

CHAPTER-1

Basic Postulates

1.1 Introduction

The Comptroller and Auditor General of India (CAG) who is the head of Supreme Audit Institution of India (SAI India) discharges his constitutional functions through the Indian Audit and Accounts Department. The Constitution of India provides for the Comptroller and Auditor General of India who is appointed by the President of India by warrant under his hand and seal. The Constitution provides that the salary and other conditions of service as well as the duties and powers of CAG may be determined by Parliament by law. In pursuance of these provisions, the Parliament enacted the CAG's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act) to determine the conditions of service of the CAG and to prescribe his duties and powers. In exercise of powers conferred by the DPC Act, as amended from time to time, the CAG framed the Regulations on Audit and Accounts, 2007, which provide the overarching governance framework for both accounting and auditing functions. The CAG's Auditing Standards constitute the next layer of the audit governance framework and set out the professional standards of auditing for the organisation as well as for its personnel - the individual auditors. As an ongoing initiative for continuous improvement and benchmarking, these standards are periodically reviewed, restructured and updated.

1.2 Purpose and Authority of the Standards

These standards establish the norms which are applicable to all public sector audit engagements, irrespective of their form or context. These standards incorporate the Prerequisites for the functioning of Supreme Audit Institutions and Fundamental Auditing Principles of the International Standards of Supreme Audit Institutions, which have been suitably adapted with due consideration of the audit mandate and rules applicable to SAI India. These standards determine the audit procedures that shall be applied in audit and constitute the criteria or benchmark against which the quality of audit results is evaluated. These Auditing Standards are effective from 1 April 2017. All audit engagements as per the audit mandate of SAI India on or after this date shall be conducted in accordance with these standards.

1.3 Audit Mandate

The audit mandate is laid down in the Constitution of India, DPC Act and specific legislations enacted over time by the Parliament and State Legislatures.

1.3.1 Article 149 of the Constitution of India envisages that CAG shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament. Article 151 envisages that the reports of the CAG relating to the accounts of the Union shall be submitted to the President, who shall cause them to be laid before each House of Parliament and that the reports relating to the accounts of a State shall be submitted to the Governor, who shall cause them to be laid before the Legislature of the State. Additionally, Article 279 envisages that 'net proceeds' in relation to any tax or duty means the proceeds thereof reduced by the cost of collection and that the net proceeds of any tax or duty, or of any part of any tax or duty, in or attributable to any area shall be ascertained and certified by the CAG, whose certificate shall

be final. Further, the Sixth Schedule of the Constitution of India also envisages audit of accounts of District and Regional Councils of autonomous regions.

1.3.2 The general provisions relating to audit are elaborated in Sections 13 to 21 and 24 of the DPC Act. There are also other legislations providing for audit of specific entities by the CAG. The audit mandate of CAG extends to bodies or authorities such as statutory corporations, government companies, autonomous bodies constituted as societies, trusts or not for profit companies, urban and rural local bodies and also to any other body or authority whose audit may be entrusted to CAG under law. To fulfil its mandate, SAI India undertakes financial audit, compliance audit, performance audit and combination of such audits.

1.4 Prerequisites for functioning

The pre-requisites constitute the principles that are essential for the functioning of SAI, India and for proper practice of public sector auditing within the SAI.

- Independence
- Accountability and Transparency
- Ethics
- Quality assurance

1.4.1 Independence

An adequate degree of independence from both the Legislative and Executive branch of the Government is essential for the conduct of audit and for the credibility of its results. Independence of a Supreme Audit Institution (SAI) is secured through certain principles and conditions that are institutionalised through established mechanisms and processes. The principles and conditions that define an independent SAI are elaborated below.

1.4.1.1 The existence of an appropriate and effective constitutional/statutory/legal framework and its application. This framework shall establish provisions that secure the functional independence of the Head of the SAI including security of tenure. The Constitution of India stipulates that the CAG shall only be removed from office in like manner and on like grounds as a Judge of the Supreme Court of India. The other terms for appointment and demitting of office of the CAG are provided under the DPC Act that ensures due autonomy and security of tenure.

