★ Sec. 143 (5) (6) (7)

★ **Supplementary Audit.**

Sec. 143 (5) Direction by CAG to the Auditor.

In the case of a govt. Company — CAG shall direct the auditor — the manner in which — The accounts of the govt. Company are required to be audited.

- ★ The Auditor shall submit a copy of his Audit report to CAG
- ★ The Audit Report shall, among other things include.
  - The Direction if any issued by CAG
  - The Action taken thereon
  - (&) its impact on the A/Cs (&) FST of the Company.

★ Sec. 143 (6) Right of CAG to Conduct Supplementary audit (or) Supplement the Audit Report

★ CAG shall, within 60 days from the date of receipt of the Audit Report have following Rights:

① **Supplementary Audit**

CAG may order — Conduct of Supplementary audit — of the FST of the Co. — which shall be conducted by such person as CAG may authorise — CAG may authorise such person
- to obtain such Infⁿ
- as may be required for Conduct of Supplementary Audit.

★ **Supplement Comment**

CAG may
- Comment upon the Audit Report
- Supplement the Audit Report.

★ which shall be sent by the Company
- to every person
- entitled to copies of audited FST

★ which shall also be placed before the members in the AGM at the same time and in the same manner as the Audit report.

★ Sec. 143 (7) Test Audit

★ CAG may by an order cause the Test Audit to be Conducted of the A/Cs of Govt. Co.

★ General Principles of Propriety Audit

★ Proprietary Audit is Concerned with

- Scrutiny of executive
  - Action
  - (or) Decision
- on
  - financial
  - (or) P&L situation
  - of the Company
- with Special Regard to.
  - Public Interest
  - (or) Commonly accepted
    - Customs
    - (or) Standards of Conduct

★ General Principles of propriety Audit are as under

That

- ★ The expenditure is
  - not prime facie more than the occasion demands
  - And every official
    - exercises the Same degree of vigilance
    - as a person of ordinary prudence would exercise
    - in respect of his own Money.
    - in respect of expenditure
- ★ The authority
  - Exercises its power of Sanctioning expenditure
  - which will not result in
  - Any benefit
    - Directly
    - (or) Indirectly
    - to Such Authority.
- ★ The funds are not utilised for the benefit of
  - a particular person
  - (or) group of persons.
- ★ Apart from the agreed remuneration (or) reward.
  - no other revenue is kept open.
  - to indirectly benefit
  - The
    - -> Mgmt personnel
    - -> employees
    - -> (or) others.

★ Reply of Board of Directors on the Comments of CAG

Sec. 134(3) of the Companies Act 2013

- ★ Imposes a duty on the BOD of a Co.
- To give fullest Infⁿ (&) explanations in the directors report regarding every reservation, Qualification (&) adverse remark. Contained in the Auditors Report.

★ However

- there exist no mandatory requirements
- for the BOD of the Govt. Company
- to give their reply on the reservation made by CAG.
- Hence, the BOD has not Contravened any of the provisions of the Companies Act if BOD not give any Infⁿ (&) explanation in respect of CAG Comments.

★ Areas of propriety Audit u/s 143 (1)

★ In some of the areas, the auditor has to examine the same from propriety angle as to:

★ whether Loans (&) advances made by the Co. on the basis of Security have been properly Secured (&) whether the terms on which they have been made are not prejudicial to the Int. of the Co. (OR) its members

★ Whether transactions of the Company → which are represented merely by book entries → are not prejudicial to the int. of the Company.

★ whether the Co. is not an Investment Co. (OR) a banking Company. whether so much of the assets of the Company as consist of Shares, Debentures (&) other Securities have been sold at a price less than that at which they were purchased by the Company.

★ Whether loans (&) advances made by the Company → have been shown as deposits → Again, Considering the propriety element, → Rationalizing the proper disclosure of Loans (&) advances given by Co. is made

* Whether personal expenses have been charged to Revenue Account.
* Whether it is stated in
  - the books
  - (&) documents of the Co.
* that shares have been allotted for Cash
* whether Cash has actually been received in respect of such allotment
* (&) if no cash actually received, whether the position in
  - Books of account
  - (&) B/S

  so stated, is
  - Correct
  - Regular
  - (&) not Misleading

* Provided that
  - The auditor of a Company which is a holding Company
  - Shall also have the right of access
    - To the records of all its ~~records~~ subsidiaries
    - in so far as it relates to
    - The Consolidation of its financial statements with that of its subsidiaries.

