
Epilogue

(A) CHALLENGES

'To promote excellence in public sector audit and accounting services towards improving the quality of governance.'—Vision Statement of IA&AD.

In an era of such momentous changes that are taking place in the administrative structure and public policies of the country and a fast emerging globalised economy, Government audit is presented with a host of challenges and of course opportunities. The Vision Statement adds to these challenges and responsibilities. We have mentioned some of these while narrating the developments in the Department during the period covered in this history. We can foresee some of the major challenges before the IA&AD in the coming years.

Financial accountability system in India must rank as number one challenge. Some major issues identified by the present C&AG in this context, in his Note to ARC are developments in internal control framework for Government of India that include revamping existing internal control system and internal audit as also risk management practices in Government. The challenges here are manifold. There has been enormous expansion in the size of bureaucracy and the role and nature of functions of Government. We have mentioned quite a few in the previous chapters. To give an example, the Central transfers to the states and indirectly to the local governments have now assumed the most important segment of the resources of many states and the local governments. To assess the proper use of Central transfers to derive the intended benefits projected by the relevant schemes or programmes is a

primary and basic challenge to Audit. Their use or misuse determines the level of government accountability.

A challenge which is prevailing since the birth of audit is the production of records and documents to Audit. The chapters in this volume have detailed the ground situation on this and the efforts made by different C&AGs to address the issue. The latest in this is, of course, the publication of new statutory regulations which have laid out a clear prescription for the government departments in this regard. It is too early to comment on their effectiveness but hopefully these would have an impact because of their statutory nature and the obligation of the government departments to comply with them. During the course of author's interview with the C&AGs when this subject was raised, C&AG Somiah was of the firm view that the C&AG should be given statutory powers to summon files and records from government. He mentioned about the RTI Act, 2005 which provides for imposing penalties including monetary punishment on officers who willfully delay in providing the information sought. The C&AG should have similar powers in regard to officers who delay production of files and records to audit or don't produce them at all.

To a question posed to the present C&AG Kaul by the author on the major challenges before the Department, he mentioned revision in the design of audit arrangements as a foremost challenge. But, as he said, this is easier said than done. The Indian audit system, like that prevailing in many other countries is rooted in the Constitution and the Act of Parliament. Bringing out big and fundamental changes in the audit system is not easy. Specifically speaking, the major challenge facing the Department is how to align the prevailing legislative audit system to, what the C&AG called, a highly dynamic international audit system. This would be a great challenge because the basic structure of SAI India including its systems and procedures is legal and therefore aligning such a strong legally structured system to the dynamics of international auditing systems would rank as a major challenge to the Department. The preceding chapters of this history have attempted to answer this question by describing the initiatives taken by the incumbent C&AGs in introducing reforms and new techniques in auditing systems and procedures.

With shrinking public sector and creation of more and more regulators, audit of regulators will remain a focus area but the challenge here is how to get over the somewhat stubborn attitude of both the Government and the regulatory bodies to let the C&AG

anywhere near them. The sensitiveness of the regulators and their desire not to let anybody impinge on their freedom is perhaps carried too far. Even in the West, the state audit has a definite role in assessing the effectiveness of the regulators. In future, hopefully C&AG will assume such a role by proper understanding of his role by the Regulators. Essentially, therefore, it would boil down to redefining the C&AG's mandate for these regulatory bodies.

Audit of Local Bodies: While the unique system of a participatory approach in the audit of local bodies has taken off, thanks to Eleventh Finance Commission recommendations, the utility of the system and the impact thereof will be known only after a few years. But there is no doubt that this is a unique beginning of C&AG's collaboration in the local bodies accounting and their auditing. C&AG's role is gradually assuming that of a catalyst in accounting matters and in that sense, he is acting absolutely as an aid to management. Conceptually, the local bodies were created to act as third tier of government as self governing institutions. The portfolio of subjects to be transferred to them as enshrined in Schedule XI and XIIth of the Constitution is quite formidable. While the progress in transfer of subjects to these bodies differs from state to state, eventually the local bodies would get their due both in terms of portfolio of subjects and related administrative and financial powers. In that scenario, the C&AG's role in future would assume a much greater importance from the accountability angle. In the initial years beginning from 2000, the C&AG has been concentrating on building up skills by training the local bodies personnel, prescribing the accounting and financial documents and generally guiding the local body authorities in their work of accounts keeping and auditing besides carrying out a sample check directly. However, in the next few years he would have to release more manpower for direct audit of these bodies commensurate with the high expenditure levels likely to be reached by that time. In such a scenario, organizing the audit of local bodies poses a real challenge to the IA&AD and thankfully with the kind of start that has been given the Audit department is well equipped to handle the increased responsibilities that would come in future. Like in the audit of government departments, the focus of C&AG's audit would essentially shift to the quality and cost of delivery of services by the local governments and in general assessing the impact that it makes on the lives of the millions of rural citizens who are still to learn the real nuances of democratic government.

This is one area where a synergy between the C&AG and the civil society is being talked of with excitement. When that is achieved, this audit would truly be a collaborative audit between the C&AG, the local fund auditor and the civil society.

