15 Overview of Audit of Public Sector Undertakings

Part 1- PSU

QNO 597.000	Powers of C&AG TITANIUM CNO -- Unique	Old Course-- (N07E, N11E, N12E, N13R, M15R, M16R, N16M, SM17, PM17, M18R, M20M, SM21)

Ceta Ltd. is a company in which 58% of the paid-up share capital is held by Rajasthan Government. The company is engaged in the business of providing consultancy services in relation to construction projects. The audit of the financial statements of Ceta Ltd. for the financial year ended 31 March 2019 got completed with lot of intervention of Comptroller & Auditor General of India, wherein C&AG was giving directions to the auditors on the manner in which audit should be conducted in respect of certain areas. Further, it also received comments from C&AG on the audit report of the auditors. Ceta Ltd is seeking advice to go against C&AG so that they can avoid unnecessary interference of C&AG. You are required to advise Ceta Ltd. with respect to role of C&AG in the audit of a Government company.

OR

Being an expert in the field of government audit, you are required to briefly explain the powers of Comptroller and Auditor General of India with respect to supplementary audit and test audit as stated under section 143(6) and 143(7) of the Companies Act, 2013.

OR

Enumerate the right of C&AG of India to conduct a supplementary audit of the financial statement of a company, or comment upon or supplement audit report provided under section 143(6) of the Companies Act, 2013.

Answer

- **Powers of Comptroller and Auditor-General of India.**
  - **Appointment of the auditor in the case of a Government company:** In the case of a Government company, the comptroller and Auditor-General of India shall appoint the auditor under sub-section (5) or sub-section (7) of section 139 i.e. appointment of First Auditor or Subsequent Auditor and direct such auditor the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India which, among other things, include the directions, if any, issued by the Comptroller and Auditor-General of India, the action taken thereon and its impact on the accounts and financial statement of the company.
  - **Supplementary audit under section 143(6)(a) of the Companies Act, 2013:** The Comptroller and Auditor-General of India shall within 60 days from the date of receipt of the audit report have a right to conduct a supplementary audit of the financial statement of the company by such person or persons as he may authorize in this behalf; and for the purposes of such audit, require information or additional information to be furnished to any person or persons, so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General of India may direct.
  - **Comment upon or supplement such Audit Report under section 143(6)(b) of the Companies Act, 2013:** Any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements under sub-section (1) of section 136 of the said Act i.e. every member of the company, to every trustee for the debenture-holder of any debentures issued by the company, and to all persons other than such member or trustee, being the person so entitled and also be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.
  - **Test audit under section 143(7) of the Companies Act, 2013:** Without prejudice to

the provisions relating to audit and auditor, the Comptroller and Auditor-General of India may, in case of any company covered under sub-section (5) or sub-section (7) of section 139 of the said Act, if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of section 19A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit.

QNO 597.500	Committee on Public Sector TITANIUM CNO -- PSU.040	Old Course – (M23M) New Course – (SM23)

PGC & Associates are statutory auditors of BNPC Limited, a PSU in power sector. It is engaged in building large sized thermal power stations to accelerate development of power sector in the country.

One of the financial committees of Parliament has decided to examine its physical and financial performance. It has also examined audit findings of C&AG in respect of which action is yet to be taken by the said PSU. The committee also proposes to include in its report performance of the company in various operational matters.

Which financial committee of Parliament deals with such matters? Outline its main functions.

Answer The said matters are dealt by Committee on Public Undertakings (COPU). The functions of the Committee are -

(i) to examine the reports and accounts of public undertakings.

(ii) to examine the reports of the C&AG on public undertakings.

(iii) to examine the autonomy and efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.

(iv) to exercise such other functions vested in the PAC and the Estimates Committee as are not covered above and as may be allotted by the Speaker from time to time.

The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.

