

## 9. GOVERNMENT AUDIT

**Q.NO.1.** An audit of expenditure is one of the major components of Government Audit. In the context of 'Government Expenditure Audit', write in brief, what you understand by the following:

- |                                     |                      |
|-------------------------------------|----------------------|
| 1. Audit against Rules and Orders.  | 4. Propriety Audit   |
| 2. Audit of Sanctions               | 5. Performance Audit |
| 3. Audit against Provision of Funds | (A)                  |
- (PM, N17 – 4M, RTP M 17, RTP M16, RTP N14, N13 – 4M, M11 – 4M, MTP-M17)

### AUDIT OF GOVERNMENT EXPENDITURE:

The audit of Government Expenditure is one of the major components of government audit. The basic standards set for audit of expenditure are as follows:

- 1. Audit against Rules & Orders:** The auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and regulations framed by the competent authority.
- 2. Audit of Sanctions:** The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorizing such expenditure.
- 3. Audit against Provision of Funds:** It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the appropriations made.
- 4. Propriety Audit:** The auditor aims to bring out cases of improper, avoidable expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.
- 5. Performance Audit:** This involves that the various programmes, schemes and projects in which huge expenditure has been incurred, are being run economically and are yielding expected results. It is an objective examination of the financial and operational performance of an Organisation or programme and is oriented towards identifying opportunities for greater economy, and effectiveness.

### SIMILAR QUESTIONS:

- 1. What are the basic standards set for audit of Government Expenditure? (N13 - 4M)**  
A. Write above answer.
- 2. Write short note on Audit Expenditure in Government Audit?**  
A. Write above answer.

**Q.NO.2.** Write a short notes on Audit against Rules and Orders. (B) (PM)

### AUDIT AGAINST RULES & ORDERS OR REGULARITY AUDIT:

**Objective of the Audit:** To ensure that the expenditure is in accordance with the

- Relevant provisions of the Constitution and of the laws and rules made thereunder.
- The financial rules, regulations and orders issued by a competent authority.

#### 1. Categories of Rules and Orders:

These rules, regulations and orders mainly fall under the following categories:

- Rules and orders regulating the powers to incur and sanction expenditure from the Consolidated Fund or Contingency fund of India or of a State

- b) Rules and orders dealing with the following:
- mode of presentation of claims against Government,
  - withdrawing moneys from the Consolidated Fund, Contingency Fund and Public Accounts of the Government of the India and of the States, and
- c) Rules and orders regulating the conditions of service, pay and allowances, and pensions of Government servants.

## 2. Authority to frame Rules and Orders:

It is the function of the executive GOVERNMENT to frame rules, regulations and orders, which are to be observed by its subordinate authorities.

## 3. Duty of the Auditor:

- a) It is not the function of auditor to prescribe such rules, regulations and orders but to see that how they are applied properly by the subordinate authorities.
- b) While carrying out examination of the various rules, regulations and orders issued by the executive authorities, the auditor has to see that:
- i) they are not inconsistent with any provisions of the Constitution or any laws made thereunder
  - ii) they are consistent with the essential requirements of audit and accounts as determined by the C&AG
  - iii) they do not come in conflict with the orders of, or rules made by, any higher authority and
  - iv) in case they have not been separately approved by competent authority, the issuing authority possesses the necessary rule-making power.

**Q.NO.3. Write a short note on the following:**

- A. Audit of Sanctions.  
B. Audit against Provision of funds. (C)

### A. AUDIT OF SANCTIONS:

**Objective of Audit:** The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, of the competent authority.

**Duty of the Auditor:** The auditor has to ensure that

- a) Whether the expenditure is covered by a proper sanction, and
- b) also to satisfy that the sanction is made by a competent authority do so in accordance with the
  - i) Relevant provisions of the Constitution and of the laws and rules made thereunder.
  - ii) The financial rules, regulations and orders issued by a competent authority.

### B. AUDIT AGAINST PROVISION OF FUNDS:

Audit against provision of funds aims at

- a) Ascertaining that the expenditure has been incurred for the purpose for which it is sanctioned and
- b) Whether appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.

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**Q.NO.4. Audit against the propriety seeks to ensure that expenditure confirms to certain principles. Comment. (A)** (PM, N16 – 5M, N11 – 8M)

### **PROPRIETY AUDIT:**

**Objective of the Audit:** To identify improper, avoidable, or wasteful expenditure.

- a) Regularity audit alone was not sufficient to protect properly the public interest in the spending of money because even though expenditure has been incurred in conformity with the existing rules and regulations but still it may be highly wasteful.
- b) Therefore the Auditor should look into the financial propriety of the transaction with respect to reasonableness, faithfulness and economy of expenditure.

**General principles or guidelines for judging Propriety:** It is difficult to frame any precise rules for regulating the course of audit against propriety. It purely depends on the common sense and logic applied by the auditor depending on the circumstances.

However, some general principles have been laid down as follows:

1. The expenditure should not be prima facie more than the occasion demands. Every public officer is expected to exercise the same prudence in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
2. No authority should pass an order for sanctioning an expenditure which will be directly or indirectly to its own advantage.
3. Public moneys should not be utilized for the benefit of a particular person or section of the community.

