme Audit Institution (SAI) - C&AG & Indian Audit & A/c Dept. Seniors

<ul style="list-style-type: none"> Financial Committees present Report to Parliament/State Legislature with observations & recommendations For Audit Reports, which could not be discussed in detail by Committees, written answers are obtained from Dept & incorporated in Reports to ensure that Audit Report is not taken lightly by Govt <p>Principles of PSU Audits - 2 groups</p> <ul style="list-style-type: none"> <u>General Principles</u> - Ethics & Independence, Professional Judgement, due care & skepticism, Quality Control, Audit Team Mgt & Skill, Audit Risk, Materiality, Documentation, Communication <u>Principles of Audit Process</u> - Planning, Conducting, Reporting & Follow-up <p>Financial Audit - conducted to</p> <ul style="list-style-type: none"> Express audit opinion on FS Enhance confidence of users in FS 	<p>of SAI representing C&AG in state are called Accountants General</p> <ul style="list-style-type: none"> <u>Responsible Party</u> - Auditable entities & TCWG of auditable entities are responsible for subject matter info <u>Intended Users</u> - Person for whom auditor prepares report <p>2. Subject matter, criteria & subject matter info.</p> <ul style="list-style-type: none"> <u>Subject matter</u> - Info that is measured/evaluated against criteria <u>Criteria</u> - Benchmarks used to evaluate subject matter <u>Subject matter info</u> - Outcome of evaluating subject matter against criteria <p>3. Types of engagement</p> <ul style="list-style-type: none"> <u>Attestation Engagements</u> - Responsible party measures subject matter against criteria & presents subject matter info, on which auditor gathers SAAE to express conclusion <u>Direct Reporting Engagement</u> - Auditor evaluates subject matter against criteria Financial audits are always attestation engagements. Performance & compliance audits are direct reporting engagements
<p>Compliance Audit It is independent assessment of whether subject matter comply with applicable criteria</p> <p><u>It is concerned with</u> -</p> <ul style="list-style-type: none"> <u>Regularity</u> - Adherence of subject matter to formal criteria from L&R <u>Propriety</u> - Observance of general principles for ethical conduct of public officials <p><u>Perspective of Compliance Auditing</u> - conducted either -</p> <ul style="list-style-type: none"> In relation with audit of FS or Separately as individual compliance audit or In combination with performance auditing 	<p>Comprehensive Audit - <u>issues examined are</u> -</p> <ul style="list-style-type: none"> Is there any poor project planning? Are systems of project formulation & execution sound? Inadequacies? Are cost control measures adequate & inefficiencies/wastages? Are purchase policies adequate? Piling up of inventory? How is overall capital cost of project compared with approved planned costs? Substantial increases? If enterprise has adequate system of repairs & maintenance? Does enterprise have R&D programs? Have planned production outputs been achieved? Under-utilisation of capacity? Has planned rate of return been achieved? Are procedures effective & economical?