QNO 597.510	C&AG has Powers to give directions TITANIUM CNO -- Unique	New Course – (SM23)

PS & Associates are statutory auditors of a Central government owned company for a particular year. The statutory auditors were required to examine the following areas mandatorily, provide their specific replies and also their impact on financial statements for that particular year in their audit report.

1. **Whether the company has system in place to process all the accounting transactions through IT system? If yes, the implications of processing of accounting transactions outside IT system on the integrity of the accounts along with the financial implications, if any, may be stated.**
2. **Whether there is any restructuring of an existing loan or cases of waiver / write off of debts / loans / interest etc. made by a lender to the company due to the company's inability to repay the loan? If yes, the financial impact may be stated. Whether such cases are properly accounted for?**
3. **Whether funds (grants/subsidy etc.) received / receivable for specific schemes from Central government or its agencies were properly accounted for / utilized as per its term and conditions? List the cases of deviation.**

Can you gauge likely nature of such responsibility thrust upon auditors of above PSU?"

Answer The above areas for which statutory auditors of PSU were required to examine, report and indicate impact of these matters in financial statements are likely to relate to directions issued by C&AG to statutory auditors under section 143(5) of Companies Act, 2013.

In terms of section 143(5), in case of a government company, the C&AG has the power to direct the auditor the manners in which accounts of company are required to be audited and auditor shall submit audit report which among other things, include the directions, if any, issued by the C&AG the action taken thereon and its impact on the accounts and financial statements of the company.

QNO 597.800	Estimates Committee TITANIUM CNO -- PSU.040	Old Course – (N23M)

The Comptroller & Auditor General of India plays a key role in functioning of financial committees of Parliament and state legislatures. Therefore, he has come to be recognized as a friend, philosopher and guide of committees. Discuss how such a role is ensured in practice. Also, briefly discuss the functions of "Estimates Committee" of Parliament.

Answer The Comptroller & Auditor General of India plays a key role in the functioning of the financial committees of Parliament and the State Legislatures. He has come to be recognised as a 'friend, philosopher and guide' of the Committees. It is ensured as follows: -

(i) His reports generally form the basis of the Committees' working, although they are not precluded from examining issues not brought out in his reports.

(ii) He scrutinises the notes which the Ministries submit to the Committees and helps the Committees to check the correctness of submissions to the Committees and facts and figures in their draft reports.

(iii) The financial Committees present their report to the Parliament/ State Legislature with their observations and recommendations.

The various Ministries / Department of the Government are required to inform the Committees of the action taken by them on the recommendations of the Committees (which are generally accepted) and the Committees present Action Taken Reports to Parliament / Legislature

(iv) In respect of those audit reports, which could not be discussed in detail by the committees', written answers are obtained from the Department / Ministry concerned and are sometimes incorporated in the Reports presented to the Parliament / State Legislature.

This ensures that the audit reports are not taken lightly by the Government, even if the entire report is not deliberated upon by the Committee.

The functions of "Estimates Committee" are: -

(i) to report what economies, improvements in organization, efficiency or administrative reform, consistent with the policy underlying the estimates may be effected.
(ii) to suggest alternative policies
(iii) to examine whether the money is well laid out within the limit and
(iv) to suggest the form in which the estimates shall be presented to Parliament.

QNO 599.000	Comprehensive Audit TITANIUM CNO – PSU.120	Old Course--(M09R, N10R, N11R, N12R, M14R, N14R, N15R, M16M, N16R, PM17, M17M, N17R, M18M, N18R, N18E, M19R, N19M, M20R, N20M, N20E, SM21, M21M, N21M, M22M, N22M) New Course-- (SM23)

The Comptroller and Auditor General of India has appointed a chartered accountant firm to conduct the comprehensive audit of Metro Company Limited (a listed government company) which is handling the Metro project of the metropolitan city for the period ending 31-03-2020. The work to be conducted under Project A handled by the Metro Company Limited was of laying down railway line of 124 kilometres. [The chartered accountant firm reviewed the internal audit report and observed the shortcoming reported about the performance of Project A regarding the understatement of the Current liabilities and Capital work in progress by Rs. 84.68 crore.] Explain some of the matters to be undertaken by the chartered accountant firm while conducting the comprehensive audit of Metro Company Limited.

