

18. Audit of Public Sector Undertakings

Important Point of this chapter

1. Propriety Audit

Introduction

Public sector enterprises are organized through any one of the following modes:

- a. Departmentally managed undertakings which form part and parcel of Government activities. For example Indian railways, Post etc.
- b. Government companies and deemed government companies set up under the Companies Act, 1956, where Government or government-owned and controlled institution own 51% or more of the paid up capital.
- c. Corporation set up under the specific act or legislature, e.g. LIC, UTI etc.

Framework for Government Audit

- In India, GA is performed by an independent constitutional authority, i.e. Comptroller and Auditor General of India (C&AG) through the Indian Audit and Accounts Department.
- There is a special arrangement for the audit of companies where the equity participation by government is more than 51%. The primary auditors of these companies are CA, appointed by the Union Government on the advice of the C&AG, who gives the auditors direction on the manner in which the audit should be conducted.
- The scrutiny of the Annual accounts and the Audit reports thereon by the parliament as a whole would be an arduous task, considering the diverse and specialised nature, besides imposing excessive demands on the limited time available to the parliament for discussion of issues and national importance. Therefore the parliament and the state legislature have, for this purpose, constituted specialised committees like the Public Accounts Committee (PAC) and the Committee on Public Undertakings (COPU), to which these audit reports and annual accounts automatically stand, referred.
- **PAC:** the PAC satisfies itself that:
 - i. That the moneys were disbursed legally on the service or purpose to which they applied.
 - ii. That the expenditure was authorised.
 - iii. That re-appropriation of fund is also in legal manner.
- **COPU:** exercise the same financial control on the public sector undertakings as the PAC exercised over the function of the Govt. departments. The function of the committee are:
 - i. To examine the reports and accounts of public undertakings.
 - ii. To examine the reports of C&AG on public undertakings.
 - iii. To examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.

Audit of Government Companies:

- **Section 619(2):** Statutory auditors of GC are appointed or re-appointed by the C&AG. There is thus a departure from the practice in vogue in the case of private sector companies where appointment or re-appointment of the auditors and their remuneration are decided by the members at the AGM.

- **Section 619(4):** for conducting supplementary audit.
- **Right to comment on Auditor's report**
 - i. Section 217(3) of the companies Act, 1956 imposes a duty to the BOD of a company to give the fullest information and explanation in the Director's Report regarding every reservations, qualification or adverse remarks contained in the auditor's report. in the absence of the similar provisions requiring the company to give their reply on the reservations made by the C&AG, the BOD of such a company in not bound to give information and explanation in respect of such comments.

Comprehensive Audit

- **Issues examined in this audit**
 1. How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increase and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?
 2. Has the accepted production or operational outputs been achieved?
 3. Has the planned rate of return been achieved?
 4. Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on he gestation period and capital cost?
 5. Are cost control measures adequate and are there inefficiencies, wastages in raw material consumption etc.?
 6. Are the purchase policies adequate? Or have they led to pilling of inventory resulting in redundancy in stores and spares?
 7. Does the enterprise have research and development programmes?
 8. If the enterprise has an adequate system of repairs and maintenance?
 9. Is there any poor or insufficient project planning?
 10. Are procedures effective and economical?

Propriety Audit

- **Definition:** Propriety audit stands for verification of the transaction on the testes of public interest, commonly accepted customs and standards of conduct.
- Propriety requires the transactions, and more particularly expenditure, to conform to certain general principles. These principles are:
 - i. That the 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. That the authority exercises its powers of sanctioning expenditure to pass an order which will not directly or indirectly accrue to its own advantage;
 - iii. That funds are not utilised for the benefit of a particular person or group of persons and
 - iv. That, apart from the agreed remuneration or reward, no other avenue is kept open to indirectly benefit the management personnel, employees and others.
- **Sections covered in this audit**
 - i. Section 209 (1) relating to cost accounting records
 - ii. Section 227 (1) requiring enquiry into certain specified matters
 - iii. Section 227(4A) requiring a supplementary statement on matters specified in the Companies report order.

- iv. Section 233B relating to requirements of cost auditor.
- v. Section 619(3)(a) requiring a supplementary statement in respect of government companies on matter specified.
- vi. Additional information in schedule VI, part II.

Performance audit

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

Performance audit includes:

1. Economy and efficiency audits:
 - a. Whether the entity is acquiring, protecting and using its resources economically and efficiently,
 - b. The cause of inefficiencies or uneconomical practices, and
 - c. Whether the entity has complied with laws and regulations on matter of economy and efficiency.
2. Program audits:
 - a. The extent to which the desired results or benefits established by the legislature or other authorising body are being achieved,
 - b. The effectiveness of organisations, programs, activities or functions, and
 - c. Whether the entity has complied with significant laws and regulations applicable to the program.

Objectives of performance audit

The main objective of PA audit is Evaluation of economy, efficiency and effectiveness of policy, programs, organisation and management.

Planning for PA

1. *Work is to be adequately planned:* in planning, auditors should define the audit's objectives and the scope and methodology to achieve those objectives. The objectives are what the audit is to accomplish. They identify the audit subjects and performance aspects to be included, as well as the potential auditing and reporting elements that the auditors expect to develop.
2. *Significance and user needs:* qualitative, as well as quantitative, factors are important in deterring significance. Qualitative factors can include:
 - a. Visibility and sensitivity of program under audit,
 - b. Newness of the program or changes in its conditions,
 - c. Role of the audit in providing information that can improve public accountability and decision-making, and
 - d. Level and extent of review or other forms of independent oversight.

3. *Understanding the programs:* auditors should obtain an understanding of the program to be audited to help assess, among other matters, the significance of possible audit objectives and the feasibility of achieving them. For this auditor have to make inquiry and the extent and breathe of such inquiries and observations will vary among audits, as will the need to understand individual aspects of the program, government auditing standards such as the following:
 - a. Laws and regulation
 - b. Purpose and goals
 - c. Efforts
 - d. Program operations
 - e. Outputs
 - f. outcome
4. *Criteria:* criteria provides context for understanding the results of the audit. The audit plan, where possible, should state the Government auditing Standards criteria to be used. In selecting criteria, auditors have a responsibility to use criteria that are reasonable, attainable and relevant to the matters being audited. The following are example of criteria:
 - a. Purpose or goals prescribed by law or regulation or set be management;
 - b. Technically developed standards or norms;
 - c. Expert opinions;
 - d. Prior years' performance
 - e. Performance of similar entities, and
 - f. Performance in the private sector.
5. *Audit follow-up*
6. *Considering other's work*