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* **Factors to be Considered while planning the performance Audit:**

The Auditors should take care of certain factors which are listed below:

* To Consider
  - Significance (&) the needs of potential users of the Audit Report
  - Legal (&) Regulatory requirements
  - Management Controls
* To Obtain an understanding of the program to be audited.

* To identify
  - Significant findings (&) Recommendations from previous audit that could affect the current audit objectives
    - * Auditor should determine if
      - management has corrected the Condition.
      - Causing those findings (&) implemented those recommendations.
  - Potential sources of data that could be used as audit evidence
    - And consider Validity / Reliability of these data
    - Including
      - Data collected by audited entity
      - Data generated by auditors
      - (OR) Data provided by 3rd party.
  - Criteria needed to evaluate matters subject to audit.

② Sec. 143 (6)(a) Supplementary audit of the Companies Act 2013.

- CAG. Shall within 60 days.
- from the date of receipt of audit report
- have a right to Conduct a Supplementary audit of FST of Co.
- By Such person (or) persons as he may authorize in this behalf
- And for the purpose of Such Audit require
  - Infⁿ
  - (&) Additional Infⁿ
- to be furnished to any person (or) persons.
- (&) in Such form as CAG may Direct.

③ Sec. 143(6)(b) Comment upon (or) Supplement such audit Report

(i) Any Comment given by the CAG upon

(ii) (or) Supplement to the Audit Report

⇓

* Shall be Sent by the Company

- To every person entitled to copies of Audited FST.
- And also
  - be placed before the AGM of the Co.
  - at the Same time.
  - (&) in the Same manner as the audit report.

④ Sec. 143 (7) Test Audit

* Without ~~prodi~~ prejudice to the provisions relating to audit (&) auditors the CAG may

- in Case of Co. Covered u/s 139(5),(7) of the Said Act.
- if he Considers necessary, by an order.
- Cause Test audit to be Conducted of the A/Cs of the Company

⇓

And the provisions of CAG Act 1971 Shall apply to the report of Such Test Audit.

* To Consider
  - whether the works of other auditors (&) experts
  - may be used to satisfy
  - Some of the auditors objectives.

* To provide
  - Sufficient staff
  - (&) other resources.
  - to do the audit.

* To prepare a written audit plan.

*** What are the relevant Sections of Companies Act 2013 and Steps involved in audit of Government Companies?**

1st) Appointment of Auditors u/s 139(5), (7) read with Sec. 143(5) of the Companies Act 2013.

* Statutory Auditors of Govt. Company are appointed (OR) Reappointed By CAG of India

* There is a departure from the ~~practi~~ Cases of Pvt. Sector Companies where appointment, reappointment, remuneration are decided by the members at General meetings.

The CAG may Direct the appointed auditor
- The manner in which the A/Cs of the Govt. Co. are required to be audited
- (&) there upon the auditor so appointed ⇒ Shall submit a Copy of the audit report to the CAG of India
  - among other things include the direction if any issued by CAG
  - The action taken thereon
  - (&) its impact on A/Cs (&) FST of the Company.

* Compliance audit also includes an examination of the.

Rules, Regulations, orders (&) Instructions.

~~issued by the Competent authority~~.

for their.

legality, adequacy, transparency, propriety, prudence (&) effectiveness

i.e whether these are.

1. * Intra vires. of
   - The provisions of Constitution of India. (&) The laws.

2. * Sufficiently Comprehensive (&) ensure effective Control over. Government
   - Receipt, Exp., Asset, Liab-
   - with sufficient safeguards against loss due to
   - wastage, misuse, mismanagement, errors, frauds. (&) other irregularities.

3. * [clear (&) free from ambiguity] (&) [Promote observance of probity in decision making. (Transparency.]

4. * effective (&) achieve the intended objectives (&) aims (effectiveness.)

* Financial Audit

1. primarily Conducted — to express an audit opinion — on a set of FST.

2. * Audit of Financial — Systems (&) Transactions.
 - including an evaluation of — Compliance — with applicable — Statutes (&) Regulations.
 - which affects — accuracy (&) Completeness — of A/C records.

3. * Audit of — Internal Control (&) Internal audit functions.
 - That assist in safeguarding — assets (&) Resources
 - (&) Assure the — accuracy (&) completeness — of accounting records.