OR

The Comptroller and Auditor General assists the legislature in reviewing the performance of public undertakings. He conducts an efficiency-cum-performance audit other than the field which has already been covered either by the internal audit of the individual concerns or by the professional auditors. He locates the area of weakness for managements' information. Explain stating clearly the issues examined in comprehensive audit.

OR

The areas covered in comprehensive audit vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. You are required to list down some of the broad areas to be examined in comprehensive audit.

OR

XYZ & Co., a CA. firm was appointed by C&AG to conduct comprehensive audit of ABC Public undertaking. C&AG advised to cover areas such as investment decisions, project formulation, organisational effectiveness, capacity utilisation, management of equipment, plant and machinery, production performance, use of materials, productivity of labour, idle capacity, costs and prices, materials management, sales and credit control, budgetary and internal control systems, etc.
Discuss stating the issues examined in comprehensive audit.

OR

Solar Limited is a public sector undertaking engaged in production of electricity from solar power. It has started a new project near Pondicherry with a new technology for a cost of` 9,750 crore. Though there is delay in commencement of project and accordingly, there has been overrun in the cost. State the matters C&AG while conducting Comprehensive Audit may cover in reporting on the performance and efficiency of this project.

Answer

- The Comptroller and Auditor General assist the legislature in reviewing the performance of public undertakings. He conducts an efficiency-cum-performance audit other than the field which has already been covered either by the internal audit of the individual concerns or by the professional auditors. He locates the area of weakness and extravagance for managements' information
- The areas covered in comprehensive audit naturally vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. However, in general, the covered areas are those of investment decisions, project formulation, organizational effectiveness, capacity utilization, management of equipment, plant and machinery, production performance, use of materials, productivity of labour, idle capacity, costs and prices, materials management, sales and credit control, budgetary and internal control systems, etc.
- **Areas to be covered:**
  The areas covered in comprehensive audit naturally vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. Some of the issues examined in comprehensive audit are: ***(Below points should be explained in sentence form to make answer more presentable)***
  - Research and development programmes.
  - Project planning.

  - Systems of project formulation and implementation.
  - Comparison of the overall capital cost of the project with the approved planned costs.
  - Accepted production or operational outputs been achieved? Has there been underutilization of installed capacity or shortfall in performance?
  - Cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.
  - Undue waste, unproductive time for men and machines, wasteful utilization or even non-utilization of resources.
  - Effective and economical.
  - Planned rate of return.
  - System of repairs and maintenance.
- The efficiency and effectiveness audit of public enterprises is conducted on the basis of certain standards and criteria. Profit is not the key criterion on performance; management's performance in the economical and efficient use of public funds and in the achievement of objectives is more relevant. Public enterprises have been set up with certain socio-economic purposes and for fulfillment of certain objectives. The objectives vary from enterprise to enterprise. Audit appraisal analyses the performance of an enterprise to bring out the extent to which the objectives for which the enterprise was set up have been served.

QNO 599.200	Performance Audit Planning TITANIUM CNO – PSU.175	Old Course-- (M14E, SM17, PM17, N17R, M18M, SM21, M22R) New Course-- (SM23)

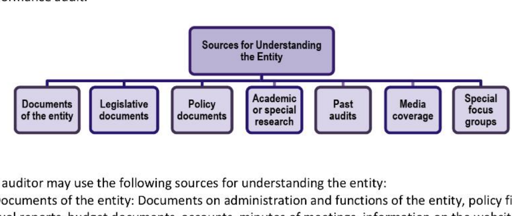
The objectives of audit in connection with a State Electricity Distribution Company were to ascertain whether the:
(i) total cost of providing electricity is being recovered by timely submissions to the State Electricity Regulatory Commission;
(ii) tariff orders, sales circulars and sales instructions were issued timely, without any ambiguity. They were implemented in time;
(iii) metering, billing and collection was managed efficiently and effectively;
(iv) monitoring and internal controls were efficient.
What kind of audit is referred in the above scenario? Also briefly discuss the steps suggested to the auditors for planning such an audit.