Auditing the Autonomous Bodies, NGOs: The future challenges and prospects for the Audit Department also emerge from the developments in economy and changing policies of the Government on funding of socio-economic development programmes. A reduced role of Government by way of direct intervention is very much on the anvil in future. The public sector, despite the present logjam, is bound to shrink in the years to come but Government expenditure will remain substantial and a large chunk of it will progressively be spent through conduits. This would naturally affect the traditional expenditure audit system and the role of audit of grants and of autonomous bodies, including Special Purpose Vehicles, NGOs, societies etc. would increase. While the technique and process of audit of these entities would be the same as for normal expenditure audit, the crucial challenge will be to get these audits assigned to the C&AG in the wake of procedural complexities and the general reluctance of state governments to entrust audit of these entities to the C&AG.

While the existing legal infirmities vis-à-vis C&AG's powers to audit autonomous bodies will perhaps remain, the limitations posed by this situation can certainly be overcome by a better database of such bodies and authorities which can be built thanks to the IT systems where we have already made a mark. Once the department has a system of compiling a comprehensive database of bodies and authorities that should be subjected to C&AG's audit under various sections of DPC Act, the audit can focus on the priority areas. The issue of audit of NGOs receiving government grants was discussed in September 2005 Conference of the Accountants General. The Conference deliberated on the future challenges and problems in establishing accountability of NGOs. In this regard the Conference made some interesting observations and it also laid down a strategy for future audit. Basically, the Conference recognized the deficient database as also MIS from NGOs. There is also absence of a reliable evidence on the impact or the effectiveness of the NGOs since there were very few evaluations on these aspects. In the circumstances, NGOs survival has been almost completely delinked from performance. The Conference also recognized that there was absence of proper

documentation by NGOs even though the same was prescribed in most cases and there was absence of accurate record of states equity (read funding) in NGOs. This is a major issue even today. There is now a provision for each Ministry to add a statement in their detailed demand for grants containing information on releases to grantee bodies which includes NGOs. The Conference recognized the utility of tapping CGA for the data on releases to NGOs. It may be of relevance to say that there is already a written understanding between the C&AG and the CGA whereby the CGA promised to send, at the end of the financial year, Ministry wise list of all the releases made to the autonomous bodies including NGOs during the preceding year. Such interaction needs to be strengthened. The audit strategy for future has to be on laying emphasis on the accountability aspects and the assessment of the quality of expenditure and reporting of the results thereof. How the C&AG organizes this in future would be a relevant question because it may need a good deal of manpower resources.

Successive C&AGs have in their own way responded to these challenges. C&AG Somiah met the challenges posed by overcoming arrears in accounts closing, upgrading the training system, improving computerized set up in IA&AD, etc. C&AG Shunglu proceeded with paradigm change in accounting system through voucher level computerization. He showed vision in creating a dedicated IT Centre to meet fast emerging challenges to audit posed by rapid expansion of IT in government, and in vastly upgrading training infrastructure. On auditing, both C&AGs Shunglu and V.N. Kaul introduced new audit techniques to gather audit evidence. They deployed with great success new techniques like engaging reputed entities to carry out beneficiary surveys and checking technical works. Experts were utilized for some audits needing special skills.

The present C&AG sought to address these challenges with great vigour and pushed the agenda of reforms in auditing and accounting to cope with twenty first century demands. He set about realigning the auditing practices with the best international practices. He made a paradigm shift in the way performance audit is conducted. The Department adopted concepts like risk-based audit planning and auditing as practical tools and not merely as theoretical concepts. He took IT application to greater heights and of late he has forcefully addressed the issue of declining standards and output of transaction audit. He laid down renewed instructions on auditing and reporting cases of fraud and corruption. A synergy

between audit and vigilance on these aspects was revamped. On accounting he created a unique institution-the GASAB comprising all the Heads of organized Central Accounting Services along with representatives from Ministry of Finance, State Government, RBI, NCAER, ICAR, etc. under his umbrella and supervision.

Finally, he had a relook at the powers available to him under Section 23 of the C&AG's DPC Act to frame Regulations and took the momentous decision to undertake this responsibility to make audit more effective and let the auditees know of their obligations. Towards that end, he recently brought out, for the first time 'Regulations on Audit and Accounts' under section 23 of C&AG's (DPC) Act. Auditing Standards are also currently under revision.

What is the new orientation to audit in the context of the foregoing challenges? One, of which mention has already been made in this regard in the previous chapters, relates to the strong emphasis now being placed on audit of fraud and corruption. This started even earlier but has taken strong roots in present C&AG's time who has prescribed a very elaborate drill in the matter to be followed by the AsG (Audit) (by whatever names they are called in the department). When the author asked C&AG Kaul about reasons for his strong emphasis on audit of fraud and corruption, he justified his orders which were based on two planks. One was that the role of audit must be defined clearly in fraud and corruption cases so that there was no vagueness about it. He defined the role of his department in audit of fraud and corruption based on the principles laid down by UN panel on Audit of fraud and corruption. A clear definition of the audit role in fraud and corruption emerged from C&AG's discussions in the UN Panel of Auditors and this is what he is trying to introduce in the IA&AD. The second plank on which he drafted his orders on the audit of fraud and corruption was to distinguish clearly an audit paragraph on mismanagement with that on fraud and corruption. Each audit authority functioning in the department has to reach a bench mark already defined for inclusion of a transaction audit case for falling under fraud and corruption and if it has reached that threshold, it has to follow the trail and track the case as far as possible. To engage C&AG's attention on such paragraphs, the Accountant General is to report these paragraphs in bold type in his final draft copy of the report (bond copy), which goes for C&AG's approval.

In a recent communication to Finance Secretary (October 2007)¹, the C&AG has clearly outlined the role of audit in fraud and corruption cases. Reacting to the suggestion to impart training to

audit team in forensic audit, the C&AG while agreeing to impart such training, made it clear that the responsibility to undertake forensic examination will finally rest with the State and its anti-corruption or vigilance agencies.

