

XXVI ACCOUNTANTS GENERAL CONFERENCE

Theme paper on “Restructuring and – the way forward”

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PREFACE

The rationale for restructuring of audit functions is based on the need for achievement of (i) sectoral integration; (ii) vertical integration – Chief Controlling Officer based audit of Ministry/Department encompassing audit of units including Autonomous Bodies, Public Sector Undertakings under each identified Ministry; (iii) minimal reporting lines in Headquarters; and (iv) segregation of responsibilities of audit of Central Government Departments/ establishments/units from audit of State Governments and their units.

This is expected to impart a holistic integrated perspective to our audits, through integration of audits of government offices, special purpose agencies, local bodies, parallel bodies, autonomous bodies, public sector undertakings etc., further into suitable sectoral audits, such as ‘social’, ‘economic’, ‘general’ and ‘revenue’ sectors.

Restructuring of audit arrangements is expected to confer multiple potential advantages, such as (i) providing an opportunity to position CAG’s annual report on State finances as the CAG’s report –primus for a State; (ii) shifting from traditional ‘civil’, ‘works’, ‘commercial’, autonomous bodies’ audits to integrated sectoral audits; (iii) providing uniform and effective monitoring and coordination through a single window for all audit activity relating to a State with a single controlling wing at Headquarters under one ADAI; (iv) enabling Audit Reports to present a sectoral/departmental approach which would contain both compliance as well as performance audit findings; and (v) increasing the scope for the AsG to innovate with audit products.

This paper essentially aims at identifying relevant areas and issues to ensure smooth transition to the new dispensation and challenges in taking the concept forward effectively so as to achieve the expected potential, early and regularly, with optimal efforts. Accordingly, the paper is arranged in four parts dealing with (i) pre-restructuring arrangements; (ii) Restructuring – *purpose and objectives*; (iii) Impact on audit planning, execution and reporting results and (iv) likely challenges and – *the way forward*. The impact of this restructuring on Central Government audit is being noticed as audit products have already started flowing. Restructuring has greater significance as far as State audits are concerned. Hence, more emphasis has been given on the issues relating to state audit offices.

I am indebted to Shri B B Pandit, DAI (Defence, Rlys and Communication), mentor of the team writing this paper for providing invaluable guidance and suggestions which have been incorporated at relevant places of this paper. Besides, inputs received from co-opted members of the team that attempted this paper, namely Shri L V Sudhir Kumar, DGA (Central), Kolkata; Shri K R Sriram, PAG (E&RS Audit), Andhra Pradesh; Shri Amar Patnaik, AG (G&SS Audit), Odisha and the valuable help rendered by Ms Gurveen Sidhu, PD (SMU) are gratefully acknowledged. Last, but not the least, Shri S N Biswas, AAO in my office has ably assisted me in preparation of this paper.

Part – I: Pre-restructuring arrangements

1.1 Prior to restructuring, the planning, supervision and audit of functions, programmes and activities of Government of India and State Governments at Headquarters and field audit offices were organized on functional lines as well as the nature of audited entities. Four DAIs¹ planned, coordinated and supervised the audit of Central Ministries, Central Public Sector Undertakings (PSU) and Local Bodies in respective functional areas. Autonomous bodies (AB) functioning under the Central Ministries/ Departments were audited by the respective State PASG/AsG, and the Audit Reports were processed at Headquarters by a separate wing under ADAI (C&AB). Further, the DAIs planned and coordinated the All India performance audits of centrally sponsored schemes and other subjects with State AsG, keeping the concerned ADAI in the loop.

Position prior to restructuring – audit arrangements organized on functional lines/types of audited entities.

1.2 Coming to the audit offices in States, these reported to ADAI (Report States) for the purposes of reports on State Finances and Civil Departments while for the Report on State Receipts these reported to DAI (RA), for report on State (Commercial) to ADAI (Commercial States and Autonomous Bodies) and for matters relating to local bodies these reported to the DAI (LB). Besides, State AsG conducted Central Receipt Audits and all India performance audits/audit of Central Expenditure units {except West Bengal and Maharashtra, where there are separate DG/PDs (Central)} reporting to DAI (RA) and (RC) respectively. Separate annual audit plans were prepared by the State AsG and submitted at different dates to the concerned functional wings at Headquarters. This often led to avoidable mid-term modifications in already approved audit plans impacting on the quality and coverage in audit.

Multiple reporting lines for field offices at Headquarters.

1.3 The arrangements while encouraging functional specialization and competence at Headquarters and field offices, suffered, with rare exceptions, from the disadvantages of functionally specialized field offices working in silos and multiple reporting lines between field offices and Headquarters. This was not conducive to presentation of a

The arrangement while encouraging functional specialization/ competence, suffered from multiple disadvantages.

¹ (i) Commercial (C), (ii) Report Central (RC), (iii) LB, Accounts (LB&A) and Railways and (iv) Revenue Audit (RA).

departmental/ sectoral perspective or achieve integration of audit efforts with the instruments of implementation of public policy, especially at the State level. This also carried the risk of differences in audit approach and increased chances of significant audit areas being not audited for want of awareness of importance of sectoral approach in the same State. Besides, there were instances of overlapping of data/information contained in various Audit Reports such as Report on State Finances and other Audit Reports on Civil, Commercial and State Revenue Receipts.

1.4 An institutionalised and well laid out mechanism for achieving integration of audit efforts with commensurate improvement and utility of results of audit thus, became essential.

2.1 Perspective Plan, 2010-15, of IA&AD set out the goal of ‘**Integration of audit efforts**’. The road map to achieve the same *inter-alia* stated “*Restructure the organisational set up of the Department by December 2010 on the basis of Ministry/Department rather than on the type of entity, to ensure integration of audit efforts and presentation of a sector based perspective to the Government*” (para 2.3 of perspective plan). The Strategic Plan 2020 of IA&AD dealt, in detail, with the restructuring at the level of the Central Government.

The goals set in the Perspective Plan 2010-15, Strategic Plan 2020 and recommendations of the Task Forces especially constituted for the purpose were examined in Headquarters and culminated into the restructuring of audit arrangements of Central as well as State Governments with effect from April 2012.

2.2 Two Task Forces were constituted in order to chalk out the road map for implementation of restructuring of audit arrangements in the Department which have submitted their recommendations in November-December 2011. The Strategic

Plan also proposed creation of few new offices of Principal Directors of Audit to deal more effectively with audit of Central Government and its offices/units in States. The goals set in the Perspective Plan 2010-15, Strategic Plan 2020 and recommendations of the Task Forces especially constituted for the purpose were examined in Headquarters. This culminated in the restructuring of audit arrangements of Central as well as State Governments with effect from April 2012.

2.3 Sectoral grouping of audit arrangements in the Centre as well as the States, while adopting a nuanced and flexible approach in grouping departments/directorates under different sectoral profiles was also endorsed by the XXV AsG Conference (2010) to carry the benefit of providing a much needed sectoral perspective to our audit effort and products on the lines of planning, budgeting and monitoring followed by Governments. These changes in the audit arrangements, when fully effected, were envisaged to enable projection of a holistic picture of Sectors’/Departments’ functioning through our Audit Reports. Placing the entire audit jurisdiction of a Department alongwith its PSUs and ABs with single AG was expected to extend the opportunity of identifying audit subjects and products more purposefully at the audit planning stage itself by the field audit offices.

Carry the benefits of providing a much needed Sectoral perspective to our audit efforts and products...

2.4 Restructuring of audit functions provides a welcome opportunity to position CAG’s annual report on State Finances as the CAG’s report-primus for a State to cover all aspects of State Finances comprehensively; such as, resources and application of funds, management of cash flow, debt, deficit, subsidies, guarantees, financial performance indicators of state PSUs etc. Observations on significant fiscal aggregates and fiscal indicators made in CAG’s report on State Finances would become possible to be linked to relevant findings of compliance and performance audits in other (sectoral) Audit Reports. This would eliminate the need for including micro level data in other Audit Reports. In other sector-specific Audit Reports, macro level financial details relating to that sector would only be provided as introductory chapter, avoiding as far as possible repetition of figures already given in the revamped and refined report on State Finances.