Answer

- In the given scenario, in view of the objectives discussed, performance audit is being referred.

  The following steps are suggested to the auditors for planning while conducting the performance audit:

  (A) Understanding the Entity/Programme - It is the starting point for planning individual performance audit.



- The auditor may use the following sources for understanding the entity:
  (i) Documents of the entity: Documents on administration and functions of the entity, policy files, annual reports, budget documents, accounts, minutes of meetings, information on the website, internal audit reports, electronic databases and MIS reports, RTI material etc.
  (ii) Legislative documents: Legislation, parliamentary questions and debates, reports of the Public Accounts Committee, the Committee on Public Undertakings, the Estimates Committee, and letters from Members of Parliament.

  (iii) Policy documents: Documents of Planning Commission, Ministry of Finance etc.
  (iv) Academic or special research: Independent evaluations on the entity, academic research and similar work done by other governments and other SAIs.
  (v) Past audits: Past financial and performance audits of the entity provide a major source of information and understanding.
  (vi) Media coverage: Print and electronic media - their systematic documentation on regular basis in a transparent manner.
  (vii) Special focus groups: Audit Advisory Committee concerns, annual and special reports of World Bank, Reserve Bank of India, reports by special interest groups, NGOs, etc.

QNO 600.000	Performance Audit- Issues addressed TITANIUM CNO – PSU.160	Old Course-- (N15R, M16R, M16E, M17R, N18R, N18E, M20R, SM21) New Course-- (SM23)

"A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action." Briefly discuss the issues addressed by Performance Audits conducted in accordance with the guidelines issued by C&AG.

OR

Write short notes on Issues addressed in Performance Audit of PSUs?

Answer According to the guidelines issued by the C&AG, Performance Audits usually address the issues of:

- **Economy-**
  - It is **minimising the cost of resources** used for an activity, having regard to appropriate quantity, quality and at the best price.
  - Judging economy implies forming an opinion on the resources (e.g. human, financial and material) deployed. This requires assessing whether the given resources have been used economically and acquired in due time, in appropriate quantity and quality at the best price.
- **Efficiency-**
  It is the **input-output ratio.** In the case of public spending, efficiency is achieved when the output is maximised at the minimum of inputs, or input is minimised for any given quantity and quality of output.
  - Auditing efficiency embraces aspects such as whether:
    - sound **procurement practices** are followed;
    - resources are properly **protected and maintained**;
    - public sector programmes, entities and activities are efficiently **managed, regulated, organised and executed**
    - efficient **operating procedure**s are used;
    - **optimum amount of resources** (staff, equipment, and facilities) are used in producing or delivering the appropriate quantity and quality of goods or services in a timely manner; human, financial and other resources are **efficiently used**;
    - the objectives of public sector programmes are met **cost-effectively**.
- **Effectiveness-**
  It is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.
  - In auditing effectiveness, performance audit may, for instance:
    - assess **compliance with laws and regulations** applicable to the program; and
    - assess whether the **objectives of and the means** provided (legal, financial, etc.) for a new or ongoing public sector programme are **proper, consistent, suitable or relevant to the policy**;
    - **identify factors inhibiting satisfactory performance or goal-fulfilment**;
    - assess the adequacy of the **management control system** for measuring, monitoring and reporting a programme's effectiveness;
    - determine the extent to which a program achieves a **desired level of program**

results;
    - assess and establish with evidence whether the observed direct or indirect **social and economic impacts** of a policy are due to the policy or to other causes;
    - assess the effectiveness of the program and/or of individual program **components**;
    - determine whether management has considered **alternatives** for carrying out the program that might yield desired results more effectively or at a lower cost;
    - identify **ways of making programmes work more effectively**.
    - assess whether the programme complements, duplicates, overlaps or counteracts **other related programmes**;

Author's Note
There is controversy in this question — Answer provided as per May 16 RTP / Nov 18 RTP / Nov 18 exams differ from each other, I think answer of Nov 18 RTP is best and recent, answer for Nov 18 Exams is too short Above is the answer as per Nov 18 RTP which should be followed.

