



INDIAN AUDIT AND ACCOUNTS DEPARTMENT

AUDITING STANDARDS
(2ND) EDITION, 2002

COMPTROLLER AND AUDITOR GENERAL OF INDIA



PREFACE

Auditing Standards were first issued by the Department in 1994. This revised edition of Auditing Standards has comprehensively restructured and updated the earlier publication, since it is imperative that the professional standards should be reviewed, restructured and updated from time to time. In framing these Auditing Standards, due care has been taken to adopt suitably the restructured Auditing Standards issued by the INTOSAI in 2001 in particular, the basic elements of INTOSAI 'code of ethics' has been incorporated in this volume.

I trust these Auditing Standards will serve as a beacon and foster a greater sense of responsibility among government auditors as well as others concerned with Public Accountability at all levels to secure accountability and as a result, good governance.

V.K.Shunglu
Comptroller and Auditor General of India
6th March, 2002 New Delhi

PREFACE to the First Edition (1994)

The Institution of Government Audit in India has a history of about 140 years. Initially, audit was confined to a check of financial statements and regularity of transactions. Over the years it has been extended to cover financial management and performance. Tax and other receipts of the Central and State Governments, Central and State Public Sector Undertakings, Autonomous Bodies and Authorities receiving grants and loans from Government have also been brought under the purview of Government Audit. Efficiency, economy and effectiveness of programmes, projects and organisations are now evaluated.

Government budget and accounts are not mere financial statements. In the context of a welfare State, these reflect the goals of development of the nation. Critical analysis of revenues, consumption expenditure, savings, public debt, capital expenditure and returns therefrom, becomes not only the responsibility of administration, but also of Audit. Efficient financial control also requires concurrent internal check and audit, which would greatly facilitate independent external audit being done more reliably and quickly and at lesser cost. Auditors do not work in isolation and meaningful interaction between them and the administrators and the managers of public sector undertakings and autonomous bodies and authorities is necessary.

Government auditors have to equip themselves adequately with the conceptual skills necessary for their tasks. In this context, the Auditing Standards prescribe the norms of basic principles and practices which Government auditors are expected to follow. The Standards have to be supplemented by the guidelines contained in the manuals of Standing Orders and other Manuals governing the work in the Indian Audit and Accounts Department. These are not in any way to affect the constitutional and legal provisions governing the duties and powers of the Comptroller and Auditor General of India. The Standards may require modification, from time to time, in the light of professional developments and changes in the legal framework.

(C. G. Somiah)
Comptroller & Auditor General of India
1994

CHAPTER-1

GOVERNMENT AUDITING

Introduction

1. Mandate

1.1 The Comptroller and Auditor General of India (CAG), who is the head of the Supreme Audit Institution of India (SAI) derives his duties and powers mainly from Articles 149 to 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Under the provisions of the Constitution of India and the Act, the CAG is the sole auditor of the accounts of the Central (Union) Government and the State Governments. CAG is also responsible for the audit of local bodies (i.e, Panchayati Raj institutions and urban local bodies) under the provisions of some of the State Acts and provides technical and administrative guidance for accounting and audit functions in all States as per orders issued by Ministry of Finance, Government of India. The reports of the CAG relating to the accounts of the Union and the States are submitted to the President/Governor of the State for being laid before the Parliament/State Legislature. The CAG is also responsible for ensuring a uniform policy of accounting and audit in the Government sector as a whole. The Act authorises the CAG to lay down for the guidance of the Government departments, the general principles of Government accounting and the broad principles in regard to audit of receipts and expenditure.

1.2 The mandate of CAG includes audit of

- Receipts and expenditure from the Consolidated Fund of India and of the State and Union Territories.
- Transactions relating to the Contingency Funds and Public Accounts.
- Trading, manufacturing, profit and loss accounts and balance sheets, and other subsidiary accounts kept in any Government department.
- Accounts of stores and stock kept in Government offices or departments.
- Government companies as per the provisions of the Companies Act, 1956.
- Corporations established by or under laws made by Parliament in accordance with the provisions of the respective legislation.
- Authorities and bodies substantially financed from the Consolidated Funds.
- Any Body or Authority even though not substantially financed from the Consolidated Fund, the audit of which may be entrusted to SAI.
- Grants and loans given by Government to Bodies and Authorities for specific purposes.
- Panchayati Raj Institutions and Urban Local Bodies

1.3 The audit mandate also provides for the periodic inspection of records and accounts of the Government departments to supplement the audit of vouchers and sanctions that are with the accounts compiling offices.

2. Auditing Standards

2.1 Auditing Standards prescribe the norms of principles and practices, which the Auditors are expected to follow in the conduct of Audit. They provide minimum guidance to the Auditor that helps determine the extent of auditing steps and procedures that should be applied in the audit and constitute the criteria or yardstick against which the quality of audit results are evaluated.

2.2 The auditing standards of the International Organisation of Supreme Audit Institutions (INTOSAI) have been suitably adapted with due consideration of the Constitution of India, relevant Statutes and rules for the auditing standards for the Supreme Audit Institution of India (SAI).

2.3 The auditing standards consist of four parts:

- (a) Basic postulates
- (b) General Standards
- (c) Field Standards
- (d) Reporting Standards

3. Basic Postulates

3.1 The basic postulates for auditing standards are basic assumptions, consistent premises, logical principles and requirements which help in developing auditing standards and serve the auditors in forming their opinions and reports, particularly in cases where no specific standards apply.