1.4.1.2 SAI shall have a sufficiently broad mandate and full discretion in the discharge of its functions

While conforming to the Constitutional provisions and laws enacted by the legislatures, SAI India has the functional and organisational autonomy required for carrying out its mandate and is free from direction or interference from the Legislature or the Executive in the:

1. selection of audit issues;
2. planning, programing, conduct, reporting and follow up of audits; and
3. organisation and management of its office.

SAI India may accept specific requests for audits made by Legislature as expressed as a whole or through one of its committees or by the Government while retaining its right to decline such

requests. SAI India may be consulted by the Executive in matters such as financial legislations, accounting standards and policies, public accounts, form of financial statements and for draft laws or rules affecting its competence or authority ensuring, however, that rendering such advice or assistance does not either implicitly or explicitly impair independent exercise of its audit mandate.

1.4.1.3 SAI shall have unrestricted access to information

The DPC Act empowers SAI India to inspect any office of accounts under the control of the Executive and to require the production of all necessary documents and information necessary for the proper discharge of its statutory responsibilities. SAI India thus shall have access to premises, operations, systems including Information Technology systems and records of auditable entities¹ which include the implementing arms of Government and to obtain relevant information from persons or entities possessing it.

1.4.1.4 SAI shall have the freedom to decide the form, content and timing of audit reports, to publish and disseminate them SAI India shall be free to decide the form and content of its audit reports and to make observations and recommendations therein, taking into consideration, the views of the audited entity. SAI shall be free to decide the timing of its audit reports except where specific reporting requirements are prescribed by law. It is also free to disseminate its reports once they have been formally tabled in the appropriate legislature as required by law.

1.4.1.5 There shall exist effective follow up mechanisms on SAI's recommendations

SAI India may submit its reports to the Legislature or an audited entity's governing body as appropriate for follow up of specific recommendations for corrective action. SAI India shall have its own follow up procedures to monitor and report on the action taken by the Executive on its observations and implementation of recommendations made in its reports as well as those made by the Legislature or the audited entity's governing board, as appropriate.

1.4.1.6 SAI shall have financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources

The Constitution provides that the conditions of service of persons serving in the Indian Audit and Accounts Department and the administrative powers of the CAG shall be such as may be prescribed by rules made by the President after consultation with the CAG. Thus, SAI India shall have the necessary empowerment to manage the human and budgetary resources available to it. The Legislature is responsible for ensuring that SAI India has the resources necessary to fulfil its mandate.

SAI India's functional autonomy does not preclude arrangements with auditable entities in regard to matters such as personnel management, property management or common purchasing of equipment and stores.

1.4.2 Accountability and Transparency

Accountability and transparency are two important elements of good governance. Accountability refers to the legal and reporting framework, organisational structure, strategy, procedures and actions to ensure that the SAI meets its legal obligations with regard to its audit

mandate and reporting and that the SAI and its personnel can be held responsible for their actions.

Transparency refers to the SAI's timely, reliable, clear and relevant public reporting on its status, mandate, strategy, activities and performance as also of the audit findings, conclusions and public access to information about the SAI. The principles of accountability and transparency are as under:

1.4.2.1 SAI shall perform its duties under a legal framework that provides for accountability and transparency.

SAI India shall perform its duties in accordance with the constitutional and statutory framework which cover the audit authority, jurisdiction and responsibilities, conditions for appointment and removal of the CAG, publishing of audit reports, oversight of activities and balance between public access to information and confidentiality of audit evidence and other information.

1.4.2.2 SAI shall make public its mandate, mission and responsibilities.

The mandate, mission and responsibilities of SAI India shall be in public domain.

1.4.2.3 SAI shall adopt audit standards, processes and methods that are objective and transparent.

The standards and methodologies adopted by SAI India shall be consistent with the fundamental auditing principles elaborated under the International Standards of Supreme Audit Institutions (ISSAIs) of International Organisation of Supreme Audit Institutions (INTOSAI). While conducting its audits, SAI India shall communicate the criteria on which opinions would be based to the auditable entities and keep them informed about the audit objectives, methodology and findings. SAI India shall also communicate the scope of audits undertaken as part of the reporting process. Its audit findings and recommendations shall be subject to procedures of comment, discussion and responses from the audited entity.