* Compliance Audit

- is an Independent verification process
- of evaluating audit evidence
- to determine whether — Specified Compliance requirements are Met.

* It examines the transactions relating to
 - expenditure, Receipts, Assets, liabilities — of gov. for Compliance with
 - The provisions of — Constitution of India (&) the applicable laws.
 - And — Rules, Regulations, Orders, Instructions — issued by Competent authority
 - either in ~~prov~~ pursuance of the provisions of the Constitution of India (&) the laws
 - ~~And the laws.~~ (or) by the virtue of the powers formally delegated to it by a Superior authority.

★ Problems in propriety Audit

⇓

Auditing requires verifiable propositions

- establishment of which
- is very difficult for propriety Audit.

⇓

However, CAG has developed norms of propriety

- for expenses of public funds.
- but it may not apply to transactions of private sector.

★ The Judgement of Auditor

- Should not be Subjective
- as far as possible.

⇓

★ It has inherent element of Subjectivity

- ★ If mgt formulates norms of propriety for the entity
- The element of Subjectivity will get reduced.

e.g ⇒ Travel by air. (may be Judged as wasteful. However it becomes Feasible due to time Saving.)

★ Objectives of Audit of PSU.

- ★ In PSU, there is involvement of public fund
- which should be utilized considering public Interest.
- normally these funds are lavishly used by the management
- ★ While Auditing, Auditor has to check.
  - whether these funds have been used in a manner
  - So as to hurt the basic objective behind creation of PSU
- ★ The main objective of auditor is to check "Substance of transactions" entered into by PSU.
- ★ Auditor has to check whether these funds have been used in a manner confirming propriety norms.

★ Public Accounts Committee (PAC)

The parliament as well as state legislative

Sets up a PAC to scrutinize.

The appropriate accounts (&) The auditors report thereon.

★PAC also examines

Financial statements together with auditors report

of the State Corporation.

(&) other

autonomous (&) Semi autonomous bodies.

⇒ ★ The public accounts committee satisfies itself that

★ The money (shown in the accounts)

were disbursed legally

on the Service (or) purpose to which they were applied.

★ Exp. was authorised.

★ Re-appropriation has been made in accordance with the provisions made i.e (Distribution of funds.)

* Comprehensive Audit of PSU.

① is examination in detail
- of various aspects of PSU
- to ascertain its
  - efficiency
  - (&) effectiveness

② Auditor here.
- prepares detail audit program
- to cover various aspects

③ * It is conducted
- in addition to professional audit
- which is done on an annual Basis.

* Considerations by Auditor.

⇓

Memory technique.

⇓

* Jio ne Investment Decision leke. India mein FTTH Connection ka Project formulate kiya

* MIS se India ki capacity utilization pata ki

* R&D karke. kam material use karke. kam cost pe service provide karna tay kiya

* AAJ usk operating India mein achi (&) and Repairs (&) maintainance bhi

① Whether Investment Decisions are taken
- Considering
- Socio-economic objective of PSU.

② Whether PSU considers
- economy (&) efficiency
- During its project formulation.

③ Whether MIS of PSU.
- providing right inf^d
- on a timely basis
- of which imp. decisions are taken.

④ organisational. → capacity utilization is proper (OR) there is. → under utilization of installed capacity.

⑤ Use of material should be such as to produce minimum wastage.

⑥ Whether.
- Cost Control measures are being adopted by the entity
- so as to keep the cost under check.

⑦ R & D program are being carried out in an effective way (&) these are in fact fruitful

⑧ Whether Repairs (&) maintainance program are being adhered to on a timely basis.

⑨ Its Internal Control Systems are operating effectively on a continuous basis.

* Performance Audit

- it is a Systematic examination
- for independent assessment of the performance
- of govt. org.
  - ~~perfo~~ program
  - (or) activity.
- so as to improve public accountability

Includes.

① Economy (&) efficiency Audit

Includes determining as to whether

- * entity is acquiring (&) using its resources
- in Economic (&) efficient manner
- * entity is Complying with.
  - laws
  - (&) Regulations.
- * Causes of.
  - uneconomical
  - (&) inefficiencies.
  - are identified.

for e.g

- avoiding overstaffing
- having sound procurement practices
- using appropriate (&) efficient procedures.