3.2 **The basic postulates are:**

- (a) The SAI should comply with the INTOSAI auditing standards in all matters that are deemed material.
- (b) The SAI should apply its own judgement to the diverse situations that arise in the course of Government auditing.
- (c) With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating effectively.
- (d) Development of adequate information, control, evaluation and reporting systems within the Government will facilitate the accountability process, Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information.
- (e) Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the Government, and audited entities should develop specific and measurable objectives and performance targets.
- (f) Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations.
- (g) The existence of an adequate system of internal control minimises the risk of errors and irregularities.

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- (h) Legislative enactment's would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
 - (i) All audit activities should be within the SAI's audit mandate.
 - (j) SAI's should work towards improving techniques for auditing the validity of performance measures.
 - (k) SAls should avoid conflict of interest between the auditor and the entity under audit.

4. The following paragraphs elaborate on the above basic postulates for auditing standards.

4.1. The SAI should comply with the INTOSAI Auditing Standards in all matters that are deemed material.

- The SAI should establish a policy by which the standards are followed for the various types of work carried out by the SAI to ensure that the work and products are of high quality.
- In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the audit report.
- Materiality is often considered in terms of value but the inherent nature of an item or a group of items may also render a matter material as for example mandatory disclosure requirements of statutes regardless of the amounts involved.
- In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs, for example, considering an item relating to-
 - ⌚ (a) The overall view given to the financial information,
 - ⌚ (b) The total of which it forms a part,
 - ⌚ (c) Associated terms-,
 - ⌚ (d) The corresponding amount in previous years.

4.2. The SAI applies its own judgment to the diverse situations that arise in the course of Government auditing. It would be impracticable to establish a code of rules, sufficiently elaborate, to cater to all situations and circumstances which an Auditor might encounter. In the observance of Auditing Standards, therefore, the Auditor must exercise his judgement in determining the auditing procedures necessary in the circumstances, to afford a reasonable basis for his opinion and the content of his report.

In regard to audit of financial statements of public sector enterprises., the SAI's audit objectives may be akin to the objectives of audit in private sector . Correspondingly, for the audit of financial statements of the corporate sector, the government auditor may apply standard audit practices issued by the Institute of Chartered Accountants.

4.3. With increased public consciousness the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating efficiently.

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- The broad aim of SAI is to safeguard the financial interests of the State and to uphold and promote public accountability and sound and economical financial management practices.
 - Audit assists the legislatures in the exercise of financial control over the executive Government,
 - The executive Government and not Audit is responsible for enforcing economy and efficiency in the expenditure of public money. It is, however, the duty of Audit to bring to light wastefulness, failures, system weaknesses, deficiencies and the circumstances leading to infructuous expenditure.
 - The entities managing public resources include commercial undertaking, e.g., entities established by statute or public sector undertakings established under the Companies Act in which the Government has a controlling interest. Irrespective of the manner in which they are constituted, their functions, degree of autonomy or funding arrangements, such entities are ultimately accountable to the Supreme law making body.

4.4. Development of adequate information control, evaluation and reporting systems within the Government will facilitate the accountability process.

Management of the audited entity is responsible for correctness and sufficiency of the form and content of the financial reports and other information. As a special arrangement dictated by mandate, the Accounts and Entitlement offices working under the SAI compile the financial reports of the State Governments based on the initial accounts rendered to them by the respective State Government agencies. Such offices also, in some states, maintain the accounts of long term loans given to Government servants, the Provident Fund accounts and the Entitlement accounts of Government personnel. Also, the SAI advises the President of India on the form of Government accounts.

4.5. Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the Government and audited entities should develop specific and measurable objectives and performance targets. SAI shall advise the Government for the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of Government. The audited entities should develop specific and measurable objectives and performance targets.

4.6. Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations. The Auditor often expresses an opinion on the performance of an auditee and based on comparison of the information given in the financial statements over a period of time. Consistency in following the accounting standards will facilitate expression of a fair opinion.

4.7. The existence of an adequate system of internal control minimises the risk of errors and irregularities.

- It is the responsibility of audited entity to develop adequate internal control systems to protect its resources, It is also its obligation to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with and that probity and propriety are observed in decision making. However, this does not relieve the auditor from

submitting proposals and recommendations to the audited entity where controls are found to be inadequate or missing.

- Auditors should make use of the INTOSAI guidelines on evaluation of Internal Controls and reporting thereon.

4.8. Legislative enactment exists to facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.

- An Auditor has a right to inspect any office of accounts of the Union or of a State, to require that any books, papers and other documents which are relevant to the transactions to be sent to him and to put such questions to the persons in charge of the office or make such observations and call for such information as he may require for the preparation of any account or report which it is his duty to prepare.
- Information about an audited entity acquired in the course of the Auditor's work must not be used for purposes outside the scope of audit and formation of an opinion or in reporting not in accordance with the Auditor's responsibility. It is essential that Audit maintain confidentiality regarding audit matters and the information obtained while carrying out audit engagements.

4.9. All audit activities shall be within the mandate of SAI. The term 'Audit' includes Financial Audit, Regularity Audit and Performance Audit. In pursuance of the Constitutional responsibility the SAI is empowered to decide the nature, scope, extent and quantum of audit including the form and content of the audit reports in respect of audit to be conducted by him or on his behalf.

4.10 SAI should work towards improving techniques for auditing the validity of performance measures. The expanding audit role of the auditors will require them to improve and develop new techniques and methodologies to assess whether reasonable and valid performance measures are used by the audited entity. Wherever practicable the auditors should acquaint themselves with techniques and methodologies of other relevant disciplines.