The emphasis on a risk based planning and risk based auditing has been a major area of C&AG's reform process. Its gradual induction in various functional wings lends an assurance that IA&AD will move towards a risk based auditing model in all the wings both in expenditure stream and receipts audit stream. This would not only achieve better audit output but will also mean best use of scarce resources.

A conscious decision to go in selectively for concurrent evaluations of major schemes, programmes and projects is yet another step by the C&AG to meet the off quoted remark that audit is just a post-facto exercise and not affording any opportunity for administration to go for course corrections. Several such examples existed in the past also. But concurrent audit is a more conscious decision now in case of big flagship programmes. Simultaneously, the C&AG has made it abundantly clear that audit is by nature post audit and it is the primary responsibility of the Government department to carry out concurrent evaluation of its programmes.

(B) STRENGTHS AND WEAKNESSES OF IA&AD IN THE EYES OF C&AGs

How do the various Comptroller and Auditors General, who held that position during the period covered by history, view the strengths and weaknesses of the department will be an interesting question. Since the three concerned C&AGs were all outsiders to the department till they became the C&AG, their observations would be more of a detached person free from biases of an insider. In that sense, it would be of great importance to present their analysis. The author took the liberty of asking this question to the three concerned C&AGs namely C.G. Somiah, V.K. Shunglu and the incumbent C&AG V.N. Kaul.

The precise question posed was what were the strong points and what were the weak points of the Department noted by them. Former C&AG Somiah speaking about the strong points mentioned of the expertise that the department had which he thought was second to none and was qualitatively world class. Secondly, as already pointed out he was of the view that accounts staff was

generally highly competent. The corresponding weak side to this was expressed by him in these words 'training in accounts should be more intensive for the IA&AS officers. There should be refresher courses in accounts for AG level officers...'. The other weakness in his view was that follow up of audit findings was generally dismal (*authors comments*: apparently he meant that as a consequence, much of the good work done by the Department goes waste).

In C&AG Shunglu's view, the strong point of the department is its professionalism and commitment of its work force. In his view, there was one weak point which he liked to stress: this was the inability of the department to change with the pace of change in public policies, technologies and other areas. In his view, 'there is certain resistance to change with the tide' and this inability of the department to keep evolving fast with the changing time is to be got over.

The assessment of the current C&AG V.N. Kaul on this subject was that the greatest strength of the department was its self awareness and the capacity to analyze its weaknesses and strengths. In his view, the department has another virtue namely its undisputed correctness in reporting. Corresponding weakness is the quality of the audit output. Elaborating, he said while the Audit Reports are absolutely correct factually and present a true picture of the implementation of programmes, policies, entities, etc., but the kind of penetrating analysis of such quality and merit as would draw the attention of the policy makers is perhaps missing. As a consequence, the department faces the real question of what impact finally audit has made on administration and via them on public policies.

Of the other strong points, C&AG Kaul listed the following as some of the strongest points of the department:

- ❖ The credibility of the department: This is undisputed and recognized by one and all.
- ❖ Clear objectives: The department has a clear notion of its primary purpose or objectives and it would not deviate from that as a constitutional body. This is a great merit.
- ❖ Adherence to core values: In C&AG Kaul's view, the core values of the department are very strong. Despite vast changes in political dynamics of the country, the IA&AD has remained and remains fact-based, non-partisan, objective, fair, non-ideological and above all balanced in its outlook and output. These, perhaps, are the biggest strengths of the department.

The challenge on the accounts side was of a different nature. C&AG Kaul lauded the massive expansion in the field of computerization specially the voucher level computerization which has improved the timeliness and regularity of accounts; but the crucial question here again is the usefulness of these accounts and the use to which these accounts are put by the user departments. While the regularity, timeliness and completeness of the accounts fulfills broadly C&AG's mandate but eventually the utility of these would be measured by what value these accounts render for financial management of the Government. C&AG Kaul expressed his concern over this aspect and said that his constant endeavour had been to devise ways and means that could enhance the effectiveness of accounts for use by Government.

One issue which often crops up and which will remain so in future also, concerns the role of C&AG vis-à-vis transfer of State Government/Union Territory accounts. The position of the present C&AG on this is very clear. He mentioned to the off-quoted argument in favour of the transfer of accounts compilation work by State Accountants General to the concerned state governments on the premise of conflict of interests. In his view, this conflict of interests was more, if at all, a theoretical concern because in C&AG's words 'we have created a fine wall between audit and accounting functions by separating two wings with each one completely independent of the other'. It would be too much to read in the argument that even though independent offices, they remain under the overall charge of C&AG. The fact is that the independence of accounts offices and audit offices from each other, which was the only relevant point, has been fully ensured. Therefore, one would be correct to make a statement that independence is in no way compromised by keeping the accounts compilation functions with the C&AG. On the contrary, C&AG Kaul sees a value addition in the present arrangement with the accounting function remaining with the C&AG. The present system ensures accuracy, objectivity and even better audit. The previous C&AGs namely, V.K. Shunglu and C.G. Somiah also had substantively similar views and in fact both of them made very significant contributions in timely compilation of accounts and making them more user friendly. The voucher level computerization (VLC) introduced by C&AG Shunglu made a tremendous difference in this regard, although it is true that the full potential of the system is yet to be achieved. The use by administration of

accounts compiled by Accountant General as administrative inputs is slow today but the reason perhaps lies in the deficiencies on both the sides. While the Audit Department can add value to the accounts compilation to make it of use to the administrator, the administrator also has to imbibe in him the habit of reading the accounts and making use of the information provided by accounts.

