

# 15. “Audit of Public Sector Undertakings”

## PART- I DESCRIPTIVE QUESTIONS

### 15.1 - Basics of Audit of PSU

**Q.1.** 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.

**Ans: Matters to be dealt by Committee on Public Undertakings:**

Matters as stated in the question are dealt by Committee on Public Undertakings.

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.

**Q.2.** 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. In view of above, you are required to list down role of C&AG. [MTP-Oct. 18]

**Ans: C&AG Role in functioning of financial committees of Parliament and State Legislature:**

C&AG plays a key role in functioning of financial committees of Parliament & State Legislatures. He has come to be recognised as a ‘friend, philosopher and guide’ of the Committees.

- (i) Reports of CAG form the basis of Committees’ working, i.e., committees examine the issues raised by C&AG Reports.
- (ii) Committees requires assistance of C&AG for scrutinising the notes which Ministries submit to the Committees insofar as to check the correctness of submissions to the Committees and facts and figures in their draft reports;
- (iii) Reports of Committees are being submitted to the Parliament/State Legislature with their observations and recommendations. C&AG assists various committees in suggesting recommendations.
- (iv) Audit Reports, which could not be discussed in detail by Committees, written answers are obtained from Department/Ministry concerned. This ensures that Audit Reports are not taken lightly by Government, even if the entire report is not deliberated upon by the Committee.

## 15.2-Audits Conducted by C&AG

**Q.3.** The reports of the Comptroller and Auditor General of India on the audit of PSUs are presented to the Parliament and to various state legislatures to facilitate a proper consideration. Enumerate the contents of Audit Report presented by C & AG.

[May 19; Dec. 21 (5 Marks)]

**Ans: Audit Report of CAG:**

Reports of the CAG on the PSUs of C.G. are presented to the Parliament in following parts:

- (a) Introduction containing a general review of the working results of Government companies, deemed Government companies and corporations.
- (b) Results of comprehensive appraisals of selected undertakings conducted by the Audit Board.
- (c) 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.
- (d) Significant results of audit of the undertakings not taken up for appraisal by the Audit Board.

For certain specified states, C&AG submits a separate audit report (commercial) to legislature, while for other States/Union Territories with legislature, there is a commercial chapter in the main audit report.

## 15.3-Performance Audit

**Q.4.** ABG & Co., a Chartered Accountant firm has been appointed by C&AG for performance audit of a sugar industry. What factors should be considered by ABG & Co., while planning a performance audit of a sugar industry?

**Ans:** Factors to be considered while planning performance audit:

1. Significance and the needs of potential users of the audit report.
2. Obtaining an understanding of the program to be audited.
3. Legal and regulatory requirements.
4. Management controls.
5. Identifying the criteria needed to evaluate matters subject to audit.
6. Identify significant findings and recommendations from previous audits that could affect the current audit objectives.
7. Potential sources of data that could be used as audit evidence and consider the validity and reliability of these data.
8. Consider whether the work of other auditors and experts may be used to satisfy some of the auditors' objectives.
9. Providing sufficient staff and other resources to do the audit.
10. Preparing a written audit plan.

**Q.5.** You have been appointed by C & AG for performance audit of a PSU. What are the steps to be followed by you while planning the performance audit.

**Ans: Steps for planning a performance audit:**

- (1) **Understanding the entity /programme:** Obtain an understanding of the programme to be audited to help assess, among other matters, the significance of possible audit objectives and the feasibility of achieving them.
- (2) **Defining Audit Objective:** The audit objectives should be defined in a concise manner, as they will impact nature of the audit, govern its conduct and affect audit conclusions.