4.11 SAI should avoid conflict of interest between the auditor and the entity under audit. The SAI performs its role by carrying out audits of the various public sector entities and by reporting the results in conformity with Reporting Standards. To fulfill this role, the SAI needs to maintain its independence and objectivity. The application of appropriate general auditing standards assists the SAI in satisfying these requirements.

CHAPTER II

GENERAL STANDARDS IN GOVERNMENT AUDITING

1. Introductory

1.1. This section deals with general standards in government auditing. The general auditing standards describe the qualifications of the auditor and the auditing institution so that they may carry out the tasks related to field and reporting standards in a competent and effective manner.

1.2. The general auditing standards include standards, which apply both to the auditors and to the audit institutions, and standards, which apply to audit institutions. The standards common to auditors and audit institutions are:

- (a) The auditor and the audit institutions must be independent.
- (b) The auditor and the audit institutions must possess the required competence.
- (c) The auditor and the audit institutions must exercise due care and concern in complying with these auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.

1.3. The general auditing standards for the audit institutions are that they should adopt policies and procedures to

- (a) Recruit personnel with suitable qualifications.
- (b) Develop and train employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff
- (c) Prepare manuals and other written guidance notes and instructions concerning the conduct of audits.
- (d) Support the skills and experience available within the audit institutions, and identify the skills which are absent, provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern.
- (e) Review the efficiency and effectiveness of internal standards and procedures.

2. Independence

2.1. The general standards for the auditor and the audit institutions include independence from the legislature, independence from the executive, and independence from the audited entity.

2.2. Whatever the form of government, the need for independence and objectivity in audit is vital. An adequate degree of independence from both the legislature and the executive branch of government are essential to the conduct of audit and to the credibility of its results.

2.3. The legislature is one of the main users of audit services. It is from the Constitution that SAI derives his mandate, and a frequent feature of the audit function is its reporting to the legislature. The SAI works closely with the legislature, including with committees empowered by the legislature to consider audit reports.

2.4. The SAI may give members of the legislature factual briefings on audit reports, but it is important that the SAI maintains his independence from political influence, in order to preserve an impartial approach to its audit responsibilities. This implies that the SAI not be responsive, nor give the appearance of being responsive, to the wishes of particular political interests.

2.5. While the SAI must observe the laws enacted by the legislature, adequate independence requires that it not otherwise be subject to direction by the legislature in the programming, planning and conduct of audits. The SAI needs freedom to set priorities and program its work in accordance with his mandate and adopt methodologies appropriate to the audits to be undertaken,

2.6. It is essential that the legislature provide the SAI with sufficient resources, for which the SAI is accountable, as well as for the effective exercise of his mandate. While the expenditure of SAI's office is charged to the Consolidated Fund, the expenditure on the other offices of the Indian Audit and Accounts Department is subject to the vote of the central legislature.

2.7. The executive branch of government and the SAI may have some common interests in the promotion of public accountability. But the essential relationship with the executive is that of an external auditor. As such the SAI's reports assist the executive by drawing attention to deficiencies in administration and recommending improvements. Care should be taken to avoid participation in the executive's functions of the kind that would militate against the SAI's independence and objectivity in the discharge of his mandate.

2.8. It is important for the independence of the SAI that there be no power of direction by the executive in relation to the SAI's performance of his mandate. The SAI is not be obliged to carry out, modify or refrain from carrying out, an audit or suppress or modify audit findings, conclusions and recommendations.

2.9. A degree of co-operation between the SAI and the executive is desirable in some areas. The SAI should be ready to advise the executive in such matters as accounting standards and policies and the form of financial statements. The SAI must ensure that in giving such advice it avoids any explicit or implied commitment that would impair the independent exercise of his audit mandate.

2.10. Maintenance of the SAI's independence does not preclude requests to the SAI by the executive proposing matters for audit, But if it is to enjoy adequate independence, the SAI must be able to decline any such request. It is fundamental to the concept of SAI independence that decisions as to the audit tasks comprising the program should rest finally with the SAI.

2.11. A sensitive area in relationships between the SAI and the executive concerns provision of resources to the SAI. In varying degrees, reflecting constitutional and institutional differences, arrangements for the SAI's resource provision may be related to the executive branch of government's financial situation and general expenditure policies. As against that, effective promotion of public accountability requires that the

SAI be provided with sufficient resources to enable it to discharge its responsibilities in a reasonable manner.

2.12. Any imposition of resource or other restrictions by the executive, which would constrain the SAI's exercise of its mandate, would be an appropriate matter for report by the SAI to the legislature.

2.13. The legal mandate provided in the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 provides for full and free access for the CAG and his auditors to all premises and records relevant to audited entities and their operations and provides adequate powers to the CAG to obtain relevant information from persons or entities possessing it.

2.14. By legal provision and accepted convention, the executive permits access by the SAI to sensitive information, which is necessary and relevant to the discharge of the SAI's responsibilities.

2.15. In order that the SAI not only exercise his functions independently of the executive but also be seen to do so, it is important that his mandate and his independent status be well understood in the community. The SAI should, as appropriate opportunities arise, undertake an educational role in that regard.

2.16. The SAI's functional independence need not preclude arrangements with executive entities in regard to the SAI's administration in matters such as industrial relations, personnel management, property management or common purchasing of equipment and stores, though executive entities should not be in a position to take decisions that would jeopardise the SAI's independence in discharging his mandate.