QNO 600.005	Performance Audit - Audit Report Rejected #Unique	Old Course-- (N22R, M23M)

"Comptroller & Auditor General appointed Sambhav & Associates, a chartered accountant firm, to conduct Performance audit of MAP Ltd., a public sector undertaking of Government of India. The firm conducted the audit with a view to check all the expenses of the unit are in conformity with the public interest and publicly accepted customs. The audit report submitted by audit firm was rejected by C&AG. Give your opinion on the action of C&AG."

Answer In the given scenario, C&AG appointed Sambhav & Associates, a chartered accountant firm, to conduct Performance Audit of MAP Ltd., a PSU of Government of India. The firm conducted audit with a view to check all the expenses of the unit are in conformity to the public interest and publicly accepted customs which is not Performance Audit.

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

Performance audit in PSUs is conducted by the C&AG (Supreme Audit Institutions) through various subordinate offices of Indian Audit and Accounts Department (IAAD). In conducting performance audit, the subordinate offices are guided by manual and auditing standards prescribed by C&AG.

Therefore, the objectives of performance auditing are evaluation of economy, efficiency, and effectiveness of policy, programmes, organization and management. It also promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance; and transparency by affording taxpayers, those targeted by government policies and other stakeholders an insight into the management and outcomes of different government activities.

Performance auditing focuses on areas in which it can add value which have the greatest potential for development. It provides constructive incentives for the responsible parties to take appropriate action.

Regulations on Audit and Accounts issued by C&AG lay down that the responsibility for the development of measurable objectives and performance indicators as also the systems of measurement rests with the Government departments or Heads of entities. They are also required to define intermediate and final outputs and outcomes in measurable and monitorable terms, standardise the unit cost of delivery and benchmark quality of outputs and outcomes.

Thus, rejection of audit report (submitted by audit firm) by C&AG is in order as audit with a view to mere check all the expenses of the unit are in conformity to the public interest and publicly accepted customs done by audit firm is not performance audit in all aspects.

QNO 602.000	Propriety Audit (General Principles) TITANIUM CNO – PSU.140	Old Course-(M08R, N08E, M11R, M11E, M12R, SM17, PM17, SM21)

What are the principals involved regarding "Propriety audit' in the case of Public Sector Undertaking?

Answer

- **Principles: -**
  Propriety requires the transactions, and more particularly expenditure, to conform to certain general principles. These principles are:
  - that the expenditure is **not prima facie more than the occasion demands** ***(E.g. Car of 1 crore for MPs)*** and that every official exercise the **same degree of vigilance in respect of expenditure as a person of ordinary prudence would exercise in respect of his own money;** ***(E.g. 50 cars were ordered without quotations)***
  - that the authority exercises its power of sanctioning expenditure to pass an order which **will not directly or indirectly accrue to its own advantage;** ***(E.g. Cars were used by government employees or given for rent)***
  - that funds are not utilized for the **benefit of a particular person or group of persons** and ***(E.g. Benefit was given only to ruling parties)***
  - that, apart from the agreed remuneration or reward, no other avenue is kept open to **indirectly benefit the management personnel, employees and others.** ***(E.g. Bribes were paid to government employees)***

QNO 603.000	Propriety Audit (Company Act)- TITANIUM CNO -- Unique	Old Course-- (M04E, M12R, N12E, M15R, N16M, SM17, PM17, M18E, M19M, N19R, SM21)

Write a short explanatory note on – Areas of propriety audit under Section 143(1) of the Companies Act, 2013