- (3) **Scope of Audit:** Defining scope focuses the extent, timing and nature of the audit.
- (4) **Determining the audit Criteria:** Criteria are the standards used to determine whether a program meets or exceeds expectations. In selecting criteria, auditors have a responsibility to use criteria that are reasonable, attainable, and relevant to the matters being audited.
- (5) **Deciding Audit Approach:** No uniform audit approach can be prescribed that is applicable to all types of subjects of performance audits. Selection of approach also determine methods and means used for conducting the audit.
- (6) **Developing audit Questions:** Audit team should prepare a list of questions to which they would seek answers. Questions should be framed in comprehensive manner.
- (7) **Assess audit team skills and requirement of outside expertise:** The performance auditor must possess the range of skills and experience necessary for effective discharge of audit mandate. The Audit team needs to decide at the planning stage on which aspect expertise is required.
- (8) **Audit design Matrix:** Audit Design matrix is a structured and highly focused approach to (8 designing a performance audit study, based around the audit objectives, associated sub- objectives and lower level detailed questions.
- (9) **Establish the timetable and resources:** Selection of appropriate audit team is the most important component in planning an audit. Considerations for selection of a particular team should be recorded in the planning documents along with the proposed timelines for various activities to be undertaken as part of the audit process.
- (10) **Intimation of Audit:** Audited entities must be informed about the intention of taking up the planned performance audit with scope and extent of audit well before the commencement of Audit.

**Q.6.** In carrying out efficiency audit of a Public Sector Undertaking (PSU), what important aspects are required to be looked into, to assess the efficiency? [May 18 (4 Marks)]

**Ans:** **Aspects to be looked into to assess the efficiency of a PSU:**

Efficiency is the measurement of input-output. It is said to be achieved when the output is maximised at the minimum of inputs, or input is minimised for any given quantity and quality of output. Examining efficiency embraces aspects such as whether:

- (a) procurement practices followed are sound;
- (b) resources are properly protected and maintained;
- (c) human, financial and other resources are efficiently used;
- (d) 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;
- (e) efficient operating procedures are used; and
- (f) objectives of public sector programmes are met cost-effectively.

**Q.7.** You have been appointed as auditor of 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? [MTP-Oct. 21]

**Ans:** 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:

- (i) Procedure manuals of the entity.
- (ii) Policies, standards, directives and guidelines.
- (iii) Criteria used by the same entity or other entities in similar activities or programmes.
- (iv) Independent expert opinion and know how.
- (v) New or established scientific knowledge and other reliable information.
- (vi) General management and subject matter literature and research papers.

**Q.8.** C & AG appointed a chartered accountant firm to conduct Performance audit of COP Ltd., a PSU of Govt. of India. The firm conducted the audit with a view to check all the expenses of the unit are in conformity to 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. [Dec. 21 (5 Marks); RTP-Nov. 22; MTP-April 23]

**Ans: Performance Audit:**

- 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. 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. • 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.
- In the given case, C & AG appointed a chartered accountant firm to conduct Performance audit of COP Ltd., a PSU of Govt. of India. The firm conducted the audit with a view to check all the expenses of the unit are in conformity to the public interest and publicly accepted customs. The audit report submitted by audit firm was rejected by C & AG.
- Audit conducted by the firm is propriety audit, not the performance audit.

**Conclusion:** Action of C&AG is right as audit conducted by CA firm is propriety audit, not performance audit.

**Q.9.** The objectives of audit in connection with a State Electricity Distribution Company were to ascertain whether the:

1. total cost of providing electricity is being recovered by timely submissions to the State Electricity Regulatory Commission;
2. tariff orders, sales circulars and sales instructions were issued timely, without any ambiguity. They were implemented in time;
3. metering, billing and collection was managed efficiently and effectively;
4. monitoring and internal controls were efficient.

What kind of audit is this? Prepare two sample observations which could be part of the audit report. [RTP-May 22]

**Ans: Sample observations in case of performance audit:**

This is example of Performance Audit. Sample observations are:

- (i) **Non-replacement of defective/ burnt meters:** Large number of meters, much in excess of the permitted limit of 1% of the total meters were defective and their replacement was not completed within the stipulated time of 1 month. This resulted in billing on average basis for a continuous period of several months. This could result in losses as well as administrative hassles and disputes with consumers.
- (ii) **Under charging of meter rent:** As per Schedule of Charges, the Company is required to charge meter rent of ₹ 30 per month for a single phase meter and ₹ 40 per month for three phase meter. It was observed that the Company had short charged meter rent of ₹ 60 lakh from 3 lakh consumers in 5 lakh bills during the period.