2.17. The SAI must remain independent from audited entities. The audit department under the SAI should, however, seek to create among audited entities an understanding of its role and function, with a view to maintaining amicable relationships with them. Good relationships can help the SAI to obtain information freely and frankly and to conduct discussions in an atmosphere of mutual respect and understanding. In this spirit, the SAI, while retaining his independence, can agree to be associated with reforms which are planned by the Administration in areas such as public accounts or financial legislation or agree to be consulted about the preparation of draft laws or rules affecting his competence or his authority. In these cases it is not, however, a matter of the SAI interfering in administrative management but a matter of co-operating with certain administrative services by giving them technical assistance or by putting SAI's financial management experience at their disposition.

2.18. In contrast to private sector audit, where the auditor's agreed task is specified in an engagement letter, the audited entity is not in a client relationship with the SAI. The SAI has to discharge his mandate freely and impartially, taking management views into consideration in forming audit opinions, conclusions and recommendations, but owing no responsibility to the management of the audited entity for the scope or nature of the audits undertaken,

2.19. The SAI should not participate in the management or operations of an audited entity. Audit personnel should not become members of management committees and, if audit advice is to be given, it should be conveyed as audit advice or recommendation and acknowledged clearly as such.

2.20. Any SAI personnel having close affiliations with the management of an audited entity, such as social, kinship or other relationship conducive to a lessening of objectivity should not be assigned to audit that entity.

2.21. Personnel of the SAI should not become involved in instructing personnel of an audited entity as to their duties. In those instances where the SAI decides to establish a resident office at the audited entity with the purpose of facilitating the ongoing review of its operations, programs and activities, SAI personnel should not engage in any decision making or approval process which is considered the auditee's management responsibility.

2.22. The SAI may co-operate with academic institutions and enter formal relationships with professional bodies, provided the relationships do not inhibit its independence and objectivity, in order to avail of the advice of experienced members of the profession at large.

3. Competence

3.1. The auditor and the SAI must possess the required competence.

3.2. The following paragraphs explain competence as an auditing standard

3.2.1. The mandate of a SAI generally imposes a duty of forming and reporting audit opinions, conclusions and recommendations.

3.2.2. Discussions within the Audit Department promote the objectivity and authority of opinions and decisions.

3.2.3. Since the duties and responsibilities thus borne by the SAI are crucial to the concept of public accountability, the SAI must apply to his audits, methodologies and practices of the highest quality. It is incumbent upon it to formulate procedures to secure effective exercise of its responsibilities for audit reports, unimpaired by less than full adherence by personnel or external experts to its standards, planning procedures, methodologies and supervision.

3.2.4. The audit department needs to command the range of skills and experience necessary for effective discharge of the audit mandate. Whatever the nature of the audits to be undertaken under that mandate, persons whose education and experience is commensurate with the nature, scope and complexities of the audit task should carry out the audit work. The audit department should equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems.

3.2.5. Since the nature of audit mandate is wide and discretionary and leaves the SAI discretion in the frequency of audits to be carried out and the nature of reports to be provided, there is a high standard of management expected within the audit department.

4. Due Care

4.1. The general standards for the auditor and the SAI include due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.

4.2. The following paragraphs explain due care as an auditing standard:

4.2.1 The SAI must be, and be seen to be, objective in its audit of entities and public enterprises. It should be fair in its evaluations and in its reporting the outcome of audits.

4.2.2. Performance and exercise of technical skill should be of a quality appropriate to the complexities of a particular audit. Auditors need to be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results, which could be indicative of fraud, improper, or unlawful expenditure unauthorised operations, waste, inefficiency or lack of probity.

4.2.3 Where an authorised or recognised entity sets standards or guidelines for accounting and reporting by public enterprises, the SAI may use such guidelines in the course of his examination. The Accounting Standards and Standard Audit Practices issued by the Institute of Chartered Accountants of India (ICAI) should be kept in view by SAI while carrying out the audit of companies registered under the Companies Act 1956.

4.2.4. If the SAI employs external experts as consultants he must exercise due care to assure him of the consultants' competence and aptitude for the particular tasks involved. This standard applies also where outside auditors are engaged on contract with the SAI. In addition care must be taken to ensure that audit contracts include adequate provision for the SAI to determine the planning, the audit scope, the performing, and the reporting on the audit.

4.2.5. Should the SAI, in the performance of his functions, need to seek advice from specialists external to the SAI, the standards for exercise of due care in such arrangements have a bearing also on the maintenance of quality of performance. Obtaining advice from an external expert does not relieve the audit department of responsibility for the opinions formed or conclusions reached on the audit task.

4.2.6 When the audit department uses the work of another auditor(s), it must apply adequate procedures to provide assurance that the other auditor(s) has exercised due care and complied with relevant auditing standards, and may review the work of the other auditor(s) to satisfy itself as to the quality of that work.

4.2.7. Information about an audited entity acquired in the course of the auditor's work must not be used for purposes outside the scope of an audit and the formation of an opinion or in reporting in accordance with the auditor's responsibilities. It is essential that the audit department maintain confidentiality regarding audit matters and information arising from its audit task. However, the SAI should report offences against the law to proper prosecuting authorities.

5. Quality Assurance Review

5.1. SAI should have an appropriate quality assurance system in place.

5.2. The following paragraphs explain quality assurance reviews as an auditing standard:

5.2.1. Because of the importance of ensuring a high standard of work by the audit department, it should pay particular attention to quality assurance programs in order to improve audit performance and results. The benefits to be derived from such programs make it essential for appropriate resources to be available for this purpose. It is important that the use of these resources be matched against the benefits to be obtained.

5.2.2. The SAI should establish systems and procedures to:

- Confirm that internal quality assurance processes have operated satisfactorily-,
- Ensure the quality of the audit report, and
- Secure improvements and avoid repetition of weaknesses.