Answer

- **Areas of propriety audit under Section 143(1):**
  Section 143(1) of the Companies Act, 2013 requires the auditor to make an enquiry into certain specific areas. In some of the areas, the auditor has to examine the same from propriety angle as to
  - whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
  - whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company; Again, considering the propriety element, rationalizing the proper disclosure of loans and advance given by company is made;
  - where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
  - whether loans and advances made by the company have been shown as deposits;
  - whether personal expenses have been charged to revenue account;
  - where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading. A control has been set up to verify the receipt of cash in case of allotment of shares for cash. Further, if cash is not received, the books of accounts and statement of affairs shows the true picture.

QNO 604.000	C&AG (Audit Report)- TITANIUM CNO – PSU.240	Old Course-- (N17E, M19E, N21E) New Course—(SM23)

Contents of audit report given by Comptroller & Auditor-General of India.

Answer

- **Contents of Audit Report of the Comptroller and Auditor General:**
  - For facility of consideration, the reports of the Comptroller and Auditor General on the public sector undertakings of the Central Government are presented to the Parliament in several parts consisting of the following:
    - **Introduction** containing a general review of the working result of Government

Companies, Deemed Government Companies and Corporations
    - Result of **comprehensive appraisals** of selected undertakings conducted by the **Audit Board**.
    - Resume of the **company auditor's reports** submitted by them under the directions issued by the CAG and that of comments on the accounts of the Government Companies.
    - Significant results of audit of the undertakings **not taken up for appraisal by the Audit Board.**
  - For certain specified states, the Comptroller and Auditor General submit a separate audit report (commercial) to the legislature, while for other States/Union Territories with legislature, there is a commercial chapter in the main audit report. The State audit reports, contains both the results of audit appraisal of performance of selected companies/corporations as well as important individual instances of financial irregularities, wasteful expenditure, system deficiencies noticed by the statutory auditors, comments noticed in Government audit in the audit functions of certification of accounts and a general review of the working results of Government companies and corporations.

Author's Note
Above answer has been explained and summarized below to make it answer easy to understand.

- **Out of Audit Reports by CAs and Audit Reports by CAG Teams submitted to CAG Departments some are taken for appraisal by Audit Boards. So some audit reports are analyzed by audit reports and some are left out.**
- **First Section of Answer is Parts of Audit Report on Government Undertaking**
  1st Part — Introduction of Government Entity
  2nd Part — Result of Comprehensive Appraisal of Audit Board (If Selected by audit board)
  3rd Part — Summary of Company Auditor's Report on Government Entity
  4th Part — Significant Results of Audit Report by CAG Team on Government Entity (If not selected by audit board)
  So Either 2nd Part will Come or 4th Part will come
- **Second section says that in big industrial states like Maharashtra there can be separate report on commercial activities by government or it can be included in main report as separate chapter. State wise reports will also explain instances of irregularities and wastage.**

QNO 604.010	Functioning of Finance Committee & Role of C&AG – TITANIUM CNO – PSU.260	Old Course-- (N18M)

The Comptroller &Auditor General of India plays a key role in the functioning of the financial committees of Parliament and the State Legislatures. He has come to be recognized as a 'friend, philosopher and guide' of the Committees. In view of above, you are required to list down any four roles.

Answer

- The Comptroller & Auditor General of India plays a key role in the functioning of the financial committees of Parliament and the State Legislatures. He has come to be recognized as a 'friend, philosopher and guide' of the Committees.
  - His Reports generally form the basis of the Committees' working, although they are not precluded from examining issues not brought out in his Reports;
  - He scrutinizes the notes which the Ministries submit to the Committees and helps the Committees to check the correctness of submissions to the Committees and facts and figures in their draft reports;
  - The Financial Committees present their Report to the Parliament/ State Legislature with their observations and recommendations.
  - The various Ministries / Department of the Government are required to inform the Committees of the action taken by them on the recommendations of the Committees (which are generally accepted) and the Committees present Action Taken Reports to Parliament / Legislature;
  - In respect of those Audit Reports, which could not be discussed in detail by the

Committees, written answers are obtained from the Department / Ministry concerned and are sometimes incorporated in the Reports presented to the Parliament / State Legislature.