**Q.10.** Write short note on: Issues addressed in Performance Audit of PSUs. [Nov. 18 (4 Marks)]

Or

“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. [RTP-Nov. 18, May 20]

**Ans: Performance Audit:**

**Meaning:** 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.

**Elements of Performance Audit:** Performance audits include evaluation of economy, efficiency and effectiveness.

1. **Economy:** Economy stands for minimising the cost of resources used for an activity, having regard to appropriate quantity, quality and at the best price. Evaluating economy implies forming an opinion whether resources have been used economically and acquired in due time, in appropriate quantity and quality at the best price.
2. **Efficiency Audit:** Efficiency is the measurement of input-output. It is said to be achieved when the output is maximised at the minimum of inputs, or input is minimised for any given quantity and quality of output. Examining efficiency embraces aspects such as whether:
  - (i) procurement practices followed are sound;
  - (ii) resources are properly protected and maintained;
  - (iii) human, financial and other resources are efficiently used;
  - (iv) 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,
  - (v) efficient operating procedures are used; and
  - (vi) objectives of public sector programmes are met cost-effectively.
3. **Effectiveness:** Effectiveness is the measurement of the extent to which objectives are achieved & the relationship between the intended impact & the actual impact

of an activity. Examining effectiveness will cover the following:

- (a) assess whether objectives of & means provided (legal, financial, etc.) for a new or ongoing public sector programme are proper, consistent, suitable or relevant to the policy;
- (b) determine the extent to which a program achieves a desired level of results;
- (c) assess effectiveness of program and/or of individual program components;
- (d) determine whether management has considered alternatives for carrying out the program that might yield desired results more effectively or at a lower cost;
- (e) assess adequacy of management control system for measuring, monitoring and reporting a programme's effectiveness;
- (f) ensure compliance with laws & regulations applicable to program; &
- (g) identify ways of making programmes work more effectively.

#### 15.4 - Comprehensive Audit

**Q.11.** 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. [RTP-May 20, MTP-March 22]

Or

Sun Light Limited is a public sector undertaking engaged in production of electricity from solar power. It had commissioned a new project near Goa with a new technology for a cost of ₹ 5,750 crore. The project had seen delay in commencement and cost over-run. State the matters that a Comprehensive Audit by C & AG may cover in reporting on the performance & efficiency of this project. [Nov. 18 (4 Marks), MTP-Sep. 22]

Or

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 31.03.2021. The work to be conducted under Project A handled by the Metro Company Limited was of laying down railway line of 124 kilometers. [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 ₹ 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.

[Jan. 21 (5 Marks), MTP-April 22]

**Ans: Comprehensive Audit:**

**Meaning:** Comprehensive Audit involves assessing overall efficiency & effectiveness of Public Enterprises. This is done by reference to certain pre-determined standards, objectives & criteria.

The starting point of a comprehensive audit is the preparation of an audit programme based on the study of decisions relating to the setting up of the enterprise, its objectives, the areas of operation, organisation, financial & operational details, capital & operational budgets & other relevant available papers.

### **Areas to be covered in Comprehensive Audit:**

The areas covered in comprehensive audit will vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. Some of the broad areas are listed below:

1. How does overall capital cost of project compare with approved planned costs? Were there any substantial increases &, if so, whether there is evidence of unnecessary expenditure?
2. Have planned production or operational outputs been achieved? Has there been under-utilisation of installed capacity and if so, what has caused it?
3. Has the planned rate of return been achieved?
4. Are the systems of project formulation and execution sound? Are there inadequacies?
5. Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.?
6. Are the purchase policies adequate?
7. Does the enterprise have research and development programmes?
8. If the enterprise has an adequate system of repairs and maintenance?
9. Are procedures effective and economical?
10. Is there any poor or insufficient or inefficient project planning?

### **15.5 - Propriety Audit**

**Q.12.** What are the principles involved regarding “Propriety audit” in the case of Public Sector Undertaking?

**Ans:** **General Principles of propriety Aspect:**

Propriety Audit stands for verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct.

Instead of too much dependence on documents, vouchers and evidence, it shifts the emphasis to the substance of the transactions and looks into the appropriateness thereof on a consideration of financial prudence, public interest and prevention of wasteful expenditure. Audit against propriety seeks to ensure that expenditure conforms to these principles which have been stated as follows:

- (i) Expenditure is not prima facie more than the occasion demands 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.
- (ii) The authority exercises its power of sanctioning expenditure to pass an order which will not directly or indirectly accrue to its own advantage.
- (iii) Funds are not utilised for the benefit of a particular person or group of persons.
- (iv) Apart from the agreed remuneration or reward, no other avenue is kept open to indirectly benefit the management personnel, employees and others.