5.2.3. As a further means of ensuring quality of performance, additional to the review of audit activity by personnel having line responsibility for the audits concerned, it is desirable for the audit departments to establish their own quality assurance arrangements. That is, planning, conduct and reporting, in relation to a sample of audits may be reviewed in depth by suitably qualified SAI personnel not involved in those audits, in consultation with the relevant audit line management regarding the outcome of the internal quality assurance arrangements and periodic reporting to the SAI's top management.

5.2.4. It is appropriate for audit institutions to institute their own internal audit function with a wide charter to assist the audit department to achieve effective management of its own operations and sustain the quality of its performance.

5.2.5. The quality of the work done by the audit department can be enhanced by strengthening internal review and by the independent appraisal of its work.

6. Other General Standards for Audit Institutions

6.1. The SAI should adopt policies and procedures to recruit personnel with suitable qualifications and train them professionally.

6.1.1. SAI personnel should possess suitable qualifications and be equipped with appropriate training and experience. The SAI should establish, and regularly review, minimum training requirements for the appointment of auditors at each level within the Organisation.

6.2. The SAI should adopt policies and procedures to develop and train SAI employees to enable them to perform their task effectively and to define the basis for the advancement of auditors and other staff.

6.2.1. The following paragraphs explain training and development as an auditing standard:

6.2.2. The SAI should take adequate steps to provide for continuing professional development of its personnel, including, as appropriate, provision of in-house training and encouragement of attendance at external courses.

6.2.3. The SAI should identify professional development needs of its personnel.

6.2.4. The SAI should establish and regularly review criteria, including educational requirements, for the advancement of auditors and other staff of the SAI.

6.2.5. The SAI should also establish and maintain policies and procedures for the professional development of audit staff regarding the audit techniques and methodologies applicable to the range of audits it undertakes,

6.2.6. SAI personnel should have a good understanding of the government environment, including such aspects as the role of the legislature, the legal and institutional arrangements governing the operations of the executive and the charters of public

enterprises. Likewise, trained audit staff must possess an adequate knowledge of the SAI's auditing standards, policies, procedures and practices.

6.2.7. Audit of financial systems, accounting records and financial statements requires training in accounting and related disciplines as well as a knowledge of applicable legislation and executive orders affecting the accountability of the audited entity. Further, the conduct of performance audits may require, in addition to the above, training in such areas as administration, management, economics and the social sciences.

6.2.8. The SAI should encourage his personnel to become members of a professional body relevant to their work and to participate in that body's activities.

6.3. The SAI should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits.

6.3.1. The following paragraph explains written guidance as an auditing standard:

6.3.2. Communication to staff of the SAI by means of circulars containing guidance, and the maintenance of an up-to-date audit manual setting out the SAI's policies, standards and practices, is important in maintaining the quality of audits.

6.4. The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify those skills which are absent; provide a good distribution of skills to auditing tasks and a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern.

6.4.1. The following paragraphs explain the use of skills as an auditing standard:

6.4.2. Resources required for undertaking each audit need to be assessed so that suitably skilled staff may be assigned to the work and a control placed on staff resources to be applied to the audit.

6.4.3. The extent to which academic attainments should be related specifically to the audit task varies with the type of auditing undertaken. It is not necessary that each auditor possess competence in all aspects of the audit mandate. However, policies and procedures governing the assignment of personnel to audit tasks should aim at deploying personnel who have the auditing skills required by the nature of the audit task so that the team involved on a particular audit collectively possesses the necessary skills and expertise.

6.4.4. It should be open to the SAI to acquire specialised skills from external sources if the successful carrying out of an audit so requires in order that the audit findings, conclusions and recommendations are perceptive and soundly based and reflect an adequate understanding of the subject area of the audit. It is for the audit institution to judge, in its particular circumstances, to what extent its requirements are best met by in-house expertise as against employment of outside experts.

6.4.5. Policies and procedures governing supervision of audits are important factors in the performance of the SAI's role at an appropriate level of competence. The SAI should ensure that audits are planned and supervised by auditors who are competent, knowledgeable in the SAI's standards and methodologies, and equipped with an understanding of the specialties and peculiarities of the environment.

6.4.6. Where the SAI's mandate includes the audit of financial statements which cover the executive branch of government as a whole, the audit teams deployed should

be equipped to undertake a coordinated evaluation of departmental accounting systems, as well as of central agency co-ordination arrangements and control mechanisms. Teams will require knowledge of the relevant governmental accounting and control systems, and an adequate expertise in the auditing techniques applied by the SAI to this type of audit.

6.4.7. Unless the SAI is equipped to undertake, within a reasonable time-scale, all relevant audits, including performance audits covering the whole of every audited entity's operations, criteria are needed for determining the range of audit activities which, within the audit period or cycle, will give the maximum practicable assurance regarding performance of public accountability obligations by each audited entity.

6.4.8. In determining the allocation of its resources among different audit activities, the SAI must give priority to any audit tasks, which must, by law, be completed within a specified time frame. Careful attention must be given to strategic planning so as to identify an appropriate order of priority for discretionary audits to be undertaken.

6.4.9. Assignment of priorities compatible with maintaining the quality of performance across the mandate involves exercise of the SAI's judgement in the light of available information. Maintenance of a portfolio of data pertaining to the structure, functions and operations of audited entities will assist the SAI in identifying areas of materiality and vulnerability and areas holding potential for improvements in administration.