Bodies like World Bank etc. perceive continuance of accounting responsibilities with the C&AG along with his auditing responsibilities as conflict of interest. There is no such conflict as already expressed by successive C&AGs. The future scenario is difficult to predict but it could be said with some confidence that the recent efforts in upgrading the quality and timeliness of accounts have certainly made the state governments not too enthusiastic to go in for a takeover. Additional costs apart, such a move would not really benefit the cause.

Of the weaknesses, C&AG Kaul showed concern about a few. One was low productivity i.e. despite such a large turn over of voluminous audit reports, improvement in governance or systems and procedures is not taking place. Secondly, as already pointed out, he was concerned about the quality of the audit reports as well as impact of the audit reports findings. Thirdly, in his view, the external communication policy of the department needed to improve considerably especially the department's communication with external stake holders at the moment is very poor. He mentioned about his efforts to correct this position. (chapter 19 refers)

The weakening of transaction audit output over the past several years also attracted the C&AG's attention. Historically, many SAIs have gradually either reduced or completely moved away from regularity/transaction/compliance audit leaving it to internal audit within the Government. NAO, UK has moved towards performance audit or VFM. In India, from time to time, there has been a debate as to whether transaction audit should be given importance over performance audit. The debate in terms of transaction audit/performance audit is triggered more by the constraints of the audit staff operating in the two streams rather than importance or the utility of either of the two. A survey by the Hqrs. conducted on the instructions of C&AG across the various IA&AD offices in the country on the transaction audit showed a marked decline in the audit output relating to transaction audit.

The C&AG was the first to react strongly to such a situation and in various forums, he made it clear that transaction audit or

compliance audit is as important as the Performance audit. He is now keenly watching the outcome of his recent moves to enhance the transaction audit quality and output. Why is transaction audit so relevant for SAI India? The answer lies in many factors. First of all, given the administrative culture in the country, non-compliance and irregularities in transaction occurs all too frequently. Secondly, the internal audit mechanism within the Government, at least in many departments at the Centre and in practically all the departments of the states, is woefully weak. Its effectiveness is practically nothing. Thirdly, a very low accountability system is a contributory factor to non-compliance and non-responsiveness. Unless a strong internal control system operates in ministries/ departments, it would be a tall talk to forget transaction audit. If at all any reorientation to transaction audit is called for, it is to ensure that all significant transactions are covered in audit. This can be taken care of by a good system of risk assessment based auditing and scientific statistical sampling towards which definite improvements have taken place in the last four and five years in the time of C&AG Kaul.

Internal Challenges: What are challenges to Audit from within the system? The challenges within the system are also very formidable. The first and foremost in this context would be to have a look at the profile of the department and it would be very clear that the cutting edge level in audit team namely the auditor would probably not be able to foot the bill required of him in an atmosphere of sweeping challenges and fast changes mostly in line with the International Auditing Practices. The obvious choice here is either to raise the cutting edge level or to equip him with such qualifications and training that he becomes a contributor to the cause of audit. The big challenge is how to do this. The C&AG realizing this has made moves on two fronts: one, he has gradually upgraded a number of auditors post to sections officers or created new posts of section officers at the expense of auditors which is a very correct move; two, recently, the C&AG has approached Ministry of Personnel with fresh recruitment rules for direct recruitment to the post of auditors and section officers making B.Com or equivalent qualification essential for such recruitment. These steps would definitely have some impact on the quality of manpower especially if this is also supplemented by a more vigorous and fruitful training.

Another area concerned with the staff profile of the department relates to computer skills of the staff. The department realized this quite early. But the future challenge is to equip all the supervisory cadres beginning from section officer upwards with such computer skills that they are able to conduct IT audit in a computerized environment. This would call for a massive upgradation of IT skills. Fortunately, recognizing this, the C&AG set up an exclusive IT Audit Centre and after the setting up of this Centre, IT Audit output is on the upswing. Perhaps, it may be more advantageous if the head of IT Centre is exclusively for this work so that he devotes more time and attention to the IT development and training in IT skills.

A lead challenge is how successful the department is in disseminating and percolating down the new concepts and techniques in auditing that have been inducted and that differ so much from the traditional skills. This question of dissemination and percolation down will pose a significant challenge to the audit administration in the years to come.

The 18 years of history of the C&AG that has been narrated in various chapters in this book has been shaped above all by the incumbent C&AG's outlook, philosophy, perceptions and policies that were executed by the IA&AD and more specifically through the vast network of offices spread across the country with a workforce of over 50,000 persons. It would be fair to say that in shaping the policies in the Department, the C&AGs have naturally been influenced enormously by their implementing arm viz. the Audit Department. In many ways, the relationship between the C&AG and the Audit and Accounts Department, specially the audit service officers, is of very special nature. Now a days, unlike in the past, the designated C&AGs do not join as 'under study' and they only assume charge as C&AG. Therefore, at least in the beginning, the C&AGs have to depend heavily on in-house personnel and expertise for a proper briefing about functioning of the Department. The importance of C&AG's relationship with his Department is recognized by all the incumbent C&AGs. For example C&AG V.K Shunglu during an interview told the author that for taking important policy decisions in the department, he found the big forum called the AGs Conference most advantageous and he made extensive use of the deliberations in the AGs Conference for taking policy decisions on departmental working. He was also very generous in his praise for the weekly and monthly meetings with the senior officers and middle and junior level

officers. C&AG Kaul, during discussions with the author also acknowledged the contribution made by the department and particularly by the senior officers in shaping the policies of the department and in implementing them. He was equally effusive in his praise for the output from Accountants General Conference deliberations.