1.4.2.4 SAI shall manage its operations economically, efficiently, effectively and in accordance with laws and regulations and report publicly on these matters.

SAI India shall employ sound management practices including appropriate internal controls over its financial management and performance and reports on all areas of performance including various audits carried out covering compliance, performance and financial audits. SAI India's financial statements are open to Parliamentary review and its budget, financial resources and use of resources are in the public domain.

1.4.2.5 SAI shall report publicly on the results of audits and on conclusions regarding overall public sector activities

The audit reports of SAI India that include its conclusions and recommendations resulting from its audits shall be tabled in the concerned Legislature or presented to the audited entity's governing body as required and shall thereafter be in the public domain.

1.4.2.6 SAI shall communicate timely and widely on its activities and audit results through the website, media and other means.

Once the Audit Reports are tabled in the concerned legislature, SAI India shall communicate audit results through website and other means and may communicate with the media or other stakeholders on matters included in the reports thereby enhancing transparency and accountability of the audit work. Public and academic interest in important conclusions shall be encouraged. Its reports shall be made understandable to the wide public through various means e.g. summaries, graphics, video presentations and press releases.

1.4.3 SAI shall apply high standards of integrity and ethics for staff of all levels.

SAI India shall have a Code of Ethics that is aligned with the Code of Ethics (ISSAI 30) elaborated under the ISSAIs. The fundamental principles of ethics are integrity, independence, objectivity and impartiality, confidentiality and competence. SAI India shall ensure transparency and legality of its operations and actively promotes ethical behaviour throughout the organisation.

1.4.4 Quality Assurance and Quality Control

As an over-riding objective SAI India shall consider the risks to the quality of its work and establish a system of quality control that is designed to mitigate such identified risks. The risks to quality control depend upon the mandate and functions, conditions and environment under which it operates.

1.4.4.1 SAI shall establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing all of its work. The Head of SAI shall retain overall responsibility for the system of quality control.

SAI India shall strive to achieve a culture that recognises and rewards high quality work throughout the SAI. It shall ensure that sufficient resources are available within the organisation to maintain the system of quality control.

1.4.4.2 SAI shall establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI comply with the relevant ethical requirements.

SAI India shall recognize the importance of meeting relevant ethical requirements in carrying out its work. Policies and procedures shall be in place to reinforce the fundamental principles of ethics as defined in the code of ethics including rotation of key audit personnel to reduce the risk of familiarity with the entity being audited and to ensure that they remain and appear to remain objective obviating any possibility of conflict of interests. All personnel of SAI India and any parties engaged to carry out any task for the SAI shall have to demonstrate appropriate ethical behaviour.

1.4.4.3 SAI shall establish policies and procedures designed to provide reasonable assurance that its audits and other work are carried out in accordance with relevant standards, applicable legal and regulatory requirements, that SAI issues reports that are appropriate in the circumstances and that it has sufficient resources with the competence, capabilities and commitment to ethical principles as required to carry out its range of work.

SAI India shall have an Audit Quality Management Framework that establishes appropriate quality control policies and procedures such as supervision and review responsibilities and ensures tools such as audit methodologies for all work carried out. It shall ensure that applicable standards are followed in all work carried out and if any requirement in a standard is not followed, the reasons are appropriately documented, approved and reported.

SAI India may draw on a number of different sources to ensure that it has the necessary skills and expertise to carry out its range of work. It may collaborate with academic/ research institutions in order to avail of the experienced members of the profession at large and may enter into formal relationships with professional bodies provided the relationships do not inhibit its independence and objectivity. As resources are limited, SAI India may prioritise its work in a manner that takes into account the need to maintain quality.

1.4.4.4 SAI shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant and adequate and is operating effectively.

SAI India shall ensure that its quality control system includes independent monitoring of the range of controls within the SAI.

SAI India may invite external independent assessment of its activities and implementation of standards through a peer review. Where appropriate, SAI India may consider other means of monitoring the quality of its work which may include but not be limited to independent academic review, stakeholder surveys and follow up reviews of recommendations or feedback from audited entities. There are procedures for dealing with complaints about the quality of work performed by SAI.