6.4.10. Before each audit is undertaken designated personnel within the SAI should give proper authorisation for its commencement. This authorisation should include a clear statement of the objectives of the audit, its scope and focus, resources to be applied to the audit in terms of skills and quantum, arrangements for reviews of progress at appropriate points, and the dates by which fieldwork is to be completed and a report on the audit is to be provided.

6.5. Standards with ethical significance:

These standards apply to individual auditors, head of the SAI, executive officers and all individuals working for and on behalf of the SAI. The SAI has the responsibility to ensure that all its auditors acquaint themselves with the values and principles contained in the Conduct Rules for government servants in India and they act accordingly. The following audit standards have ethical significance

- The auditor and the SAI should be independent and should avoid conflicts of interest with the audited entity on matters that may imply their independence materially.
- The auditor and the SAI must possess the required competence.
- The auditor must exercise due care and concern in complying with the auditing standards.
- The auditor should at all times maintain absolute Integrity and devotion to duty.
- Auditors should not disclose information obtained in the auditing process to third parties, either orally or in writing.

CHAPTER-III

FIELD STANDARDS IN GOVERNMENT AUDITING

1. The purpose of field standards is to establish the criteria or overall framework for the purposeful, systematic and balanced steps or actions that the auditor has to follow. These steps and actions represent the rules of investigation that the auditor, as a seeker of audit evidence, implements to achieve a specific result.
2. The field standards establish the framework for conducting and managing audit work. They are related to the general auditing standards, which set out the basic requirements for undertaking the tasks covered by the field standards. They are also related to the reporting standards, which cover the communication aspect of auditing, as the results from carrying out the field standards constitute the main source for the contents of the opinion or report.
3. The field standards applicable to all types of audit are:
 - (a) The auditor should plan the audit in a manner, which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.
 - (b) The work of the audit staff at each level and audit phase should be properly supervised during the audit; and a senior member of the audit staff should review documented work.
 - (c) The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control.
 - (d) In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results.

Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedures to confirm or dispel such suspicions. The regularity audit is an essential aspect of government auditing. One important objective, which this type of audit assigns to the SAI, is to make sure, by all the means put at its disposal, that the State budget and accounts are complete and valid. This will provide Parliament and other users of the audit report with assurance about the size and development of the financial obligations of the State. To achieve this objective the SAI will examine the accounts and financial

statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of a "discharge."

- (e) Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the Organisation, program, activity or function under audit.

In regularity (financial) audit and in other types of audit when applicable, auditors should analyse the financial statement to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.

4. Planning

4.1. The field standards include:

The auditor should plan the audit in a manner, which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

4.2. The following paragraphs explain planning as an auditing standard.

4.2.1. The SAI should give priority to any audit tasks, which must be undertaken by law and assess priorities for discretionary areas within the SAI's mandate.

4.2.2. In planning an audit of specific auditees the auditor should:

- (a) Identify important aspects of the environment in which the audited entity operates;
- (b) Develop an understanding of the accountability relationships;
- (c) Consider the form, content and users of audit opinions, conclusions or reports,
- (d) Specify the audit objectives and the tests necessary to meet them;
- (e) Identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weaknesses, Determine the materiality of matters to be considered;
- (g) Review the internal audit of the audited entity and its work program;
- (h) Assess the extent of reliance that might be placed on other auditors, for example, internal audit;
- (i) Determine the most efficient and effective audit approach;
- (j) Provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations; and
- (k) Provide for appropriate documentation of the audit plan and for the proposed fieldwork.

4.3. The following planning steps are normally included in an audit;

- (a) Collect information about the audited entity and its Organisation in order to assess risk and to determine materiality;
- (b) Define the objective and scope of the audit;

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- (c) Undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;
 - (d) Highlight special problems foreseen when planning the audit;
 - (e) Prepare a budget and a schedule for the audit;
 - (f) Identify staff requirements and a team for the audit; and
 - (g) Familiarise the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary.

4.4. The SAI may revise the plan during the audit when necessary.

4.5. Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from non-compliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditor's attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that non-compliance has occurred.

5. Supervision and Review

5.1. The field standards include:

The work of the audit staff at each level and audit phase should be properly supervised during the audit, and a senior member of the audit staff should review documented work.

5.2. The following paragraphs explain supervision and review as an auditing standard:

5.2.1. Supervision is essential to ensure the fulfillment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control is therefore necessary in all cases, regardless of the competence of individual auditors.

5.2.2. Supervision should be directed both to the substance and to the method of auditing. It involves ensuring that:

- (a) The members of the audit team have a clear and consistent understanding of the audit plan;
- (b) The audit is carried out in accordance with the auditing standards and practices of the SAI;
- (c) The audit plan and action steps specified in that plan are followed unless a variation is authorised;
- (d) Working papers contain evidence adequately supporting all conclusions, recommendations and opinions;
- (e) The auditor achieves the stated audit objectives; and

The audit report includes the audit conclusions, recommendations and opinions, as appropriate.

5.2.3. All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalised. It should be carried out as each part of the

audit progresses. Review brings more than one level of experience and judgement to the audit task and should ensure that:

- (a) All evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;
- (b) All errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s); and
- (c) Changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities.

5.2.4. This standard emphasises the importance of involvement of each higher level of supervision and does not in any way absolve the lower levels of audit staff carrying out field investigations from any negligence in carrying out assigned duties.

6. Study and Evaluation of Internal Control

6.1. The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control.

The following paragraphs explain internal control as an auditing standard.