This unique relationship between the two has been a major factor in making the department resilient to measure up to the various challenges that it has faced from time to time. In the immediate post-Independence era, there were the challenges of acute depletion in the officers cadre, the emergence of strong public sector and the need for taking up audit of receipts and all these were met successfully by the incumbent C&AGs on the strength of the excellent cooperation and working of the IA&AD. Similarly when A.K. Roy introduced Performance Audit, the concept was operationalized by the ingenuity of the department's manpower. The momentous decision of computerizing the accounts from voucher level taken by C&AG V.K. Shunglu was also successful because of the efficient team work. The same goes for the developments made in receipt audit and IT audit. For IT Audit, the credit specially goes to the young bunch of officers who marshalled the IT audit techniques and have been able to produce good IT Audit output. With the present C&AG, demands on his officers were even more. He revamped the Performance Auditing system very comprehensively and the officers did not let him down. His efforts to introduce risk based audit approach has made steady progress and his attempts at aligning the Indian Auditing systems and practices with International systems and practices has taken off well.

(C) PERCEPTIONS ON AUDIT

An interesting question is how is Audit viewed by various stakeholders, including the Parliament and its Financial Committees viz PAC, COPU and Bureaucracy, amongst others. In other words what is their perception of Audit.

SAI's audit caters primarily for two entities, the Parliament or the State Legislatures through the PAC or COPU and secondly, the Government—ministries, departments, other public bodies, government companies etc. But eventually C&AG's Audit and his Reports are for public consumption, since the ultimate accountability of government, executive and public officials is to the people of the country.

Essentially, it is on behalf of Parliament that C&AG works to secure administrative accountability to Legislature. The Speakers of Parliament have always hailed Audit for its contribution to this cause. For example, present Speaker of Lok Sabha Shri Somnath Chatterjee speaking at a seminar stated that it was the collective responsibility of Parliament to ensure that office of the C&AG retained the independence and autonomy enjoined by the Constitution and the C&AG's (DPC) Act and that his authority and ambit would not be curtailed.

The C&AG is duty bound by Constitution to present his Audit Reports to the Parliament or the state legislatures where the relevant Financial Committees namely PAC or COPU deliberate on these, take evidence of the government officers where necessary and submit a report to Parliament containing their recommendations. These recommendations are considered by government and they submit an Action Taken Note on these recommendations which is also considered by the PAC/COPU. In majority of cases, the recommendations are accepted by government and where not accepted PAC can again ask the government to implement those recommendations. Some of these may get implemented in the second round. The perception of audit in the eyes of PAC/COPU has always been very high. Generally, Audit Reports and audit personnel who assist the PAC/COPU have the appreciation of the Chairman and members of PAC/COPU. The relationship between the two, as already explained elsewhere, is very close. Audit Reports therefore, come out with flying colours in the eyes of parliamentary committees.

The other major institution which often makes use of audit reports is the media, specially the print media. Media has largely acclaimed Audit Reports and it has perceived C&AG as a very important constitutional functionary who produces reports of great merit; on the other hand, the media has also commented about the ineffectiveness of audit to produce any visible impact on the governance system.

While the perception of the committees/commissions on the audit of specific areas may vary, it is relevant to say that C&AG's role in the audit of receipts has been highly acknowledged by the famous Tax Reforms Committee also known as Chelliah Committee (after the name of its Chairman Raja J. Chelliah). The Committee acknowledged that C&AG 'had played important role in ensuring accountability and helping the Tax Department identify lapses and mistakes which could be rectified as well as avoided in the future'.

In the field of Commercial Audit, however, J.J. Irani in his report has pleaded for virtual exit of C&AG from Audit of government companies. However, the perception of the noted economist Dr. Arjun Sengupta is somewhat different. Sengupta—in his report in 1984 had a word of praise for the role of audit in conducting performance audit which he thought was a very desirable field for it. However, in his report of 2005, he spoke in a somewhat different language casting some doubts about the C&AG's role in performance audit of government companies. Regarding supplementary audit of accounts of government companies, Sengupta has held consistently a reduced role for the C&AG.

There are very limited studies on perception of Audit by bureaucracy. While the perceptions about the usefulness of audit and its contributions to better governance differ amongst the various stakeholders specially the bureaucracy, all of them agree that audit as an institution must exist, it has a definite role to play in the accountability mechanism and it is a deterrent to abuse of authority and waste of money by public authorities.

A senior officer of the IA&AD² (at that time on deputation to the Government of India), conducted a kind of survey through a questionnaire issued to over 30 officers of sufficient seniority that included some secretaries to Government of India. The survey brought out many interesting features. The sample was quite representative in the sense that it included officers from railways, defence, civil services and scientific community.

According to author, while most of the responses were balanced which included good suggestions for improvement, some of the responses were skewed and this included one extreme response from a senior officer, whose single line response was 'audit department should be wound up'. Such rare skepticism apart, the response in the case of most of the respondents was a serious attempt to address the problem and offer practical solutions.