CAG’s report on State Finances to be the Report-primus for a State to cover all aspects of State Finances

2.5 The switch from the traditional approach of ‘civil’, ‘works’, ‘commercial’, ‘autonomous bodies’ audits to sectoral audits would enable better planning of three main audits, viz. Financial, Compliance and Performance audits. This would also

Restructuring of audit arrangements in line with sectoral approach would have multiple benefits.

take us closer to implementation of International Standards of Supreme Audit Institutions (ISSAIs) in planning, execution and report of our work. In turn, it would enable our State audit offices to deal more effectively with changes in the traditional DDO based public expenditure set up in States towards DDO/autonomous bodies/public sector undertakings/local bodies by adopting domain oriented sectorally integrated audit approach through various models such as CCO-based audit which is a vertically integrated audit. While CCO based audit is essentially aimed at focusing on the financial, compliance and performance parameters across the units in a “top to bottom” approach in a Department/theme; orientation of District-based audit is essentially towards providing a horizontal view of co-ordination and implementation of welfare-developmental programmes encompassing a number of sectors and their overall impact on various human development economic indices. These approaches are expected to be based on and also ensure (i) more effective audit risk analysis and planning; (ii) optimizing utilization of scarce audit resources; (iii) generate better and more complete audit products; (iv) improved qualitative accountability of our audit arrangements and (v) increased scope of innovation with audit outputs to bring out more topical and relevant Audit Reports by the AsG.

2.6 Last but not the least has been the problem of multiple and cross reporting at Headquarters for State audit offices. In order to address this and to ensure preparation and execution of audit plans and reporting the findings more effectively through a single window system at Headquarters, all audit activities pertaining exclusively to the functions/units of Government of India have been grouped together to report to DAIs while all State level audit functions are to be reported to ADAI with regional controlling and supervisory responsibilities.

Preparation and execution of audit programmes and reporting of the findings thereof more effectively through a single window system at Headquarters.

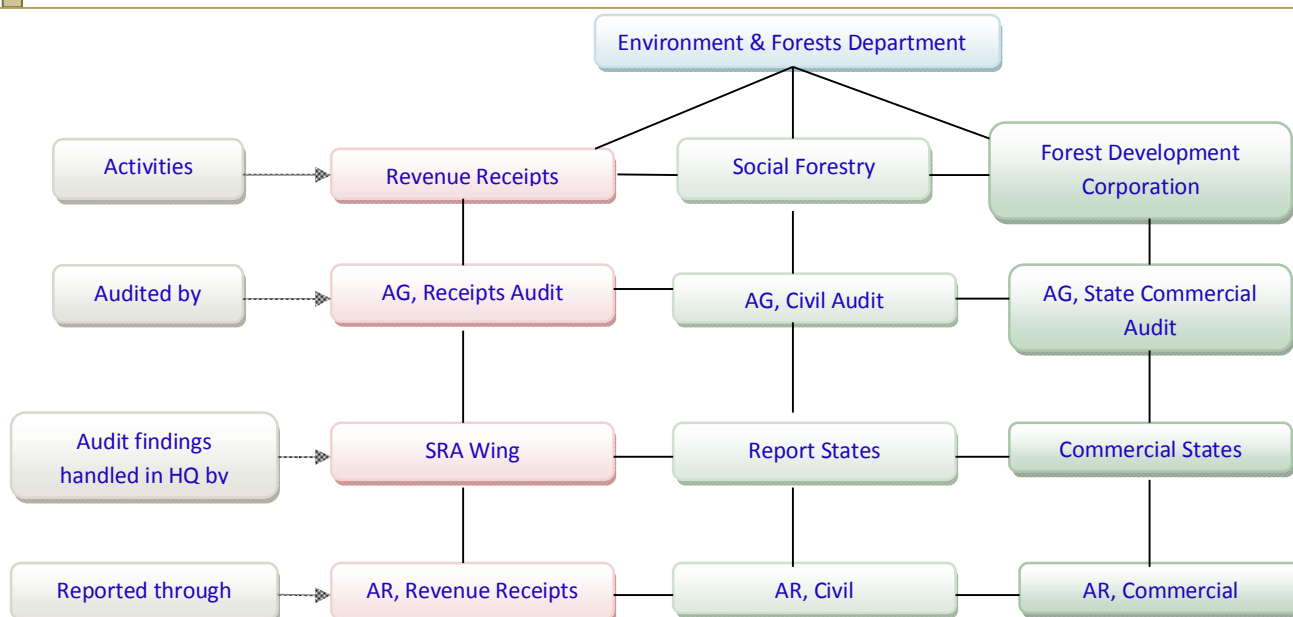
Part – III : Impact on Audit planning, execution and reporting results

3.1 Prior to restructuring, audit arrangements were allocated to the AsG based on the functions of the audited entity. Thus, various functions of a Department like expenditure, revenue receipts and commercial activities of a single Department were audited by different AsG in the same State. For instance, revenue receipts,

In the erstwhile system, audit arrangements were delegated to the AsG based on functioning of the audited entity. This resulted in inconsistency in audit planning, execution and reporting the results of audit.

social forestry and Forest Development Corporations are three distinct activities/entities of the Environment and Forest Departments in the States across the country. These were audited differently by different AsG in bigger States. In relatively smaller States, these audit jurisdictions rested with different wings in the AG offices. Similar is the case of Transport Department where

the Department has a revenue function as well as Transport Corporations each under the jurisdiction of different AsG. These had the handicap of bringing inconsistency in audit planning, execution and more importantly divergence in reporting periods particularly in the area of performance audits. Besides, critical decisions involving the PSU (e.g. MOUs/JVs with third parties, award of high value contracts etc.) are often decided by the Department/Government Committees/Council of Ministers. It is necessary to trace the decision-making process at all levels, to conclude whether or not the process was fair and transparent, and not restrict coverage only to potential irregularities by the PSU Management or to losses suffered by the PSU. There are also instances when separate performance audits of Corporations and revenue/receipt functions of the same Department have simultaneously been conducted and results had featured in two separate Audit Reports. Thus, though performance audits of two major functions of a Department were being conducted during the same time, there was little or no coordination among the AsG offices on the one hand and respective functional Wings at Headquarters finalising these Reports. This is depicted in the block diagram below:



3.2 Risk assessment, pre-restructuring, was largely dependent on the expenditure/revenue profile, topicality, past experience, news paper clippings, flow of major objections and so on. While selecting units for transaction audits particularly in audit plan, there was little or no linkage with the sectoral financing followed by the Governments in planning, budgeting and monitoring. This was possible only to a limited extent in identifying topics or subject for performance audit; but here also schemes, sub-schemes in State budget documents only were selected often, ignoring the more holistic sector based integrated approach.

Risk assessment parameters

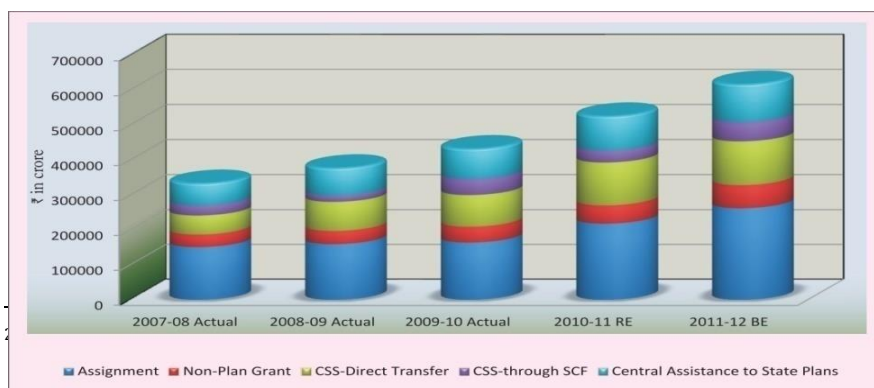
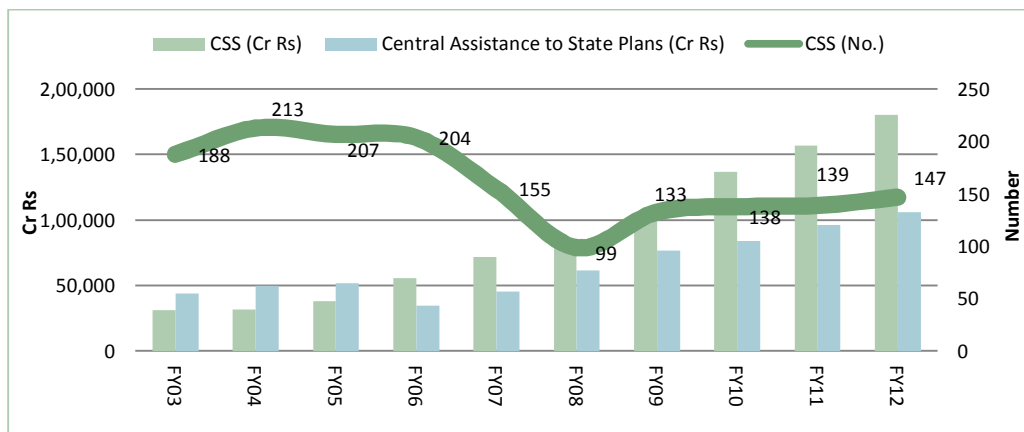
3.3 Integrated audit of the Departments and Sectors as a whole would now enable us to plan our audit better taking into consideration the macro picture of finances, functioning and objectives of the Department/Sectors and selecting sector specific subjects for performance audits and the units for transaction/ compliance audit accordingly by using acceptable statistical sampling methodologies based on risk analysis. The results of audit would be, thus, directly aligned with the sectoral approach followed by the Governments and would provide indicators to stakeholders to evaluate the performance of that sector during a given period.