<p><u>Compliance Audit Process</u></p> <ul style="list-style-type: none"> • General principles & Annual Compliance Audit Plan • Planning Compliance Audit • Performing Audit & Gathering Evidence • Evaluating Evidence & Forming Conclusions • Reporting 	
<p><u>Performance Audit</u></p>	
<p>It is objective & systematic examination of evidence for providing independent assessment of performance of Govt, program, activity to provide info to improve public accountability & facilitate decision-making to initiate corrective action</p> <p><u>It assists TCWG to improve performance through examination of whether -</u></p> <ul style="list-style-type: none"> • Decisions by legislature/executive are efficiently & effectively implemented • Tax payers have received value for money <p><u>Performance Audits address issues of -</u></p> <ol style="list-style-type: none"> 1. <u>Economy</u> - It is minimising cost of resources used for activity, considering appropriate quantity, quality & at best price 2. <u>Efficiency</u> - It is input-output ratio. It is achieved when output is maximised at minimum of inputs/input is minimised for any given quantity & quality of output <p><u>Auditing efficiency considers whether -</u></p> <ul style="list-style-type: none"> • Objectives of public sector programs are met cost-effectively • Sound procurement practices are followed • Resources are properly protected & maintained • Human, financial & other resources are efficiently used • Optimum resources are used to produce appropriate quantity & quality of goods • PSUs & activities are efficiently managed, regulated & executed • Efficient operating procedures are used 	<p>Steps for Planning Performance Audit</p> <ul style="list-style-type: none"> • <u>Understanding Entity/Program</u> - Auditor uses following sources for understanding entity - <ul style="list-style-type: none"> ○ Past audits ○ Docs of entity ○ Legislative Docs ○ Policy Docs ○ Media coverage ○ Academic/special research • <u>Defining Objectives & Scope of Audit</u> • <u>Determining Audit Criteria</u> - They are standards used to determine whether program meets expectations. It may be obtained from - <ul style="list-style-type: none"> ○ Policies, standards, directives & guidelines ○ Procedure manuals of entity ○ Criteria used by same/other entities in similar programs ○ Independent expert opinion & know how ○ New scientific knowledge & reliable info ○ General mgt & subject matter literature & research papers • <u>Deciding Audit Approach</u> - There is no uniform audit approach that is applicable to all performance audits. Some methods are - <ul style="list-style-type: none"> ○ Analysis of procedures ○ Analysis of results ○ Quantitative analysis ○ Use of existing data ○ Case studies ○ Surveys • <u>Developing Audit Questions</u>

3. Effectiveness - It is extent to which **objectives are achieved** & relationship b/w **intended & actual impact** of activity.

Performance audit may -

- Assess **effectiveness** of program
- Determine extent to which **program achieves desired** level of **results**
- Assess whether **objectives** of public sector program are **proper, consistent** & suitable
- Assess **compliance with L&R** of program
- Assess whether observed social & economic **impact** are **due to policy/other causes**
- Identify ways of making programs **more effective**
- Assess whether **program complements/duplicates** other programs
- Determine whether **mgt has considered alternatives** for meeting desired results

- Assessing Audit Team Skills & whether Outside Expertise required - Accountant may **use work of expert**, he is **responsible for opinion** in report

- Preparing Audit Design Matrix - It highlights **data collection & analysis** method & type & sources of evidence required to support audit opinion. **It includes** - Audit Objective, Audit Questions, Audit Criteria, Evidence, Data Collection & Analysis Method

- Establishing Time Table & Resources

- Intimation of Audit Program to Audit Entities

Propriety Audit

- It is **verification** on tests of **public interest, commonly accepted customs & standards of conduct**
- In propriety audit, auditors try to bring out cases of **improper, avoidable/infructuous** (wasteful) expenses **even** though it is in **conformity with L&R**

Propriety principles are that -

- **Expenses** is **not** prima facie **more than** occasion **demands** & that every official exercises **same** degree of **vigilance** for expenses **as person of ordinary prudence** would exercise for his own money
- Authority exercises its **power** of sanctioning expenses which will **not directly/indirectly** be for its **own advantage**
- Funds are **not** utilised for **benefit** of **particular person/group** of persons
- Apart from agreed remuneration, **no other avenue** is kept open to **indirectly benefit employees**

Functions of Auditor for Propriety Audit are to -

- See that **all expenses** are properly **planned**
- See that **size** & channels of expenses are **rightful** & give **maximum results**
- **Appraise** whether expenses are likely to **give optimum result**
- Examine **actions & decisions of mgt** that they are as per public interests
- See that any **substitute plan of action** can bring improvement & return

Propriety Audit - Problems - It has **inherent element of subjectivity** because it is very **difficult to establish standards** of public interest, commonly accepted customs, standards for conduct

Audit Report of C&AG - presented to Parliament in several parts consisting -

- **Introduction** containing general **review of results** of Govt co.
- **Resume** of **co. auditors' reports** submitted by them under directions of C&AG & **comments**
- Results of **comprehensive appraisals** of selected undertakings conducted by **Audit Board**
- **Significant results** of audit of undertakings **not appraised** by Audit Board