6.1.1. The study and evaluation of internal control should be carried out according to the type of audit undertaken. In the case of regularity (financial) audit, study and evaluation are made mainly on controls that assist in safeguarding assets and resources, and assure the accuracy and completeness of accounting records. In the case of regularity (compliance) audit, study and evaluation are made mainly on controls that assist management in complying with laws and regulations. In the case of performance audit, they are made on controls that assist in conducting the business of the audited entity in an economic, efficient and effective manner, ensuring adherence to management policies, and producing timely and reliable financial and management information.

6.1.2. The extent of the study and evaluation of internal control depends on the objectives of the audit and on the degree of reliance intended.

6.1.3. Where accounting or other information systems are computerized, the auditor should determine whether internal controls are functioning properly to ensure the integrity, reliability and completeness of the data.

7. Compliance With Applicable Laws and Regulations

7.1. In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

7.2. In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The

auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results.

7.3. The regularity audit is an essential aspect of government auditing. One important objective that this type of audit assigns to the SAI is to make sure, by all the means put at its disposal, that the State budget and accounts are complete and valid. This will provide Parliament and other users of the audit report with assurance about the size and development of the financial obligations of the State. To achieve this objective the SAI will examine the accounts and financial statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of a "discharge."

7.4. The following paragraphs explain compliance as an auditing standard.

7.4.1. Reviewing compliance with laws and regulations is especially important when auditing government programs because decision-makers need to know if the laws and regulations are being followed, whether they are having the desired results, and, if not, what revisions are necessary. Additionally government organisations, programs, services, activities, and functions are created by laws and are subject to more specific rules and regulations.

7.4.2. Those planning the audit need to be knowledgeable of the compliance requirements that apply to the entity being audited. Because the laws and regulations that may apply to a specific audit are often numerous, the auditors need to exercise professional judgement in determining those laws and regulations that might have a significant impact on the audit objectives.

7.4.3. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may indirectly impact the results of the audit. When audit steps and procedures indicate that illegal acts have or may have occurred, the auditor needs to determine the extent to which these acts affect the audit results.

7.4.4. In conducting audits in accordance with this standard, the auditors should choose and perform audit steps and procedures that, in their professional judgement, are appropriate in the circumstances. These audit steps and procedures should be designed to obtain sufficient, competent, and relevant evidence that will provide a reasonable basis for their judgement and conclusions.

7.4.5. Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. In designing steps and procedures to test or assess compliance, auditors should evaluate the entity's internal controls and assess the risk that the control structure might not prevent or detect non-compliance.

7.4.6. Without affecting the SAI's independence, the auditors should exercise due professional care and caution in extending audit steps and procedures relative to illegal acts so as not to interfere with potential future investigations or legal proceedings. Due care would include considering the concerned laws and relevant legal implications through appropriate forum to determine the audit steps and procedures to be followed.

8. Audit Evidence

8.1. Competent relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the Organisation, Program, activity Or function under audit.

8.2. The following paragraphs explain audit evidence as an auditing standard.

8.2.1. The audit findings, conclusions and recommendations must be based on evidence. Since auditors seldom have the opportunity of considering all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen. When computer-based system data are an important part of the audit and the data reliability is crucial to accomplishing the audit objective, auditors need to satisfy themselves that the data are reliable and relevant.

8.2.2. Auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence. The SAI should ensure that the techniques employed are sufficient to reasonably detect all quantitatively material errors and irregularities.

8.2.3. In choosing approaches and procedures, consideration should be given to the quality of evidence, i.e. the evidence should be competent, relevant, reasonable and as direct as possible so as to reduce the need for inferences to be made.

8.2.4. Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant findings and conclusions.

8.2.5. Adequate documentation is important for several reasons. It will:

- (a) Confirm and support the auditor's opinions and reports;
- (b) Increase the efficiency and effectiveness of the audit;
- (c) Serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- (d) Serve as evidence of the auditor's compliance with Auditing Standards;
- (e) Facilitate planning and supervision;
- (f) Help the auditor's professional development;
- (g) Help to ensure that delegated work has been satisfactorily performed;
and
- (h) Provide evidence of work done for future reference.

8.2.6. The auditor should bear in mind that the content and arrangement of the working papers reflect the degree of the auditor's proficiency, experience and knowledge. Working papers should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit subsequently to ascertain from them what work was performed to support the conclusions.

9. Analysis of Financial Statements

9.1. In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.

9.2. The following paragraphs explain analysis of financial statements as an auditing standard:

9.2.1. Financial statement analysis aims at ascertaining the existence of the expected relationship within and between the various elements of the financial statements, identifying any unexpected relationships and any unusual trends.

9.2.2. The auditor should therefore thoroughly analyse the financial statements and ascertain whether:

- (a) Financial statements are prepared in accordance with acceptable accounting standards;
- (b) Financial statements are presented with due consideration to the circumstances of the audited entity;
- (c) Sufficient disclosures are presented about various elements of financial statements; and
- (d) The various elements of financial statements are properly evaluated, measured and presented.

9.2.3. The methods and techniques of financial analysis depend to a large degree on the nature, scope and objective of the audit, and on the knowledge and judgement of the auditor.

9.2.4. Where the SAI is required to report on the execution of budgetary laws, the audit should include:

- (a) for revenue accounts, ascertaining whether forecasts are those of the initial budget, and whether the audits of taxes, rates and duties recorded, and imputed receipts, can be carried out by comparison with the annual financial statements of the audited activity;
- (b) for expenditure accounts, verifying credits to assist budgets, adjustment laws and, for carryovers, the previous year's financial statements.