3.4 Similar is the position in case of funds allocated by the Centre/States to Social Sector Schemes which are routed through the district authorities, local bodies etc. While audit jurisdiction of the district authorities was with the civil audit offices, audit of local bodies was conducted by separate offices of AsG/AsG especially created for this purpose. Results of audit did not always cover, at one place, the allocation, distribution and utilization of funds as a whole upto the beneficiary or grass root level. Consequently, a holistic position of the performance and delivery of the funds allocated through Social Sector Schemes was not always possible to be presented in a single comprehensive report. As all activities of a particular Department have been brought under a single AG now², it would enable adoption of an integrated approach in planning and execution of audit and reporting the audit findings on the entire gamut of functions of the Departments in the State.

This deprived us of the benefit of auditing the allocation, distribution and utilization of funds as a whole upto the beneficiary/grass root level.

3.5 In the above context, a case in point is the analysis of flow of funds in respect of National flagship schemes and their audit presented during the workshop of audit plan of State audit offices in January 2012 held at Headquarters by Shri Niranjant Pant, then ADAI (Report States). In his presentation Shri Pant has analysed the fund flow from Centre to State through various schemes during 2003-12, some of which are shown below.

Central Assistance to State Plans Vs CSS



XI Plan assignments and Transfers to States

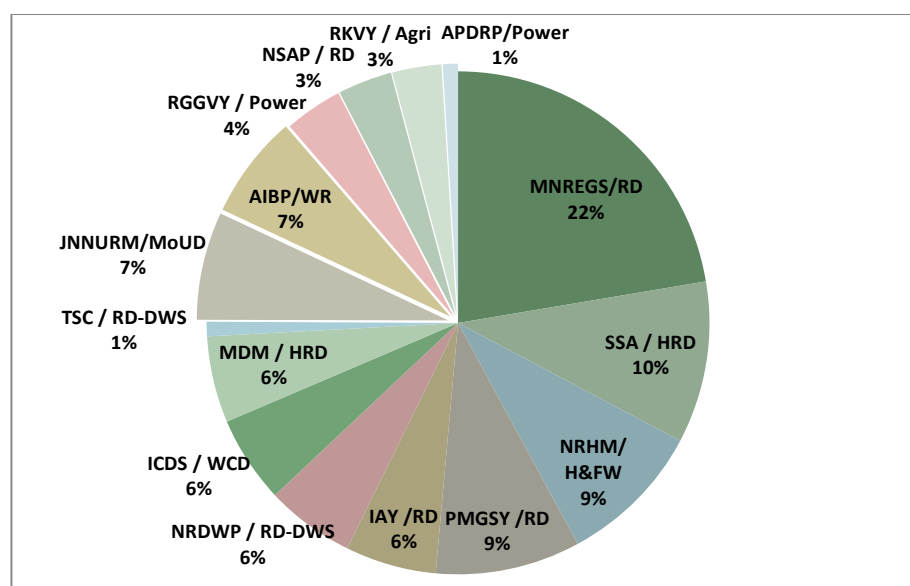
Nine flagship schemes

Programme	Ministry	Budget estimates 2007-08 to 2011-12 (₹ in crore)
MGNREGA	Rural Development	156179.27
SSA	School Education & Literacy	72760.22
NRHM	Health & Family Welfare	65261.01
PMGSY	Rural Development	65001.90
IAY	Rural Development	41030.24
NRDWP	Drinking Water Supply	39777.97
ICDS	Women & Child Development	38980.47
MDM	School Education & Literacy	38914.44
TSC	Drinking Water Supply	6560.47

Six ACA schemes

Programme	Ministry	Budget estimates 2007-08 to 2011-12 (₹ in crore)
JNNURM	Urban Development	48484.82
AIBP	Water Resources	46621.98
RGVY	Power	25913.45
NSAP	Rural Development	24322.85
RKVY	Agriculture & Cooperation	22167.03
APDRP	Power	6725.72

The pie-chart below shows the percentage of funds allocated to 15 flagship schemes



3.6 We need to install a mechanism for collection of data from all possible sources on the above lines and undertake suitably devised State specific exercise so that the larger picture of the finances and funding including direct transfers from Central Government to the State could be considered. This would be in addition to other established parameters including subjects/issues having State specific importance and interest, flow of resources into or through non-public channels etc., at the audit planning stage. This would enable us to comprehensively analyse and understand the fund flow in various sectors/schemes keeping an eye on the State specific issues/subjects and identify the programmes/operations, implementing agencies involved ultimately helping us ‘zero in’ to the topic/area to be selected for

audit during the year in the State. It is essential, however, to ensure that huge fiscal resource transfer from Union is not allowed to skew audit scope in regard to State specific issues/subjects.

3.7 One of the essential principles of restructuring is vertical integration of audit approach, an example of which is CCO based audit. To ensure integration of audit efforts and presentation of a sector based perspective to the stakeholders/ Government through our Audit Reports, a complete shift towards CCO based Audit as an alternative to the traditional Transaction Audit would be essential. A department within a particular sector would then get completely covered and a holistic picture would emerge as to how the department has contributed to the sectoral performance.

Shift in focus of Audit

3.8 As we have introduced ‘district centric audit’ only recently which is more focused on horizontal integration, encompassing functions/activities across sectors in a particular district, this would need to continue as this allows the stake holders to have an overall perspective of the functioning of the district administration.

3.9 Traditional nomenclature of the audit wings in field offices namely ‘civil’, ‘works’, ‘autonomous’ audits has since been changed according to the Sectoral requirement into Social, Economic, General and Revenue Sectors. It was envisaged that based on the audit plans of the field offices, a National Audit Plan would be prepared to consolidate the audit efforts – sector-wise. Within the sectoral audit domains, specialization cutting across such domains must revolve around financial attest audit, compliance audit and performance audit. One set of knowledge/skills is not a substitute for the other. Audit plans for 2012-13 of the audit offices have since been re-worked accordingly as envisaged in the restructuring plan. Audit outputs expected from the re-structured audit efforts on the basis of sectoral approach, have largely been incorporated in the respective audit plans. However, the existing bottoms up approach is responsible for diffused focus of and time difference in audit. We need to move away from bottoms up approach to one that is based on up and down communication based on an overall strategic audit plan that integrates ground level issues with a higher level perspective.

This has benefitted the audit offices to lay down a pre-determined and well crafted plan of audit.

3.10 The functional wings at Headquarters designed in the erstwhile set up namely Report (States), Report (Commercial), State Receipts Audit, Report (AB) etc have also been regrouped under ADAIs having regional jurisdictions. In the new set up, the ADAIs, DsG/PDs and the pool of officers under them are responsible, region-wise, for controlling, supervising and vetting all audit activities and ancillary functions in the State offices assigned. This has the added advantage of reducing multiple reporting lines for the field offices at Headquarters, besides achieving uniformity in audit approach and increased audit materiality besides improving upon the relevance and topicality of audit outputs generated.

The ADAIs, DsG/PDs and the pool of officers under them are responsible for supervising and vetting all audit activities and ancillary functions in the States assigned to them.