To the question on the impact of audit whether positive or otherwise in an organization, the maximum responses were that impact of audit was positive and it helped executive to keep the accounts and documents in shape. Incidentally, some opinions favoured audit function as part and parcel of departmental function (he was of course, making a case for internal audit system). The key emphasis in many cases was that audit impact is positive only when audit approach is not for fault finding but for system improvement. Regarding the question of quality of performance audit reviews, all the respondents were of the view that these

bring out many system failures. Of course, this was said along with many other suggestions, which included a suggestion that these performance audit reviews should not stray into minor, individual irregularities which bring down their value.

To the question whether audit instills fear and hence demoralizes the executives, most people accepted that it is partially true and all added that since audit takes a purely mechanical view on the application of rules and procedures, it makes people fearful to take positive decisions. However, many people also said that audit is used as an excuse for not taking decisions by those who would any way take no decisions.

On the question whether audit comments were frivolous and uninformed, most of the respondents did not agree that audit comments were frivolous. But regarding uninformed nature of comments, there was a divergence of opinion. Atleast one officer pointed out 'audit comments have ranged from sublime to ridiculous'.

On the question whether executive was indifferent to audit and did not care for it, the general reaction was that executives were not indifferent to audit, and that there could be ignorance but not indifference to audit. People who show indifference to audit, in the opinion of the respondents, were few.

Regarding the utility of audit reports most of the respondents wanted Audit Reports to be in time so that they could be of some use. The post audit factor is partly responsible for this because by the time audit observations come, the concerned officials had been transferred elsewhere. The one executing the project always knows that his successor would answer audit. The reverse point was that since audit report also covers systems and procedures, even a delayed audit report has a meaning.

To the question whether the audit was useful and necessary, all agreed except one who pointed out that audit was useful and necessary but had different reasons for the same. To the question what would happen to financial discipline if audit was abolished, the unanimous view was it would have serious consequences—some said it would be disastrous; and other views were that it would dilute the financial discipline, it would result in collapse of financial system and lead to financial anarchy. Even though system failures are there even with the existence of audit, absence of audit could lead to more and more irresponsible decisions in public expenditures.

Famous jurist and legal expert Fali S. Nariman has quoted S. Rangnathan, who was C&AG for six years (1966–1972) and had spent his career as an ICS officer in the Government in various position, as saying 'If the babus in the Auditor General's Office didn't stick to the book, this country would have become bankrupt soon after Independence'.³

Another source of executive perception on Audit was provided by the Agenda note for Audit Advisory Board which contained perceptions of authors extracted from a recent publication. These perceptions were reproduced verbatim in the Agenda note for the purpose of bringing these to the notice of the Advisory Board members and at the same time 'explore ways to allay the negative perceptions through various methods' which were indicated by way of illustration like improvement in the approach and method/procedure of audit; greater emphasis on the quality of financial statements, compliance and performance through audit; better audit output and reporting of results of audit, higher degree of professionalism among the officers and their staff and wide ranging and consistent dissemination of results and impact of audit. The Agenda note made it clear that these perceptions 'may neither reflect a balanced approach nor do they necessarily reflect objectivity and reality'. There could be widely diverse opinions on methodology, basis of perceptions and validity of conclusions most of which could be one sided and guided by the experience of the persons interviewed. The department still thought it fit 'to ponder over them' considering this as a good approach to develop the audit systems.

Some of the perceptions that were reproduced verbatim in the Agenda note for the Audit Advisory Board were:

- ❖ The C&AG focuses more on financial irregularities and less on outputs and outcomes.
- ❖ The accountability aspect remains relatively weak despite an elaborate system of finding faults and irregularities
- ❖ The performance appraisals fall short of management audit and do not indicate how management can be strengthened.
- ❖ The system is not fully equipped to meet the requirements of meaningful audit of activities/programmes of public expenditure in the newly emerging areas of science like nuclear energy, bio-technology etc., because of the complexities and technicalities involved.
- ❖ The audit reports need to be more timely to be of use to the executive.

- ❖ The excessive secrecy observed in audit procedures had made the working of the institution a black box and to that extent repugnant to the executive departments.
- ❖ The C&AG's comments on the accounts of Government companies could damage their over-all image.
- ❖ The auditors have failed to put before the public the work they do in a language easily comprehensible by the latter nor have they made any positive effort to tell the public about their activities.
- ❖ While the lack of adequate follow up action is a cause for concern, there is need for creation of a comprehensive mechanism within the C&AG's organization for the purpose. The remedy for the indifferent approach of the executive towards audit does not lie in the accumulation of legal powers in the hands of the authorities that have not used their existing powers as well as they should have.

Audit sometimes evokes extreme responses. Perhaps the responses have some linkage with the actual experience of the respondents or perceived threats from audit. There is no denying the fact that audit needs to improve its techniques and processes continuously. And yet there will always be some kind of hostility for audit because audit is mostly concerned with detecting irregularities, loopholes, wastages in spending, remissness, fraud and embezzlements and other irregularities. Nobody is more conscious of the need for improvement in audit approach as well as audit systems than the incumbent C&AGs. In the previous pages of the chapter, the C&AGs have been candid enough to express their views on such shortcomings in audit and the need to improve the matters. The highest tribute to audit was given by the C&AG V.N. Kaul when he said that the greatest strength of the audit department was its self awareness and the capacity to analyze its weaknesses and strengths. It is not for nothing that it is a self regulating body.