This ensures that the Audit Reports are not taken lightly by the Government, even if the entire report is not deliberated upon by the Committee.

Author's Note

Explanation & Corresponding Summary

There are 2 committees, Public Accounts Committee and Committee on Public Sector Undertakings which read, study reports of CAG on government department and government corporations and then ask for explanations from ministries.

Now answer
(Intro same as question)
The Comptroller & Auditor General of India plays a key role in the functioning of the financial committees of Parliament and the State Legislatures. He has come to be recognized as a 'friend, philosopher and guide' of the Committees.

Step 1: - Reports of CAG are discussed in Financial Committees & Questions are asked to ministries
His Reports generally form the basis of the Committees' working, although they are not precluded from examining issues not brought out in his Reports;
Step 2: - Replies from ministries are received and CAG checks correctness of replies and helps committees to understand there replies
He scrutinizes the notes which the Ministries submit to the Committees and helps the Committees to check the correctness of submissions to the Committees and facts and figures in their draft reports;

Step 3: - Committees send their reports to parliament
The Financial Committees present their Report to the Parliament/ State Legislature with their observations and recommendations.

Step 4: - Ministers has to submit action taken report to parliament as per recommendations of committees
The various Ministries / Department of the Government are required to inform the Committees of the action taken by them on the recommendations of the Committees (which are generally accepted) and the Committees present Action Taken Reports to Parliament / Legislature;

Extra Points
(Treatment of Confidential Audit Reports)
In respect of those Audit Reports, which could not be discussed in detail by the Committees, written answers are obtained from the Department / Ministry concerned and are sometimes incorporated in the Reports presented to the Parliament / State Legislature.

(Because of these committee's government doesn't take CAG reports lightly)
This ensures that the Audit Reports are not taken lightly by the Government, even if the entire report is not deliberated upon by the Committee.

QNO 605.000	Draft Audit Criteria TITANIUM CNO – PSU.220	Old Course-- (SM21, N21M)

You have been appointed as auditor of a AKY Ltd. After having determined the audit objectives, now you have been requested to draft audit criteria. What are the sources that you will use while doing the task?

- **Determining Audit Criteria**
  - Audit criteria are the standards used to determine whether a program meets or exceeds expectations. It provides a context for understanding the results of the audit. Audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of programmes and activities can be assessed.
  - The audit criteria may be sought to be obtained from the following sources:
    - procedure manuals of the entity.
    - policies, standards, directives and guidelines.

    - criteria used by the same entity or other entities in similar activities or programmes.
    - independent expert opinion and know how.
    - new or established scientific knowledge and other reliable information.
    - general management and subject matter literature and research papers

QNO 605.500	"Government Company" definition- TITANIUM CNO -- Unique	Old Course-- (SM21) New Course-- (SM23)

BT Ltd, a company wholly owned by central government was disinvested during the previous year, resulting in 40% of the shares being held by public. The shares were also listed on the BSE. Since the shares were listed, all the listing requirements were applicable, including publication of quarterly results, submission of information to the BSE etc.
Sam, the FM of the company is of the opinion that now the company is subject to stringent control by BSE and the markets, therefore the auditing requirements of a limited company in private sector under the Companies Act 2013 would be applicable to the company and the C&AG will not have any role to play. Comment.

- **Section 2(45) of the Companies Act, 2013, defines a "Government Company" as**
  - A company in which not less than 51% of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary company of such a Government company.
  - The auditors of these government companies are firms of Chartered Accountants, appointed by the Comptroller & Auditor General, who gives the auditor directions on the manner in which the audit should be conducted by them.
  - The listing of company's shares on a stock exchange is irrelevant for this purpose and hence Sam's opinion is not correct