3.11 The organizational structure for audit of Government of India departments/ entities has been, aligned to cover all the audit units under each Ministry/Department through a single Audit office. It was earlier based on the nature of audited entity (Government office, PSU, Autonomous Body etc). Thus, a Central Ministry as well as the PSUs and Autonomous Bodies under it would be audited by a single Audit office (or group of offices) and the audits would be controlled/supervised/monitored by a single DAI at Headquarters. The existing boundaries of Civil, Defence, Railways, Commercial, Autonomous Bodies have been removed.

Ministry as well as the PSUs and ABs under it will be audited together by a single office (or group of offices).

3.12 Accordingly, the charges of DAIs in Headquarters have been restructured on sectoral basis and renamed as (i) DAI (Commercial) and Chairman Audit Board – (Economic and Infrastructure Sectors), (ii) DAI, Report Central and Local Bodies – (Social & General Services and Local Bodies), (iii) DAI Defence and Railways – (Defence, Railways and Communication & IT Sectors) and DAI, Central Receipts Audit and Accounts – Central Receipts and Accounts.

The charges of DAIs in Headquarters have been restructured on sectoral basis

3.13 Audit jurisdiction of Central Government offices in comparatively smaller States, wherever separate DsG/PDs were not existent, was hitherto assigned to the State AsG. Similar to the restructuring of jurisdiction of DAIs at Headquarters and for better coordination of audit of central receipts and units of Government of India and to enable the State AsG to concentrate on State specific subjects, audit jurisdiction of Central Government offices in such States has been detached from the State AsG and now allocated to the DsG/PDs with jurisdiction over audit of Central

Government offices in States exclusively. The State AsG are thus, now responsible for audit of State Government entities, only. Transferring audit jurisdiction of Central Government offices, especially those dealing with ‘receipts’, ‘commercial’ and ‘autonomous bodies’ activities, to the identified/dedicated principal audit offices (DsG/PDs) would enhance the scope, attention and penetration in audit as the latter would develop on the existing expertise and capacities.

3.14 Barring a few exceptions, State AsG who were given the responsibility of auditing the Central Government offices were unable or sometimes unwilling to provide required guidance, leadership and manpower in the pre-restructured arrangement. Now that these audits would be exclusively handled by DsG/PDs dealing with audit of Central Government Offices coupled with the reinforcement of such audits in Delhi, Mumbai and Kolkata, in particular, would only lead to the much required enhancement in the quality and coverage of audit of Direct and Indirect Taxes. However, as expertise in these specialized subjects is not easy to acquire and this is related to aptitude of audit personnel as well, we would need to devise a focused and professional approach in strengthening our domain knowledge possibly by having suitably devised training programmes and workshops with respective National level academies (DT/INDT) as well as their RTIs across the country. Similarly, State AsG would also have to take necessary steps to professionalise audits of State Governments.

Part – IV : Likely Challenges and – the Way Forward

4.1 The scheme of restructuring of audit, especially in the State (field) audit offices would involve a change in approach in all significant stages of audit. Risk assessment, audit planning, execution of audit, coverage and reporting the results of audit, nature and content of audit products and the role of Committees of Legislature – are all impacted in the arrangement. This impact would vary at various levels, such as Headquarters, Multi-AG State offices, single AG State offices and even offices conducting audit of Central Government Commercial Undertakings to some extent. It is, perhaps, for this reason that the Task Force that was constituted on the subject have recommended a measured and cautious approach through ‘pilots’ or a ‘limited roll out plan’. Though this would have been an ideal approach, it is often the case that such endeavours have a tendency to get bogged down in real/presumed or imaginary issues (which could even take the shape of hurdles) besides consuming inordinately long time to be sorted out. The issues would need to be viewed as challenges which are mostly of the nature that would yield to solutions even during implementation. Action Plan for implementation need not or cannot be standardized or put in a tight compartment and wait inordinately for the success of ‘pilots’. We have no time to lose in the attempt especially as the principle has already been approved both in the Perspective and Strategic Plans. Possible implications of the implementation process at all levels would need to be identified not only for designing appropriate solutions but to avoid getting caught by surprise. Optimum level of flexibility to field audit offices would allay the not unlikely perception in some quarters that operationalisation of the scheme would be fraught with problems or difficulties.

Though ‘pilot’ or ‘limited roll out plan’ would have been an ideal approach, it is often the case that such endeavours have a tendency to get bogged down in real/presumed or imaginary issues (which could even take the shape of hurdles).....

4.2 Restructuring of Audit offices to achieve the primary goal of integration of audit efforts, is, however, not a simple exercise. The pre-structuring and time tested organizational structure had its own equilibrium with staff specialization, domain knowledge, familiarity in stake holders etc. Any attempt at change would need to be very carefully calibrated keeping in view the complexities involved. In view of the divergence and peculiarities existing in the States, **‘one size fits all’** approach would not be practicable and feasible. While broad parameters

In view of divergence and peculiarities existing in the States, while there can be broad parameters, adequate flexibility needs to be allowed to the State AsG.

could be laid down, it would be appropriate to leave adequate flexibility with State AsG to implement the restructured audit plans.

4.3 The challenges in the successful implementation of restructuring of audit in the state offices can broadly be categorized as those relating to (i) risk assessment, (ii) audit planning and execution, (iii) audit practices including personnel issues, (iv) audit products, (v) stakeholders and (vi) monitoring mechanism. These challenges would also relate to at least three levels, that are impacted as stated in para 4.1 above.

4.4 Risk assessment

4.4.1 The system of risk assessment (with some exceptions) generally followed in field offices would commence with an analysis of the trends of expenditure and revenues in the preceding three years or so. This would help identify the significant schemes in particular and areas of mobilization of revenues as ‘thrust areas’ for considering performance audits. Risk assessment in respect of compliance audit, which was essentially audit of transactions, has been dependent upon the volumes of expenditure or revenues depending in turn on which the units or offices were categorized as annual, biennial or triennial audits. It is only recently that we have been attempting CCO based audits and district centric audits with greater emphasis on reporting the control and compliance issues compared to performance, as a supplementary effort to what we have perceived as transaction audit. With the emphasis now having shifted to integrated sector-based audit, risk assessment would also have to correspondingly be modified to suit the new requirement. It is here that macro level analysis of the source and application of funds allocated by the State as well as central assistance, direct transfers, grants etc., by the Central Government to the States as was carried out in the presentation made by the then ADAI Report (State), Shri Niranjana Pant, in January 2012 during the workshop on audit plans (discussed in para 3.5 of this paper) without losing focus on State specific subjects/issues would serve as an appropriate model for State offices to adopt, with changes as required. The State audit offices would have to collect details of sources of funds for capital as well revenue expenditure, plan as well as non-plan expenditure received from various sources and determine the priority sectors or risk areas, sector-wise, for planning the audits, whether performance or compliance. Consequently, the existing parameters of classifying the units as ‘A’, ‘B’ and ‘C’ as per the expenditure or revenue profile would need to be modified taking into consideration larger picture like the results of risk assessment based on sectoral financing, functions and

With the emphasis now shifted to integrated sector based audit, risk assessment based on macro level analysis of the source and application of funds would need to be employed.....

topicality of the Sectors/Department, as a whole. This would enable us to introduce a more systematic approach towards selection of topics/departments/themes for audit, which, as of now, are being generally done more on ‘pick and choose basis’ i.e. as a belated reaction to events. In executing the audits, ISSAIs on compliance audit, which are being examined for adoption in the Department, besides other established guidelines governing compliance audits would need to be referred to. Compared to compliance and performance audits, risk assessment in the case of certification or financial attest audit may not require much modification except to the extent that this should have a perceptible linkage with the risk assessment carried out in respect of sectors.

4.4.2 The risk assessment discussed in para 3.5 and above should be done in a way that the perspective plan of a shelf of topics/departments/themes to be audited during next 2-3 years can be drawn up to identify the sectors/departments by adopting a cascading approach in risk focusing down sectors, segments, programmes, implementing agencies and operations. These topics/themes can be revisited each year before the audit plan to examine their relevance and revised if necessary, keeping in view the Results Framework Documents (RFD) of Union Government/Human Development Index (HDI) or economic development parameters of the States, legislative debates, incidences of corruption and so on.