### **15.6 - Miscellaneous**

**Q.13.** BT Ltd., a company wholly owned by Central Government was disinvested during the previous year, resulting in 45% 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.

Gautam, the Finance Manager 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.

[MTP - March 21; RTP-May 23]

**Ans: Role of C & AG in case of Govt. company:**

- Sec. 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 C.G. 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.
- In the given case, 55% shares of the company are still with the C.G. and hence it is classified as a government company.

**Conclusion:** Gautam opinion is not correct as VM Ltd. is a government company, listing of company’s shares on a stock exchange is irrelevant for this purpose.

**Q.14.** PS & Associates are statutory auditors of a C.G. 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 F.S. 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 C.G. 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?

**Ans: C&AG Directions for Audit:**

Areas mentioned in the question 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 auditor’s u/s 143(5) of Companies Act, 2013.

In terms of Sec. 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-

- (a) the directions, if any, issued by the C&AG;
- (b) the action taken thereon and
- (c) its impact on the accounts and financial statements of the company.

## PART- II MULTIPLE CHOICE QUESTIONS

1. Setir Ltd. is a company in which 59% of the paid up share capital is held by Punjab Government. The company is engaged in the business of providing consultancy services in relation to construction projects.

The Punjab Government is also planning to induct funds in the company in future, if required. Nocri Ltd is a company controlled by Setir Ltd. The business of Nocri Ltd. is construction and has an annual turnover of INR 2500 crore approx.

The audit of the financial statements of Nocri Ltd for the financial year ended 31 March 2023 got completed but Nocri Ltd observed that during the course of audit, there was 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. Nocri Ltd. is seeking legal opinion to go against C&AG so that they can avoid unnecessary interference of C&AG and is also looking to have new auditors appointed by Nocri Ltd with whom they will have an engagement letter with the terms that those auditors don't accept any interference of C&AG which the existing auditors have not been able to avoid.

In this context, please advise which of the following should be correct?

- (a) The stand of the existing auditors should have been better i.e. not to accept any interference of C&AG.
  - (b) Management could have planned the audit work better by including the same terms in engagement letter with existing auditors instead of appointing another auditors.
  - (c) C&AG involvement could have been accepted if this was the audit of Setir Ltd. but not in case of Nocri Ltd. and hence Nocri Ltd. should also reach out to its parent company to get this resolved.
  - (d) Stand of Nocri Ltd. is wrong as the C&AG may get involved in the audit of Nocri Ltd.
2. CGN Ltd. is a large company engaged in the business of oil exploration in India. The Tamil Nadu Government and the Central Government hold 37% and 20% respectively of the paid-up share capital of this company.
- The C&AG appointed the statutory auditors of this company as per requirements of the Companies Act, 2013. The company had a concern regarding this appointment because company wanted to appoint another auditors as per their assessment, however, considering the legal hassles which would have got involved, the company decided to go ahead with this.
- The audit of the financial statement for the year ended 31 March 2023 got completed by the auditors appointed by the C&AG. Subsequent to this, the C&AG also issued an order to conduct test audit of the accounts of the company which was objected by the management of the company.
- The management objected saying that the complete set of financial statements have been audited by auditors appointed by the C&AG and hence this order is not acceptable because this would lead to duplication of work.
- Moreover, the management has also written to the C&AG that for the next financial year, the existing auditors should either resign so that the management may bring in their own auditors or the C&AG should have faith in the work of the auditors appointed by them. Please suggest how to resolve this matter.

- (a) The management's stand is not correct. The C&AG may order test audit as per the requirements of the Companies Act, 2013.
- (b) The management's stand is not correct. The C&AG may order test audit as per the requirements of the Indian Penal Code.
- (c) The management is correct and in this situation they get the right to appoint another auditor considering the fact that the C&AG has lost faith in the work of auditors appointed by them.
- (d) Such type of matters should be taken to arbitration as per the requirements of the Arbitration Act.

**3.** NOP Ltd. is a joint venture of C.G. and a private company & is engaged in the business of distribution of electricity in Chennai. The Central Government holds 51% shares of the company.

The company is acknowledged for its consumer-friendly practices. Initially it was completely owned by the Government & was running into significant losses but after the joint venture, the aggregate technical & commercial losses of the company showed a record decline. Operations of the company have improved significantly as claimed by management of the company.