### **Exceptions:**

- a) The amount of expenditure involved is insignificant.
  - b) A claim for the amount could be enforced in a court of law; or
  - c) The expenditure is in pursuance of a recognized policy or custom
  - d) The amount of allowances granted to meet expenditure of a particular type should be so regulated that the allowances are not become sources of profit to the recipients.
4. The expenditure should
    - a) Pass down to the beneficiary without corruption.
    - b) Bring out optimum, enduring benefits instead of mere spending the public money on meeting day to day needs.
    - c) Should not exceed the benefits derived from the expenditure.
    - d) Should not become profits when it is only compensatory in nature.

### **SIMILAR QUESTIONS:**

1. **What are the focus points in doing propriety audits by C&AG as regards Government Expenditure?** (PM, N11 – 8M)  
A. Refer above answer.
2. **Write short note on Propriety Audit?**  
A. Refer above answer.

**Q.NO.5. Write a short note on Performance Audit. (B)**

### **PERFORMANCE AUDIT:**

**Objective of the Audit:** To ensure that that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them.

- It is an objective examination of the financial and operational performance of a programme or a project and
- is oriented towards identifying opportunities for greater economy and effectiveness.

#### Components of Performance Audit:

It includes the following:

- Efficiency audit:** It looks into whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them, i.e.,
  - The relationship between goods and services produced and resources used to produce them; and
  - Examination aimed to find out the extent to which operations are carried out in an efficient manner.
- Economy audit:** It looks into whether the entity has acquired the financial, human and physical resources in an economical manner, and whether the sanctioning and spending authorities have observed economy.
- Effectiveness audit:** It is an appraisal of the performance of programmes, schemes, projects with reference to the overall targeted objectives as well as efficiency of the means adopted for the attainment of the objectives.

The procedure for conducting performance audit covers identification of topic, preliminary study, planning and execution of audit, and reporting.

#### Q.NO.6. Write a short note on Audit of Government Receipts. (C)

#### AUDIT OF GOVERNMENT RECEIPTS:

**Objective of the Audit:** It aims to ensure that there is no leakage of revenue which should legally come to the Government.

The basic principle of audit of receipts is that it is more important to look at the general than on the particular, though individual cases of assessment, demand, collection, refund, etc. are important within the area of test check.

#### Aspects to be covered in Audit of Government Receipts:

- Proper assessment and realization:** Whether all revenues or other debts due to Government have been correctly assessed, realised and credited to Government account by the authorities.
- Adequate rules and procedures:** Whether adequate rules and procedures have been designed, by the concerned department to ensure an effective check on assessment, collection and proper allocation of cases.
- Adequate controls:** Whether adequate controls are imposed for prompt detection of irregularities regarding double refunds, fraudulent or forged refund vouchers or other loss of revenue.
- Actual implementation:** Whether such regulations and procedures are actually being carried out.
- Review of assessment orders:** A review of the judicial decisions, taken by tax authorities, is done to judge the effectiveness of the assessment procedure.

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**Q.No.7. Write a short note on audit of stores and inventories in the context of Government Auditing. (A) (PM, N16 RTP, M15 RTP )**

### **AUDIT OF STORES AND INVENTORIES:**

**Objective of Audit:** To ensure that purchases of stores and inventories are properly sanctioned, made economical and in accordance with the Rules for purchase laid down by the competent authority.

Audit of the accounts of stores and inventories has been developed as a part of expenditure audit.

### **Aspects to be covered in Audit of Stores and Inventories:**

1. To ascertain whether the Regulations governing purchase, receipt and issue, custody, sale and inventory taking of stores are well devised and properly carried out.
2. To ensure that the prices paid are reasonable and are in agreement with those shown in the contract for the supply of stores, and that the certificates of quality and quantity are furnished by the inspecting and receiving units.
3. Cases of uneconomical purchase of stores and losses attributable to defective or inferior quality of stores are specifically brought to the notice by the auditor.
4. Accounts of receipts, issues and balances are checked regarding accuracy, correctness and reasonableness of balances in inventories with particular reference to the specified norms for level of consumption of inventory holding.
5. Any excess or idle inventory is specifically mentioned in the report and periodical verification of inventory is also conducted to ensure their existence.
6. The valuation of the inventories is seen carefully so that the value accounts tally with the physical accounts and that adjustment of profits or losses due to revaluation, inventory taking or other causes is carried out.

### **SIMILAR QUESTION:**

1. "Audit of the accounts of stores and inventories has been developed as a part of expenditure audit with reference to the duties and responsibilities entrusted to C&AG."
- A. Refer above answer.

**Q.No.8. With reference to Government Audit what do you understand by 'Audit of Commercial Accounts'. (C) (PM)**

### **AUDIT OF COMMERCIAL ACCOUNTS:**

The Government also engages in commercial activities and for the purpose it may incorporate following types of entities-

- i) Departmental enterprises engaged in commercial and trading operations, which are governed by the same regulations as other Government departments such as defense factories, mints, etc.
- ii) Statutory corporations created by specific statutes such as LIC, Air India, etc.
- iii) Government Companies, set up under the Companies Act, 2013.