4.4.3 It is, however, possible that there would be some areas which may not yield to classification under any of the available sectors. It is also possible that DDOs or audited entities may find place under different sectors in different field offices as the model of restructuring allows flexibility to the State AsG to implement the new audit arrangements keeping in view the State specific needs/issues. For example, State Excise is a major revenue earning Department in majority of States which has hence been classified under ‘Revenue Sector’ while in States like Gujarat, Mizoram, etc it would not be practicable to classify it under Revenue Sector; rather it would be required to be classified as ‘General Sector’. This need not deter us from proceeding with achieving the real potential of the scheme of restructuring in terms of improvements, rationalization and value addition to our efforts as well as our products.

4.4.4 Some functions and areas would need to be considered in risk assessment which would have either not been considered earlier or have been only sporadically attempted to be examined in the pre-restructured arrangement of audit. With the addition of public as stakeholders in our ‘Mission statement’ recently, it would be essential to allot higher priority to areas and functions of

With the addition of public as stake holder, it would be essential to allot higher priority to areas and functions of Governments linked with public delivery ...

Governments which not only affect the public directly or are perceived to be of significant concern to the public because of their social, moral, ethical or livelihood relevance. ‘Treatment of undertrials in prison’, ‘overall performance of jails’, ‘huge backlog of civil and criminal cases especially in the lower judiciary’, ‘effectiveness of accountability mechanism such as the *Lokayuktas*, Vigilance and criminal investigation departments’, ‘environmental management’, ‘tourism and services sector’ etc., are some of the areas which would need to be fitted in the integrated audit and are expected to score higher in the risk assessment model that would be adopted post restructuring in the States. The challenge here would be to establish an effective coordination mechanism with the principal audit officers, wherever relevant, who are auditing the Ministries in the Union Government whose contribution, coordination and funding would need to be critically examined to give a complete and balanced picture of the subject as well as its linkage with the sector concerned, in the States.



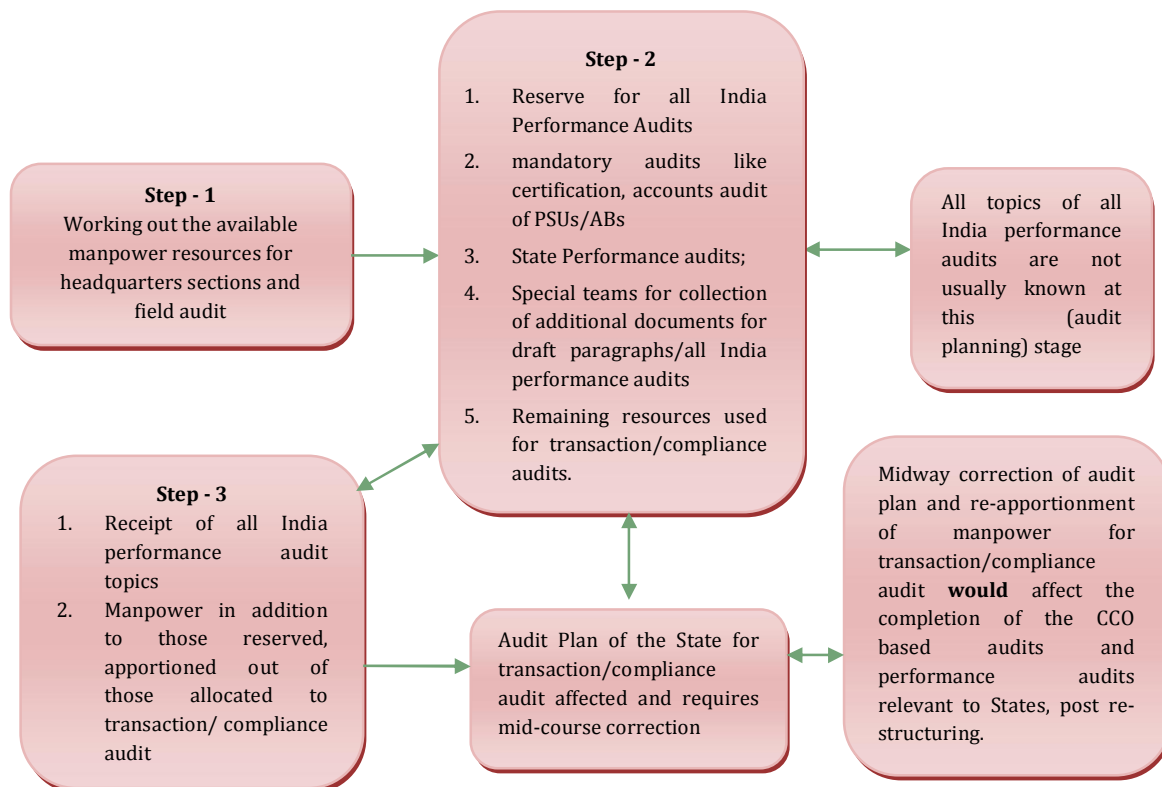
Action Plan No	Action Plan - ‘risk assessment’
1.	Modifying the system of categorization of units as ‘A’, ‘B’ and ‘C’ taking into account the larger picture of sectoral financing, functions and topicality of the units/projects/subjects.
2.	Risk assessment parameters should start with macro level analysis of the source and application of funds and include sectoral financing, functions and topicality of the Sectors/Department.
3.	Shelf of topics/Departments/themes to be drawn up for 2-3 years down the line which can be revisited each year at the stage of preparation of audit plan to examine their relevance.
4.	Sectors/Departments/themes involving ‘public delivery mechanism’ to be given priority and marked as ‘high risk areas’.

4.5 Audit Planning

4.5.1 Coming to audit planning, again with some exceptions, the approach adopted by the state offices revolved around prioritization given the limitations of manpower available. There is an overwhelming shortage in the cadre of AAOs in some of the field offices which has vital bearing not only on the coverage possible in audit but also on the quality of audit. The first priority here so far in State audit offices has been earmarking mandays for preparing audit material for performance audits taken up by the concerned principal audit officers for incorporation in the Union Audit Reports. It has been the experience with a few exceptions, that the field offices did not always get to know either the subject or the target dates or the extent of coverage that were required in respect of the performance audits slated for incorporation in the Union Reports, in time. Apportionment of mandays amongst the performance audits for the Union Report used to be the first priority followed by mandays for financial or attest audit in respect of the State Report and only

whatever mandays were remaining were possible to be allocated to the State performance audits as well as transaction/ compliance audits. This system would only be improved with more effective alignment between audit plans for Union and State Audit Reports, post re-structuring.

4.5.2 The system of preparing audit plans by the state audit offices is depicted in the block diagram below.



4.5.3 In the restructured scenario, as CCO based audit would need to be implemented as an improved alternative to transaction audit and the traditional DDO based audit is abandoned as discussed in para 4.5.4, there would be lesser scope of mid-course withdrawal of staff allocated for taking up all India performance audits (as shown in block diagrams under para 4.5.2).

It would, therefore, make it inevitable that a system is evolved for planning the all India performance audits well before the preparation and finalisation of the audit plans of the state audit offices, regularly. It would be ideal if the RC Wing (and Commercial Wing to a limited extent) could finalise the list of performance audits for the next three years (this should largely flow from the Departments’ Strategic Audit Plan, in turn based on the current Five Year Plan/Approach Paper and other relevant documents). This would give adequate time and opportunity for States to add additional elements/programmes in the

A system needs to be evolved for planning the all India performance audits at least before the preparation and finalisation of the audit plans of the state audit offices.

same sector for a more holistic audit product from the State’s perspective. For example, many States have their own rural road programmes in addition to PMGSY; these could be easily dovetailed by the States, given adequate advance intimation.