The C&AG wants to conduct the performance audit of one of the departments of the company through a subordinate office of Indian Audit and Accounts Department.

For this purpose, the audit programme has also been finalized and the Accountant General has intimated the company that the audit would start within a day's time. The company is concerned because the programme which has been received from the Accountant General is quite detailed and would involve significant time. Further the management of the company is quite surprised as to why this audit should be conducted as this is not a company subject to such types of audits as per law.

Management of the company would like to have your inputs in respect of this matter. Please guide.

- (a) The notice for such type of audit should give reasonable time to the management to prepare themselves. Further it should not be a detailed audit requiring significant time of the company.
- (b) The C&AG may conduct such type of audits in respect of NOP Ltd. which would get covered in this criteria, however, the notice for conducting such type of audit should give reasonable time to the management to prepare themselves.
- (c) In case of a joint venture such type of audit cannot be performed as per the Companies Act, 2013. The company should write to the Registrar of Companies in respect of this matter and till that time no audit can be started.
- (d) In case of a joint venture such type of audit cannot be performed as per the Companies Act, 2013. Further wherever this is applicable that is only for a small period of time. The company should write to the Ministry of Corporate Affairs in respect of this matter.

**4.** AJ Petroleum & Refining Ltd. is a Maharatna Central Public Sector Undertaking (PSU) in India having its registered office in Uttaranchal.

It is engaged in the business of oil refining, pipeline transportation & marketing, exploration & production of crude oil & gas, petrochemicals, gas marketing and other downstream operations.

The PSU has global aspirations for which its management is working on various plans/programmes so that the same can be achieved in future. It is also planning to pursue diverse business interests by setting up of various joint ventures with reputed business partners from India and abroad to explore global opportunities.

Considering these objectives and other factors, the C&AG directed the performance audit in respect of its certain activities/functions which has been in progress. Before starting the audit, the detailed scope and composition of audit team was shared with the management of the company and tentative timelines were also given with which the management was fine. However, during the course of the audit the audit team changed its audit programme to achieve the desired objectives which was approved by the competent authority, however, the management was not happy with those changes.

The management wants the audit team to conclude the audit with the same scope as this is a special type of audit wherein such flexibility cannot be accepted as that would defeat the purpose of the law. However, the audit team has a different view. Please guide.

- (a) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules, 2014.
- (b) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules, 2014 and the Ministry of Law.
- (c) Changes in audit programme in such type of audits can be accepted provided those are discussed with the management and approved by the Competent Authority.
- (d) The C&AG should get involved in this matter after taking permission from the Central Government and would require to change the audit team if the scope requires any changes as the same should have been properly assessed by the audit team before commencing the audit.

**5.** A report submitted by you after an audit of a public sector unit is more likely to be finally reviewed by

- (a) Public Accounts Committee (PAC).
- (b) Committee on Public Undertakings (COPU).
- (c) Estimates Committee.
- (d) Public sector Committee.

**6.** In Case of PSU, Direct Reporting Engagement does not include

- (a) Performance audits.
- (b) Compliance audits.
- (c) Financial audits.
- (d) Comprehensive Audit.

[MTP-April 21]

**7.** You have been given an assignment of audit of IT department of a PSU. A checklist was handed over to you which contained many questions such as,

- Are separate user-names and passwords assigned to individual users?
- Are periodical changes of passwords ensured?
- Are external (offsite) data backups maintained at a place outside the premises?

The type of audit being conducted is likely to be:

- (a) Comprehensive audit.
- (b) Propriety audit.

(c) Compliance audit.

(d) Financial audit.

[MTP-Oct. 22; RTP-May 23]

**8.** With respect to audit of public sector undertaking, which among the below is related to propriety audit?

(a) This audit is carried out by assessing whether activities, financial transactions and information comply in all material aspects, with the regulatory and other authorities which govern the audited entity.

(b) This auditing focuses on the 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.

(c) It is an audit under which the C&AG does not really cover again the field which has already been covered. He conducts an appraisal or an efficiency cum performance audit.

(d) It stands for verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct. This audit is directed towards an examination of management decisions in sales, purchases, contracts, etc.