(D) NEW DEVELOPMENTS

Amongst latest developments, the following will be worth recalling in this chapter:

Gap Analysis: The World Bank acting country director addressed Government of India with a copy to the C&AG where he expressed Bank's intention to undertake an analysis of gap between the

National Accounting and Auditing Standards and the International Accounting and Auditing Standards. The World Bank had carried out such studies in Bangladesh and Sri-Lanka and was intending to conduct these studies in other South Asian countries of the region namely India, Nepal, Bhutan , Maldives and Afghanistan. In Pakistan, a financial reporting and audit improvement project was already under way.

After receiving this reference from the Department of Economic Affairs, Ministry of Finance which desired the C&AG's comments on the proposal of the World Bank, the C&AG discussed with the senior officers of the department on this matter and decided (February 2006) that it was not an opportune time for any external analysis in view of several developments on the same theme that had recently happened or were happening. These included peer review by National Audit Office, UK, issue of new performance auditing guidelines, aligning the audit methodology of IA&AD to international best practices, strengthening the regularity (attest) audit by training the department's officers at the NAO, UK, establishment of Government Accounting Standards Advisory Board (GASAB), etc. Further, it was thought that the Department being in a state of intense flux due to large number of initiatives that had been undertaken or were at the threshold of being launched, officers and staff would have little scope to respond to the questionnaires and interviews with any external team.

The C&AG, however, decided to undertake a detailed internal gap analysis to determine all areas needing reforms and strengthening along with detailed action plan. The object was to prepare a strategy for turn around of the IAAD over the next three years period 'into a true world-class organization comparable to the best'. The strategy to be adopted for this was that 'standards' should be the ultimate goal and 'capacity building' should follow the standards rather than compromising with the standards due to capacity limitation. Issues of capacity gaps can be addressed appropriately later. An internal gap analysis was accordingly carried out by a director level officer under the direction of DG (Audit). The report of the task force has since been submitted and is under internal scrutiny.

C&AG and Administrative Reforms Commission: The C&AG met the Administrative Reforms Commission in June 2007 on the subject of local bodies audit and subsequently, at the request of the Commission, he also sent a note on improving financial

management in the Government. The aspects which C&AG covered in his note, however, related to specific areas of financial management with which he is concerned namely accounts, audit and internal control. These three, according to the C&AG deserved attention of the Administrative Reforms Commission.

Briefly, the C&AG touched upon the following themes:

(i) *Introduction of Resource Accounting and Budgeting*: C&AG's emphasis was that while a roadmap and an operational plan for the transition from cash based accounting to accrual based accounting had already been suggested to Government of India by the C&AG after consideration of the matter in the GASAB, Government has to ensure the transition in a time bound manner. Further, along with this, Government of India should consider a full fledged resource accounting and budgeting programme in which the accrual accounting initiative should be the first phase of review and resource or accrual budgeting the final objective. In fact, the C&AG had addressed on similar lines to the Finance Minister earlier. He enclosed a detailed note on the subject for consideration of the Administrative Reforms Commission.

(ii) *Development of Internal Control Framework for the Government of India*: The C&AG was concerned about the weak internal control system in ministries/ departments of Government of India which was a major reason for poor financial accountability. He advocated that there was a need to clearly define internal control as a tool for providing reasonable assurance that management objectives were being achieved. And in that context, he requested ARC to consider if a comprehensive framework for establishing and maintaining internal control in Government of India should be developed for achieving the objectives of (i) improving the effectiveness of Government operations and (ii) the reliability of financial reporting and (iii) compliance with applicable laws, regulations and orders. He also emphasized in this context that internal control involved an assessment of the risks that a Government agency faces which called for development of risk management skills in Government agencies. He offered to the Government that if they so desired, the development of standards both for internal control and internal audit could be entrusted to the C&AG.

He also highlighted the need for immediate action on certain issues specially fixing of direct and clear responsibility for internal

control on Chief Accounting Authorities i.e. secretaries to government of India.

Another development of significance is the acceptance by the Core Group under the chairmanship of Cabinet Secretary of the need for prompt investigation of audit paras and concurrent evaluation of projects. This was in pursuance of the recommendations of Administrative Reforms Commission which inter-alia stated that:

- ❖ It should be prescribed that as soon as any major irregularity is detected or suspected by the audit team, it should be immediately taken note of by Government. A suitable mechanism for this may be put in place. It shall be the responsibility of the head of the office to enquire into any such irregularity and initiate action.
- ❖ Each office should make an annual public statement regarding pending audit queries.

This was communicated to the C&AG in October 2007. Ministry of Finance, Department of Expenditure stated that they had issued instructions on ARC's recommendations in September 2007. The C&AG felt that further detailed instructions were necessary. While enclosing draft supplementary instructions for issue to ministries as well as to state governments, C&AG requested Secretary, Ministry of Finance, Department of Expenditure to consider the draft for issue. The draft brought out the procedure to be followed by Audit as well as concerned head of department and Secretary to the Government giving time frames for actions to be taken when a major irregularity is detected in audit. Enhancing of capabilities for internal control and internal audit so that concurrent evaluations of projects/programmes can be undertaken by internal audit in an effective manner was also suggested by C&AG.

Audit of Oversight in Government of India: Based on the C&AG's meeting with the Prime Minister in June 2007 where the question of bringing out a Report on Oversight in Government of India was, *interalia*, discussed, the C&AG decided to carry out an audit of Internal Oversight by ministries of Government of India. To begin with, three pilot studies were conducted by the three Principal Audit Officers dealing with civil ministries of Union Government namely DGACR, PDA (ESM) and PDA (SD). Since this was a completely new concept in the context of Indian auditing system, adequate attention was given to framing of initial guidelines for

this audit. After going through the guidelines prepared by the above mentioned three audit offices for such audit, the Headquarters issued further directions to them to follow a 'uniform broad framework' based on the structure suggested by the C&AG. This structure covered four broad areas namely:-

- (i) accountability and financial management,
- (ii) appropriation and budgetary controls,
- (iii) sufficiency and effectiveness of internal controls and,
- (iv) monitoring of outcomes of major programmes and schemes.