4.5.4 Pre-restructuring auditing left considerable scope for establishing effective linkage of the audit plan with the sector-wise risk assessment or subjects flowing from sector-wise risk assessment. There has also been a significant disadvantage as the performance of the PSUs/ABs in terms of their overall contribution to the sector was missing as the audits of the ministry and its subordinate offices were conducted by different AsG often without any linkage with the contribution of the PSUs/ABs to the performance of the sector. This could be better understood as audit focus in respect of a PSU usually had profits or loss as ‘priority’ often to the detriment of its contribution or role, say, in areas of pricing, delivery and ensuring quality of its services or products which have a vital bearing on the efficiency or effectiveness of the sector. This objective would appear possible to be achieved conveniently in the integrated audit even in States, in the scheme of restructuring. It would also be possible to shift towards utilizing compliance audit efforts in providing some sort of a reasonable or most practicable assurance (with appropriate qualifications as considered necessary) by shifting the focus from unit or office based or drawing and disbursing officer (DDO) based transaction audit to CCO based audit as well as district centric audit in States. Doing away with DDO based audits has been generally considered and found agreeable at various levels in the Department, but has not been implemented uniformly across different audit offices. If we are to be seen as compliant with ISSAI/International Standards on Compliance Audit, we cannot continue with DDO based audits (except for a small limited number of DDOs identified on risk considerations and personally approved by the DAG/AG) and the associated A/B/C categorization, as this cannot be the basis for audit assurance. As regards, CCO based audit, sub-sets/sub-activities of CCOs also need to be considered under this category. For example, large Departments like Roads & Bridges or Irrigation & CAD (or even Energy) cannot practicably be covered as a whole within reasonable timeframes and audit team deployment; identified sub-sets/activities (e.g a subset of major/medium/minor Irrigation Projects) could be taken up. The objective of providing audit assurance on the scope covered in compliance audit, remains a challenge. The existing system of compliance audit does neither provide implicit assurance (*viz.* nothing significant which reflects non-compliance with applicable laws, rules, regulations and procedures) nor explicit assurance (*viz.* positive assurance as to compliance with applicable laws, rules, regulations and procedures). This would however, be possible to be achieved to some extent through, firstly abandoning the traditionally practiced DDO based audit and replace

In order to ensure effective linkage between the audit plan and the sector-wise risk assessment..... we may abandon the traditionally practiced DDO based audit and replace it with CCO based as well as district centric audits....

it with CCO based as well as district centric audits. Secondly, the periodicity of such audits would required to be determined in such a manner that there is no unacceptably large gap between two successive audits of the CCO or district. Thirdly, there is the issue of harmonization of financial and CCO based audits. Preferably, financial audit should precede CCO based audit to equip the latter with better feedback which would increase effectiveness of audit. In other words, CCO based audit should only be taken up in respect of the Departments/themes only after their financial audit has been conducted. Second and third issues would, however, depend on the manpower resources available in the field office. Flexibility would be the key and this should be available to the field offices under overall broad parameters to be determined by the respective ADAIs. Here, the approach duly outlined in the paper separately submitted by Shri L V Sudhir Kumar, DGA (C), Kolkata to Headquarters as part of CCO based audit ‘draft guidelines’ would need to be carried forward, after a quick review.

4.5.5 Restructured audit and risk assessment would help audit plan to venture into examination of significant and sometimes unchartered yet relevant areas as well. For example, ‘border fencing’, ‘flood control measures’, ‘effectiveness of roads’ etc., in North Eastern Region, are some areas which would be possible to be identified on the basis of risk assessment and for incorporation in the audit plan in the States concerned. Similar other State or region specific subjects would be possible to be identified, well in time.

4.5.6 In view of the audit jurisdiction of Central Government offices having shifted exclusively to the offices of DsG/PDs, implementation of the Goods and Services Tax (GST), which is under active consideration of the Central Government, may be a matter of concern. The GST, once implemented, would subsume central excise, service tax (central receipts), central sales tax (levied and collected by State Governments on behalf of Central Government) and value added taxes (levied and collected by State Governments on sale of commodities). There would be two tier of GST, the first one being Central GST and the State GST being the other. Likely implication on audit planning, coordination between the audit offices dealing central and State receipts and products of the change over to the GST regime (which would be sooner than later) in the offices of DsG/PDs dealing with Central Government offices as well as the State AsG dealing with state receipts would need to be identified now itself so that we would have adequate time to tailor our approach in audit in the new arrangement. This would need to be examined possibly by a Committee of four to five field AsG and co-ordinated by Headquarters at appropriate level.

Likely impact of implementation of GST on audit planning, co-ordination between audit offices dealing with central and State receipts would need to be examined possibly by a committee.....

4.5.7 There is need to re-orient the perspective of our audit personnel regarding the objective of the restructuring exercise and its translation into sectoral audits. For example, audit of Environment and Forests Department in States used to be concentrated on auditing ‘forest receipts’ instead of treating the Department as a significant component impacting economic or social sector. In fact, this Department has a major expenditure component in the form of Compensatory Afforestation Management and Planning Authority, commercial activities in the form of Forest Development Corporations and other afforestation and community oriented schemes like joint forestry management. The orientation of this audit has to be different and cannot be looked through the lens of ‘forest receipts’, alone. Similar is the case of the work of a Tahsildar or Collector at the district level. Besides developmental works, much of their work is now geared towards land acquisition, resettlement and rehabilitation in line with the changing growth pattern of the economy. Restructuring of audit would facilitate such an approach to be conceptualized and implemented.

There is need for Reorientation of our audit perspective

4.5.8 Coming to Audit Plans for 2012-13, these were finalized before the introduction of restructured scheme of audit. These were subsequently modified only to the extent that they would be in optimal consonance with the sector-wise integrated approach that was expected. In view of the fact that the objectives, purpose and requirements of the scheme of restructuring are yet to sink in completely in the field offices, there is an inevitable adverse impact in the progress or performance with respect to the audit plan 2012-13 in the first quarter. This would need to be reviewed by the field offices and necessary remedial steps, wherever possible, or modifications wherever required, would need to be allowed to be made in the audit plan for 2012-13.

Audit plans 2012-13 may need to be reviewed and modified.....



Action Plan No	Action Plan - ‘Audit Planning’
5.	Traditionally practiced DDO based audit may be replaced by CCO based as well as district centric audits.
6.	In CCO based audits, the following should be the broad questions: (i) To what extent Department’s operational performance during the year was reasonably efficient and effective; (ii) To what extent the Department’s accounting and financial reporting during the year was reasonably reliable; and (iii) To what extent Department during the year reasonably safeguarded all its resources at all the stages. (These broad questions and the CCO based guidelines would need to be finalized by forming a Committee).
7.	Cycle of audit of Departments in CCO based structure to be decided by the field offices based on the availability of resources.

8.	Performance audit topics for Union Reports are to be finalized before preparation of the State audit plans.
9.	A Committee of four/five field AsG co-ordinated by Headquarters at appropriate level to be formed to examine likely implication on audit planning, coordination between the audit offices dealing central and State receipts and products of the change over to the GST regime.

4.6 Auditing practices including personnel issues

4.6.1 There is a feeling that not much has changed with the current restructuring exercise and that staff related issues are not significant. Though changes are limited

..training courses need to be re-visited to re-orient these to cater to the need of the hour...

in the audit offices auditing Central Government entities and they continue in their specialized fields (MABs and Central Civil Audit Offices), staff competence in State audit offices is an issue which the field offices need to address, on top priority. Further, most of the Regional Training Institutes (RTI) have

finalized their calendar of training programmes for 2012-13, which would need to be relooked for mid-course corrections to take on board the changes in the audit approach and restructure the training programmes accordingly. Most of the General Sector Audit personnel would not have handled Works or Commercial Accounts whereas, most of the Economic and Revenue sector Audit officials would not have been trained in General and Social sector audit of Civil departments. Multi-skilling the audit personnel would give them the confidence to handle the changed emphasis in audit, post - restructuring.

4.6.2 The scheme of restructuring contains an assurance in so far as the audit personnel are concerned at the level of AO/AAO, that there would be no physical dislocation in terms of their headquarters especially in cases where the work relating to the audited entities of Central Government has been transferred to an existing DG or a newly created PD to deal with the audit of expenditure as well as revenues of the Central Government in the respective States/zones. This is a matter of concern in offices in the north eastern region (NER). This would need to be allayed in clear terms. As far as audit of these offices in NER is concerned, it would be essential to post an exclusive group officer for handling these responsibilities and reporting for all purposes ultimately to the DG in Kolkata. This would require a separate group officer for handling the revenue sector exclusively in the State which has not been envisaged in the orders implementing the scheme of restructuring.

4.6.3 At the cutting edge of our audit have been the AOs/AAOs and will continue to remain so in the restructured arrangement as well. It cannot be denied that pre-restructuring, there was specialization in audit in the cutting edge level in terms of ubiquitous commercial, revenue, civil audits. The first challenge in this area would be to allay the apprehensions that this specialization is not possible to be acquired

easily in the restructured set up. Focused and result oriented theoretical as well as practical training (not necessarily only at RTIs) would need to be devised, arranged and pursued so that acceptable levels of expertise is available in the field offices. A possible solution towards achieving professional excellence in Revenue Audit would be to put in place a dedicated cadre on the same lines as the Commercial cadre. This can be achieved even after a common intake but is necessary in order to retain and foster specialization and professional excellence where auditors are expected to come up against both departmental professionals in the Taxation Departments as well as the Chartered Accountants. Till such time, the composition of the audit teams would need to be done with little extra care in the field offices. Professionalisation of efforts of documentation and providing assurance of quality and coverage in audit in the form of specific check lists and their scrupulous use would only improve the quality of audit products.