All aforesaid entities are required to maintain accounts on commercial basis.

- a) The audit of departmental entities is done in the same manner as any Government department, where commercial accounts are kept.
- b) Audit of statutory corporations depends on the nature of the statute governing the corporation.
- c) In respect of Government Companies, the relevant provisions of Companies Act, 2013 are applicable.

**Q.NO.9. Powers of C& AG in connection with performance of his duties? (A)**  
(PM, MTP N17, M14 – 4M, N09 – 4M)

**POWERS OF C& AG:**

The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 gives the following powers to the C&AG in connection with the performance of his duties -

- a) To inspect any accounts under the control of the union or a State Government.
- b) To require any accounts, books, papers and other documents which are relevant to the transactions under audit, be sent to specified places.
- c) To put such questions or make such observations as he may consider necessary to the person in-charge of the office and to call for such information as he may require for preparation of any account or report, which is his duty to prepare.
- d) To dispense with any part of detailed audit of any accounts or class of transactions and to apply such limited checks in relation to such accounts or transaction as he may determine.

**Q.No.10. Explain in detail the Duties of C & AG as per C&AG Act, 1971? (A)**  
(PM, RTP M 17, N12 – 10M)

**DUTIES OF C&AG:**

The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 lays down duties of the C&AG as under-

1. **Compile and submit Accounts of Union and States:**
  - a) The C&AG shall be responsible for compiling the accounts of the Union and of each State and union territory.
  - b) The accounts prepared should be submitted to:
    - i) In the case of Central Government / Union, to the President of the Country.
    - ii) In the case of state, to the Governor of each State.
    - iii) In the case of Union Territory, to the Chief Administrator
  - c) He is also responsible to provide such information as may be required by the Union Government, State Government or the Governments of the Union Territories which will enable them to compile the accounts.
2. **General Provisions Relating to Audit:** It shall be the duty of the C&AG –
  - a) To audit and report on all expenditure from the Consolidated Fund of India and of each State and of each Union Territory.
  - b) To audit and report all transactions of the Union and of the States relating to Contingency Funds and Public Accounts;
  - c) To audit and report on all trading, manufacturing profit and loss accounts and balance sheets and other subsidiary accounts kept in any department of the Union or of a State.
3. **Audit of Receipts and Expenditure:** Where anybody or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory, the CAG shall audit all receipts and expenditure of that body or authority and to report.
4. **Audit of Grants or Loans:** Where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any Union Territory to any authority or body, not being a foreign State or international Organisation, the CAG shall verify the procedures and the conditions under which the grant is sanctioned.

5. **Audit of Receipts of Union or States:** It shall be the duty of the CAG to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union Territory and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and report thereon.
6. **Audit of Accounts of Stores and Inventory:** The CAG shall have authority to audit and report on the accounts of stores and inventory kept in any office or department of the Union or of a State.
7. **Audit of Government Companies and Corporations:** The duties and powers of the CAG in relation to the audit of the accounts of Government Companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 2013.

**Q.No.11. What role is played by CAG in the audit of a Government Company as per Companies Act, 2013? (A) (PM, N16 RTP, M16 RTP, M15 RTP)**

### **ROLE OF C&AG AS PER COMPANIES ACT, 2013:**

The following are the powers of CAG as per companies act, 2013 with respect to a Government company other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments,

1. The CAG has the power to appoint First Auditor u/s 139(5) or Subsequent Auditor u/s 139(7) and
2. He can also direct such auditor the manner in which the accounts of the Government Company are required to be audited and Later on, the auditor so appointed shall submit a copy of the audit report to the CAG. [section 143(5)]

**Further as per section 143(6),** The Comptroller and Auditor-General of India shall within 60 days from the date of receipt of the audit report have a right to,

1. Conduct a **Supplementary Audit** of the financial statement of the company by any persons authorized by him. And he can ask for any additional information for the purposes of such audit from such person appointed.

### **2. Comment upon or supplement such audit report:**

It may be noted that any comments given by the CAG upon, or supplement to, the audit report shall be

- i) Sent by the company to every person entitled to copies of audited financial statements under sub-section (1) of section 136 i.e.,
  - Every member of the company,
  - To every trustee for the debenture-holder of any debentures issued by the company, and
  - To all persons other than such member or trustee, being the person so entitled and
- ii) Be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.

**Test Audit [Sec. 143(7)]:** If CAG considers necessary, it may order test audit to be conducted on the accounts of the Government Company.

- a) The provisions of section 19A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit.
- b) It is done by the CAG himself.

Thus, it is seen that there is a two layer audit of a Government company, by the statutory auditors, being qualified chartered accountants, and by the C&AG.

**PRACTICAL QUESTIONS**

**Q.No.1.** The director's report of a Government Company is silent on the comments made by the Comptroller and Auditor General of India in his Supplementary Audit Report.

In the absence of provisions requiring the board of directors to give reply on the qualifications made by the C & AG, the board of directors of such a company is not bound to give explanation in respect of such comments. However the boards of directors are still have to reply to the qualifications made by the statutory auditor.

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**THE END**

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