The three audit officers were asked to develop a 'common generic framework' to conduct the audit which could be uniformly applied to various ministries for evaluation of their oversight systems.

The Headquarters also deliberated on the extent and nature of checks in this audit to distinguish this audit from the normal compliance and performance audits. Towards that end, it was desired that scope of audit examination was to be restricted to oversight related issues only and as regards extent of test, it was decided that this should cover:

- (i) existence of oversight mechanism
- (ii) sufficiency of such system
- (iii) its reliability and effectiveness in achieving the desired objectives.

The detailed guidelines prepared by the Headquarters based on the material received from the field offices were approved by the C&AG in September 2007. It was noted that since oversight audit would also involve an evaluation of internal controls, this would mean an element of duplication because evaluation of internal controls was already a part of standing annual audit in one or two selected ministries for featuring in the C&AG's Audit Report. The C&AG, therefore, directed that this material should be suitably integrated in the oversight report itself.

The C&AG also decided that as is the system, the output on oversight audit would be included in the C&AG's Audit Report and go to Parliament and PAC as per the existing practice, with the only exception of where internal and external public security demanded the reports' presentation to Government alone.

The Audit of Internal Oversight System in ministries and departments of the government will be a unique addition to the

audit literature and looking to the structure of this report, it is clear that it would provide a formalized arrangement whereby C&AG, on the basis of his evaluation, can express an opinion on the discharge of accountability for financial management and oversight by the senior functionaries of the Government including secretaries to the government.

Near Real Time Audit: Honourable President Dr. A.P.J. Abdul Kalam during his address to the Audit Advisory Board on 2 April, 2007 discussed 'his vision of an on-line, non intrusive e-audit that responded in near real time'. He wanted the Advisory Board to examine this system and make suggestions so as to help improved performance and ensure accountability of Government. The suggestions made by the honourable President was deliberated by the Audit Advisory Board, and subsequently the C&AG reviewed the possibility of introducing such audit after consulting the field offices and some other outside organizations. It became clear from these consultations and review that such possibility of near real time audits and e-Audits is dependent very much on the extent of computerization of the activities of the auditee organizations. Also, audit must have access to information systems of the auditee organization in such situations. This was not a problem because such an access would normally be available, if necessary after discussion with the concerned auditee organization. It was also noted that in effect near real time audit was already being conducted in respect of a number of programmes/schemes of the government like National Rural Employment Guarantee Scheme, Sarva Siksha Abhiyan etc. On the basis of these responses and inhouse discussions, the C&AG decided to commission two field offices namely PDAESM and DGADS, who had expressed their willingness to conduct such real time audit. The outcome of these studies would be keenly awaited.

Even though audit is mostly post-facto, in the case of programmes of long standing tenure and projects with long gestation period, audit intervention does take place during the operation of the programme or project. These can quite often be mid-term appraisals. This practice has been in vogue for a long time and as a result authorities are able to, if they wish, carry out course corrections in the light of audit findings. Such course corrections were recently witnessed in the case of C&AG's performance audit of Golden Quadrilateral Project executed by NHAI which was carried out while it was still in the fourth year

of its operation. As a result of audit findings, several improvements in systems, procedures and programmes were brought about including the system of contracting and evaluation of bids.

However, it can be visualized that in future with more and more computerization of Government departments and introduction of e-governance systems, it may be feasible to have near real time audit or probably soon after the projects are launched thereby affording opportunity to the auditees a better use of audit output.

Appointment of C&AG V.N. Kaul as a member of the Independent Audit Advisory Committee: The General Assembly of the United Nations appointed C&AG V.N. Kaul as a member of the Independent Audit Advisory Committee comprising five members for a three years term of office beginning 1 January 2008. This Committee has just been set up and this is the first appointment to the Committee. The Committee is a subsidiary body of the General Assembly and serves in an expert advisory capacity and assists the Assembly in fulfilling its oversight responsibility. Essentially, this Committee has the objective of strengthening the Internal Oversight Services. Amongst its various functions are (a) advising the General Assembly on the scope, results and effectiveness of audit as well as other oversight functions; and (b) advising the Assembly on measures to ensure the compliance of management with audit and other oversight recommendations. The Committee's responsibilities, in addition, extend to internal oversight, management of risk and internal controls, financial reporting and other areas.

The election of C&AG V.N. Kaul to this Committee is a singular honour to him personally and also a tribute to the SAI India which he heads. Amongst the experience, qualification, etc. for the members, it is specifically notified that the members of the Committee shall reflect the highest level of integrity and shall not hold any position or engage in any activity that could impair their independence from the Secretariat or from companies that maintain a business relationship with the United Nations, in fact or perceptual.

The appointment of C&AG Kaul to this position reflects his standing in the international organizations of which United Nations is the apex institution.

NOTES: CHAPTER-22

¹ C&AG D.O. No. 234 Audit (Rules)/19-2006 dated October 12, 2007 to Secretary, Department of Expenditure, Ministry of Finance

² R. Ramanathan

³Fali S. Nariman, 'A question of the right balance of the Executive, the Legislature and the Judiciary'—The Hindu dated 15 August, 2007.