4.6.4 Restructuring could be an occasion to consider revisiting the incentives to Audit personnel so that optimal results are continuously ensured. Sufficient opportunities to reward the outstanding and meritorious personnel would need to be created. More so because there is no scope of ‘out of turn promotions’ for AAOs and except a few field offices, they have to wait for as many as 15 – 20 years for their ‘turn’ to get promotions to the AOs cadre. Foreign assignments are the only ‘silver lining’ which could serve as a motivating factor. However, there is very limited scope here. In recent times, we have arranged for some postings as specialists, though limited in number, to some of the West Asian countries, which is a welcome move. Besides, there are short term assignments but there is a bar on providing a ‘second chance’ of foreign assignments if an AO/AAO has gone abroad, once. This system could perhaps be revisited as the number of outstanding and talented AOs/AAOs in the field audit offices are not unlimited. Further, the term for AOs/AAOs posted in our overseas audit offices in London, Washington and Kuala Lumpur is **‘three’ years** while the IAAS officers are posted for a tenure of **‘two’ years**. If the tenure of the AOs/AAOs is brought down from three to two years (alike IAAS officers), there could be room for accommodating more AOs/AAOs in these offices. The present system of numeric grading of the AOs/AAOs in the annual performance appraisal reports would make it easier to prepare a central database at Headquarters for selecting personnel, based on performance reported through APARs.

...bar on getting a second chance to compete in foreign assignments needs to be revisited.....

...tenure of AOs/AAOs posted in overseas audit offices could be brought down from three years to two years alike IAAS officers to allow posting of more AOs/AAOs in these offices.....

4.6.5 We have multiple audit manuals and guidelines for covering performance, compliance and attest audit etc., These are scattered at different places such as MSO

Audit, MICA and other audit manuals prepared locally by each field offices. We are also planning to incorporate, if not completely shift, to the ISSAI guidelines. It would be appropriate to critically review the manuals and guidelines and put in place comprehensive, consistent and practical documents for each type of audit with optimum amount of flexibility, inbuilt, to the field offices to proceed with the efforts at fulfilling the potential of the scheme of restructuring, without any hesitation.

4.6.6 Pre-restructuring, Central Audit Support Sections (CASS)/Central Audit Parties (CAP), in the field offices were functioning as a group under one of the group officers. However, these sections/parties generally remained isolated from the functional audit wings of the field offices and hence rarely served the purpose fully for which these were created, i.e. generating inputs/feedbacks/red flags (through scrutiny of vouchers received centrally from the A&E offices) for the functional audit wings to examine the issues further during the course of field audit. Restructured audit arrangements in the field offices would provide us the opportunity to merge CASSs/CAPs with concerned Sectoral audit groups. This would have multiple benefits like (i) better integration of central audit and field audit; (ii) functional audit wings having access to the vouchers received in the CASSs/CAPs, (ii) placing the CASSs/CAPs under the concerned GO would help better monitoring and generation of inputs/feedbacks/red flags for the field audit parties. Besides, importing the VLC data from the A&E Office and their use by the CASSs/CAPs and the functional audit wings needs to be strengthened for ensuring that the central audit as well as field audits are better equipped with upto date data for increased effectiveness of audit.

...merging the CAP/CASS with the concerned Sectors would increase their effectiveness.....



Action Plan No	Action Plan - 'Auditing practices'
10.	Focussed and result oriented theoretical as well as practical training to be devised, arranged and pursued so that acceptable levels of expertise is available in the field offices. Also, putting in place a dedicated Revenue Audit cadre needs to be considered.
11.	Revisiting the bar on providing second chance for foreign assignments in case of AOs/AAOs and reducing the tenure of AOs/AAOs from three years to two years in case of posting in overseas audit offices.
12.	Training curricula of RTIs/RTCs and in-house trainings to be revisited for mid-course corrections to take on board changes in audit approach and restructured audit arrangements.
13.	Fear of dislocation amongst personnel needs to be allayed in 'clear terms'.
14.	Separate Group Officer to be posted in NER (Guwahati office) for handling Central Government audit and Revenue Sector State Audit functions.
15.	Existing manuals and guidelines to be critically reviewed for putting in place comprehensive, consistent and practical documents for each type of audit.
16.	CASS/CAPs to be merged with concerned functional audit wings and system of importing the VLC data from A&E Office and their use needs to be strengthened.

4.7 Audit products

4.7.1 It is an accepted fact that the report on State Finances did not evoke much enthusiasm or response from the stakeholders, in its existing form and content. One of the significant outcomes or impact on the audit products from the scheme of restructuring is the potential for upgradation of the report on State Finances to serve as the report-primus for a State covering all aspects of State Finances comprehensively.


4.7.2 Some possible ways to achieve this would be (i) increasing readability of the report by using non-economic language so that Legislators and the common man can understand it easily, (ii) incorporating the financial information hitherto contained in Chapter I of Revenue Receipts and Commercial Audit Reports of the States to avoid duplication and (iii) adopting Kurien Committee recommendations assiduously so as to make this report an output of auditorial exercise rather than mere number crunching and economic analysis by an economist. As a part of such exercise, the entire “cash, contingency and financial management” audit material should constitute a part of financial attest audit and should come to a new chapter (Chapter – 4) in the same Audit Report based on field visits by auditors from other groups to specifically work on this theme. Formats could be designed and given to them. However, given the time that is available from the targeted timeline for AG(A&E) to finalise the Finance and Appropriation Accounts (August end) and the ideal of tabling the State Finances Report in the winter session (November – December session) and also providing time for the State Government to respond to the draft Report (not only is this mandatory as per the Audit Regulations, State Governments are insisting on considering their point of view before finalising the Report) and also providing time for considering the queries raised by Headquarters office, there is really not much time for auditorial analysis. There is also a need to sensitise the PACs about this and impress upon them to start the year’s session with this Report. It needs also to be considered as to how best we could publicise this report adequately. This would help the Legislatures in particular to brace up for more involved discussion in the performance audits at a later stage.

In order to make the CAG’s report on State Finances ‘most important’ in real terms, there is need to increase its readability and outputs to be based on auditorial exercise.....

4.7.3 The more significant challenge here would be how to make the report more reader friendly with our own audit analysis and linking such analysis with sector specific performance. It has to be admitted that the field offices may not have required expertise uniformly and an appropriate action plan explaining the scope and procedure for preparation of this report would be required. This would need to be done ‘post haste’ as there is no time to lose for the states and the report would

need to provide value addition not only to the other stakeholders but essentially to the Government concerned, discussions with which at various levels, would have to precede the finalization of the report.

4.7.4 Coming to the issue of reporting the audit findings in case of CCO based audits, these would need to be communicated to the Head of the Department or the Chief Controlling Officer of the Department concerned with copies to the Principal Secretary, Finance and the units of the Department relating to which comments/findings are included in the Report. Copy of the Report may also be sent to the Chief Secretary of the State.

Action Plan No	Action Plan - 'Audit products'
 <p>17.</p>	<p>In order to upgrade the potential of the report on State Finances to serve as the report-primus for a State, the following steps need to be taken, urgently:</p> <ul style="list-style-type: none"> (i) increasing its readability by using non-economic and reader friendly language; (ii) incorporating the financial information hitherto contained in Chapter I of Revenue Receipts and Commercial Audit Reports of the States; (iii) adopting Kurien Committee recommendations so as to make this report an output of auditorial exercise by including our own audit analysis and linking such analysis with sector-specific performance; (iv) Introducing new Chapter on financial attest audit on the entire “cash, contingency and financial management” based on field visits; (v) Sensitising the PAC and publicizing the Report.

4.8 Stakeholders

4.8.1 The most important stakeholders of our audit products are the members of Public Accounts Committee (PAC) and Committee on Public Undertakings (COPU). Under the erstwhile system, the Audit Reports generated by us were discussed by PAC and COPU in the Centre and the States. While Audit Reports of commercial activities of Centre and the States were discussed by COPU, all other Reports were under the purview of PAC.