#### Answer Key

1. (d) Stand of Noci Ltd. is wrong as the C&AG may get involved in the audit of Noci Ltd.
2. (a) The management's stand is not correct. The C&AG may order test audit as per the requirements of the Companies Act, 2013.
3. (b) The C&AG may conduct such type of audits in respect of NOP Ltd. which would get covered in this criteria, however, the notice for conducting such type of audit should give reasonable time to the management to prepare themselves.
4. (c) Changes in audit programme in such type of audits can be accepted provided those are discussed with the management and approved by the Competent Authority.
5. (b) Committee on Public Undertakings (COPU).
6. (c) Financial audits.
7. (c) Compliance audit.
8. (d) It stands for verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct. This audit is directed towards an examination of management decisions in sales, purchases, contracts, etc.

SRM & Associates are refreshing up their knowledge on functions of various Parliamentary financial committees and on the varied functions and duties of C&AG in relation to audit of government institutions and government companies. They feel that unless they have understood scope of duties of C&AG, they would not be in a position to do justice to audits and professional work in this area.

In the process, they have gone through various materials both offline and online. The summarized information derived from some of such materials including website of CAG are stated below:

- (a) The C&AG report for a particular year contained results of the compliance audit of Department of Revenue-Direct Taxes of the Union Government dealing with “Assessments relating to Agricultural Income”. It included certain observations relating to allowing of claim for exemption of agricultural income without supporting documents, use of this area by non-agriculturists as a conduit to avoid taxes etc., in scrutiny assessments performed by the Department.
- (b) The C&AG in one of its reports in respect of a state government owned industrial development corporation pointed out non-adherence of One-time settlement (OTS) guidelines of state government by the corporation resulting in acceptance of a below par OTS proposal thus foregoing recovery of loan amounting to ₹ 6.87 crores. The said corporation was providing loans to industrial units.
- (c) Annual report of a listed public sector company which is a “mini -ratna” PSU was also gone through. The said company is engaged in providing diversified services to Indian Railways.
- (d) A state government owned PSU was involved in setting up of a thermal power plant in the state. The CAG, in its audit report, pointed out delay in completion of work due to failure to decide on the type of water treatment in the cooling plant on a timely basis. Besides, other reasons leading to delay like frequent changes in lay-out and re-testing of soil by the company were pointed out.

Answer the following questions based upon above information:

- Q.1.** Based on description provided at para (a) of case, which Parliamentary financial committee is likely to examine above report of C&AG and make its recommendations?
- (a) Estimates Committee.
  - (b) Public Accounts Committee.
  - (c) Committee on Public Undertakings.
  - (d) Committee on Commerce.
- Q.2.** Considering the description stated in para (b) of case, the above audit finding is likely to fall in which areas?
- (a) Compliance audit.
  - (b) Performance audit.
  - (c) Propriety audit.
  - (d) Comprehensive audit.
- Q.3.** As regards listed PSU described in para (c) of case, which of the following statements is most appropriate?
- (a) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by shareholders in AGM. C&AG cannot give directions to such firm of auditors. However, its office is empowered to conduct a supplementary audit.

- (b) The statutory audit of above PSU is to be conducted by C&AG.
- (c) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by C&AG. Further, C&AG can give directions to the firm of auditors.
- (d) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by shareholders in AGM. However, C&AG can give directions to the firm of auditors.

**Q.4.** Considering nature of audit finding described at para (d) of case concerning delay in completion of work of thermal power plant, the said audit finding is likely to fall in domain of:

- (a) Propriety audit.
- (b) Performance audit.
- (c) Financial audit.
- (d) Compliance audit.

**Q.5.** PSU engagements are generally attestation engagements or direct reporting engagements. Which of the following statements is correct in this regard?

- (a) Performance audits and compliance audits are generally attestation engagements.
- (b) Performance audits and compliance audits are generally direct reporting engagements.
- (c) Performance audit is a direct reporting engagement whereas compliance audit is an attestation engagement.
- (d) Performance audit is an attestation engagement whereas compliance audit is a direct reporting engagement.

#### **Answer Key**

- 1. (b) Public Accounts Committee.
- 2. (a) Compliance audit.
- 3. (c) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by C&AG. Further, C&AG can give directions to the firm of auditors.
- 4. (b) Performance audit.
- 5. (b) Performance audits and compliance audits are generally direct reporting engagements.