② Program Audits [Include determining]

- * effectiveness of program activities
- * Compliance with.
  - laws
  - (&) Reg.

for e.g

- *Assessing the Suitability of objectives of a program.
- * Determining the effectiveness of a program.
- * Identifying ways of making it more effective

★ Directions of CAG

★ System of Accounts ①

① Examine the following systems. And give Deficiencies along with Suggestions

Receipt, Exp., Trial Bal., Inventories etc.

② Examine. Allocation of expenses during Construction

③ Check BRS

④ Ensure whether Control & Subsidiaries A/C are Updated & Reconciled properly.

⑤ Examine A/cing policies.

② ★ System of financial Control

★ Delegation of financial powers whether legally made.

★ Whether credit from bank are monitored regularly.

★ CAG – Certain provisions

★ The president of India shall appoint CAG.

★ Appointment

★ Removal (or) Resignation

① Can be removed from the office only on the ground of proven misbehaviour (or) incapacity.

② He Can be removed from office only when each house of parliament Decides to do so. by a majority of at least 2/3rd of members present & voting

③ Can Resign any time by a resignation letter addressed to the president of India.

★ Remuneration

① Salary equivalent to that of a Judge of SC.

② Parliament is Competent to make laws regarding it.

★ Term

★ For 6 years (or) upto 65 years. w. earlier.

★ Committee on Public Undertakings

- examines the audit report
- can select some enterprises each year.
  - to examine / whether
    - affairs of same
    - are managed in accordance with sound business principles etc.
- It does not however examines.
  - matters of major government policy
  - (OR) Day to day administration
- It gives its
  - findings (&) recommendations
    - in its report.
      - which are presented to
      - Parliament/ state legislatures

★ Estimates Committee

- is a parliamentary Committee
- Consisting of 30 members
  - elected every year
  - by the lok sabha from amongst its members.

★ The chairman of the Committee
- is appointed by the Speaker.
- from amongst its members.

★ The term of the Committee is 1 year.

★ Functions of Estimates Committee

① Report what
- Economies
- improvements in org.
- efficiency (or) administrative reform

Consistent with the policy underlying the estimates may be effected.

② Suggest alternative policies
- in order to bring about.
- economy (&) efficiency in administration

③ Examine.
- whether the money is well laid out.
- within the limits of the policy

④ Suggest the form.
- in which
- the estimates shall be presented to parliament.

★ Duties of CAG

★ Compile (&) Submit Accounts

- ★ Compile the accounts of the
  - Union
  - State
  - Union territory
- ★ And Submit those accounts to
  - President
  - Governor
  - Administrator respectively.

② Audit Receipts (&) expenditures.

- ★ Shall audit all
  - receipts (&) expenditure
    - of any body
- which has been substantially financed from Consolidated Fund of.
  - India
  - State
  - Union territory.

Note

★ A body (or) authority shall be treated as Substantially financed if

- The amount of
  - grant (or) Loan
- in 1 year.
- is greater than.
  - 25 lakhs
  - (&) 75 % of the total expenditure of that body (or) authority.

③ Audit Grants (&) loans.

- Shall audit
  - Specific purpose loan
  - (or) grant.
- given to any body
  - other than a foreign state
  - (or) international organization
- out of the Consolidated fund of
  - India
  - State
  - Union Territory.

④ Audit Receipts of Union (or) states.

- Shall audit
- all receipts payable into
- the Consolidated fund of
  - Union
  - State
  - Union Territory.

⑤ Audit A/Cs of Stores (&) stock.

- Shall audit the A/Cs of
  - Stores
  - (&) Stock
- Kept in any office (or) department
- of the
  - Union
  - (OR) State.

⑥ Audit A/Cs of Govt. Co. (&) Corp.

- CAG Shall exercise
  - Powers
  - (&) observe duties as per provisions of Companies Act
- in relation to.
  - Govt. Co.
  - (OR) Corporations.

(7) Audit (&) Report

★ CAG shall audit (&) Report

- ★ All exp. from Consolidated Fund of
  - Union
  - State
  - territory
- ★ All transactions of
  - Union
  - State
  - relating to the
    - Contingency funds
    - (&) public accounts.
- ★ All
  - → Trading A/C
  - → Manufacturing A/C
  - → P&L A/C
  - → (&) B/S (&)
  - → other Subsidiary A/Cs.
  - Kept in any department of
    - Union
    - State

(8) Submission of A/Cs

- He shall submit his report
- relating to the A/Cs of
  - Union (or) State
- To the
  - President (or) Governor
- Who will subsequently lay them before
  - Parliament (or) State legislature