4.8.2 In the restructured scenario, commercial undertakings have been included in the Economic Sector and would be audited alongwith the Department as a whole under which these undertakings function, say, from a sectoral perspective by looking at it top-down from the Government/ Department level. In such a case, most of our reports would land with the PAC making the COPU virtually redundant. This is a serious issue which needs to be sorted out early.

Inclusion of the audit findings on commercial undertakings in the Audit Reports of the concerned Ministries/ Departments would land all our Reports with the PAC making the COPU redundant.

4.8.3 One solution that is possible is to persuade the State Government and State Legislature to allocate the responsibility of pursuance and discussion of the Audit Report on economic sector to the COPU so that the focus on the entire issues dealing with the sector (of which the PSU concerned usually is a vital contributor) is meaningfully discussed to arrive at appropriate and focused recommendations and remedy. The other alternative would be to go along with the discussion of only the issues relating to the PSU concerned in the Audit Report (to be identified and communicated by the state AG to the COPU). There is also the situation of more than one AG (in multi AG state offices) who may have to brief the COPU or PAC as the case may be in respect of the material emanating from the same Audit Reports or two different Audit Reports of the same State. The practical solution would be to have a chapter on PSUs in each Sectoral Report and let COPU continue to discuss the paras directly relating to the PSU, while the AG concerned alongwith the Secretariat of the Legislative Assembly could coordinate to ensure that the thrust of the Audit Report in the form of results of an integrated audit is not lost. Answer lies in dialogue with PAC/COPU and their Secretariats. As we have been planning and executing our audits independently and both PAC and COPU have learnt to use our Reports, we need to help the Committees in using our reports through special efforts. This would require a deeper discussion for an appropriate solution.

Action Plan No	Action Plan – ‘stakeholders’
18.	<p>(i) The possible solutions for discussion of the Audit products after the restructured audit arrangements, are:</p> <p>a) Persuading the State Governments to allocate the discussion of the Audit Report on economic sector to the COPU while all other Reports are discussed by the PAC;</p> <p>b) COPU to discuss only the issues relating to the PSU concerned in the Audit Report (to be identified and communicated by the state AG to the COPU).</p> <p>A Committee to be formed to discuss the issue and propose practicable ‘solution’ to be implemented across the State audit offices.</p>

Way forward

4.9 Monitoring mechanism

4.9.1 Restructuring of audit arrangements of Central Government would mean that a Central Ministry as well as the PSUs and ABs under it will be audited together by a single office (or group of offices) and the audit of several Ministries/Departments (grouped Sector wise) would be under a single DAI. As discussed in para 3.11 to 3.13, the Central Ministries/Departments have been segregated and allocated to the DAIs on sectoral basis while the actual field audit is being conducted by MABs (PSUs) and Civil Audit offices (Ministries/Departments). As the planning, execution and reporting the results of audit involves a number of field offices, integrating the audit

Integration of the audit approach of Central Government Ministries/ Department being audited by different MABs and Civil Audit Offices, remains a challenge.

approach, i.e. planning, execution and reporting of these multiple activities of same Ministries/Departments in one common formula/platform, remains a challenge to be met. Further, for DsG/PDs dealing with audit of both receipts and expenditure of Central Government, more than one reporting lines at Headquarters still continues. More than one reporting line at Headquarters would need to be examined and rationalized to bring in them at par with other State audit offices.

4.9.2 Under the erstwhile arrangements, the works pertaining to different audit functions were being looked after by dedicated wings in Headquarters. Though technical expertise could not be given priority while selecting the staff for these wings³, they have gathered expertise by dealing with the same subject through the years. Further, these dedicated wings at Headquarters have, from time to time, issued circulars/orders on various issues relating to the audit functions handled by them. Also, there was uniformity in audit approach and reporting as the audit arrangements as well as reporting were handled by single wing at Headquarters.

4.9.3 Upon restructuring of functional wings in Headquarters, care has been taken to ensure reallocation of staff from the erstwhile wings to those newly created keeping in view the expertise gathered by the staff. However, in view of allocation of States to the newly created groups under charge of ADAIs, same types of audits and Audit Reports would now be handled by separate wings under each ADAI. Such arrangement would definitely encourage and ensure uniformity in the audit approach and Audit Reports pertaining to each State. However, division of jurisdiction of States among different groups at Headquarters might possess a potential risk of confining the developments/changes to a rather limited perspective instead of focusing on the larger national picture. This would call for establishing a regular co-ordination among the controlling sections in Headquarters so that the approach towards audit execution and reporting required in the restructured audit situation is uniformly applied across the state audit offices. There is however, a need for revisiting the deployment of staff and organizing required trainings in the wings in Headquarters to ensure that specialization/domain knowledge is improved continuously.

Co-ordination between the functional wings in Headquarters dealing with State audits.....

4.9.4 The MSO (Audit) laid down the control registers to be maintained by the audit wings in field offices like objection book, progress registers, registers of probable cases. Based of the basic data in the above, the

The control registers need to be revisited/ recast.....

³ Personnel from Accounts background from field offices are on deputation to Headquarters and due to dearth of officials having expertise in related fields, some of them had to be posted in the functional wings dealing with finalization of Audit Reports.

monthly/quarterly reports/returns are/were being prepared and sent to Headquarters by the field offices. For many years now, these control registers have been maintained by the field offices. Some of these have become irrelevant after the start of restructured audit arrangements. The need for such control registers/reports would need to be revisited and rationalized to enable these to capture only the essential information now expected.

4.9.5 Similarly, the erstwhile functional wings in Headquarters namely DG (Audit), DT, INDT, Report (States), Commercial States, State Receipts Audit had, from time to time, devised various reports/returns to be submitted by the field offices. Though four months have elapsed since the new arrangements have taken effect, these reports/returns continue to be sent, though to the redesignated controlling wings at Headquarters. Consequent upon the restructuring of audit arrangements, audit plans of audit wings of field offices (which were hitherto prepared and approved by Headquarters, separately) have been modified into a common audit plan of the entire field office. There is a need to do away with multiple reports/returns sent by different audit wings of field offices and rationalize them to integrate/consolidate these reports/returns. Two approaches are possible; one is to create office performance database by digitizing on a ‘real time’ basis and let each user at any level generate customized reports. The second would be to let each office devise its own control information and keep it as it deems fit – from which macro level data are sent to Headquarters.

The reports/returns in place need to be rationalized.....

4.9.6 Of late, Headquarters introduced ‘Audit Management System’ – software which was, designed to capture, *inter alia*, all information regarding audit and results thereof to automate the management information system. A lot of ground work had been completed by the field offices before the restructuring was made effective. Consequently, the application software needs to be re-designed to enable the field offices to upload the information so that the AMS serves its desired purpose. Also, the utility of the data already fed into AMS needs to be examined to assess the extent to which it can be exported to the re-designed application software so as to avoid re-entering the data.

..application software of AMS needs to be modified.....



Action Plan No	Action Plan – ‘monitoring mechanism’
19.	As the planning, execution and reporting the results of audit involve a number of field offices, integrating the audit approach, i.e. planning, execution and reporting of these multiple activities of same Ministries/Departments being audited by a number of audit offices (MABs and Civil Audit Offices) in one common formula/platform, would need to be ensured by the controlling wings at Headquarters. More than one reporting line at Headquarters for DsG/PDs dealing with both receipts and expenditure of Central Government offices would need to be examined and rationalized.
20.	Regular co-ordination needs to be established among the controlling sections in Headquarters dealing with State audits so that the approach towards audit execution and reporting are uniformly applied across the state audit offices.
21.	Control registers/reports would need to be revisited and rationalized to enable these to capture only the essential information now expected.
22.	Multiple reports/returns sent by different audit wings of field offices to be rationalized. Some of the possible means, are (i) integrate/consolidate these reports/returns, or (ii) create office performance database by digitizing on a real time basis (iii) let each office devise its own control information and keep it as it deems fit
23.	The application software of AMS needs to be re-designed to enable the field offices to upload the information in the restructured scenario so that it serves its desired purpose. Also, the utility of the data already fed into AMS needs to be examined to assess as to how much of it can be exported to the re-designed application software so as to avoid re-entering the data.

Sd/-

**(P Sesh Kumar),
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