9.2.5. Where the SAI is required to report on systems of tax administration of systems for realising non-tax receipts, along with a systems study and analysis of realisation of revenues/receipts, detection of individual errors in both assessment and collection is essential to highlight audit assertions regarding the system defects and comment on their efficiency to ensure compliance.

CHAPTER-IV

REPORTING STANDARDS

Government auditors submit different kinds of reports to the Executive and the Legislature. The audit reporting process begins with submission of an Inspection Report to the Head of any Office or Department which has been audited with a request to submit replies and clarifications/comments on the audit observations. Depending on the veracity and relevance of replies/clarifications received and the materiality of the observations in the Inspection Reports, these are further processed for reporting in the Audit Report submitted by the SAI for being placed in the concerned Legislature. Besides this basic distinction, there are audit certificates of financial statements or of statements of expenditure, which are issued to the management of a company/corporation and departments dealing with them. The following standards apply equally to all these reports with variations in the scope of these reports.

- 1.1. On the completion of each audit assignment, the Auditor should prepare a written report setting out the audit observations and conclusions in an appropriate form; its content should be easy to understand, free from ambiguity and supported by sufficient, competent and relevant audit evidence and be independent, objective, fair, complete, accurate, constructive and concise.
- 1.2. The auditor should issue the reports in a timely manner for use by management, legislature and other interested users.
- 1.3. The audit report may be presented on other media that are retrievable by other users and the audit organisations. Retrievable audit reports include those, which are in electronic formats and maybe released on the Internet.
- 1.4. With regard to audit of financial statements, the auditor should prepare a report expressing opinion on the fair presentation of the financial position of the audited entity in the financial statement. Form and content of this report and the nature of opinion is discussed in the following paragraphs.
- 1.5. With regard to fraudulent practice or serious financial irregularities detected during audit or examined by audit, a written report should be prepared. This report should indicate the scope of audit, main findings, total amount involved, modus operandi of the fraud or the irregularity, accountability for the same and recommendations for improvement of internal control system, fraud prevention and detection measures to safeguard against recurrence of fraud/serious financial irregularity.
- 1.6. With regard to Performance or Value for Money Audits, the report should include a description of the scope and coverage of audit, objective of audit, area of audit, main findings in respect of the efficiency, economy and effectiveness (including impact) aspects of the area (subject matter) which was audited and recommendations suggesting the improvements that are needed.
- 1.7. With regard to regularity audits, the auditor should prepare a written report which may either be a part of the report on the financial statements or the value for Money Audit or a separate report on the tests of compliance of applicable laws and regulations. The report should contain a statement on the results of the tests to indicate the nature of assurance i.e. positive or negative obtained from the tests.

1.8. Reporting standards constitute the framework for the audit Organisation and the Auditor to report the results of audit of regularity or performance audit or expressing his opinion on a set of financial statements.

1.9. These standards are to assist and not to supercede the prudent judgement of the Auditor in making audit observations, conclusions and report.

1.10. The expression 'Reporting' embraces both the Auditor's opinion on a set of financial statements and the Auditor's report on regularity, performance or value for money audit and also the reports prepared on periodical inspection of the records of an audit entity.

1.11. The audit report should be complete. This requires that the report contains all pertinent information needed to satisfy the audit objectives, and to promote an adequate and correct understanding of the matter reported. It also means including appropriate background information.

1.11.1. In most cases, a single example of a deficiency is not sufficient to support a broad conclusion or a related recommendation. All that it supports is that a deviation, an error or a weakness existed. However, except as necessary, detailed supporting data need not be included in the report.

1.12. Accuracy requires that the evidence presented is true and the conclusions be correctly portrayed. The conclusions should flow from the evidence. The need for accuracy is based on the need to assure the users that what is reported is credible and reliable.

1.12.1. The report should include only information, findings and conclusions that are supported by competent and relevant evidence in the auditor's working papers. Reported evidence should demonstrate the correctness and reasonableness of the matters reported.

1.12.2. Correct portrayal means describing accurately the audit scope and methodology and presenting findings and conclusions in a manner consistent with the scope of audit work.

1.13. Objectivity requires that the presentation throughout the report be balanced in content and tone. The audit report should be fair and not be misleading and should place the audit results in proper perspective. This means presenting the audit results impartially and guarding against the tendency to exaggerate or over-emphasise deficient performance. In describing shortcomings in performance, the Auditor should present the explanation of the audited entity and stray instances of deviation should not be used to reach broad conclusions.

1.13.1. The tone of reports should encourage decision-makers to act on the auditor's findings and recommendations. Although findings should be presented clearly and forthrightly, the auditor should keep in mind that one of the objectives is to persuade and this can best be done by avoiding language that generate defensiveness and opposition.

1.14. Being convincing requires that the audit results be presented persuasively and the conclusions and recommendations followed logically from the facts presented. The information presented should be sufficient to convince the readers to recognise the validity of the findings and reasonableness of audit conclusions. A convincing report can

help focus the attention of management on matters that need attention and help stimulate correction.

1.15. Clarity requires that the report be easy to read and understand. Use of non-technical language is essential. Wherever technical terms and unfamiliar abbreviations are used, they should be clearly defined. Both logical Organisation of the material and precision in stating the facts and in drawing conclusions significantly contribute to clarity and understanding. Appropriate visual aids (such as photographs, charts, graphs and maps etc.) should be used to clarify and summarise complex material.

1.16. Being concise requires that the report is not longer than necessary to convey the audit opinion and conclusions. Too much of details detracts from the report and conceals the audit opinion and conclusions and confuses the readers. Complete and concise reports are likely to receive greater attention

1.17. Being constructive requires that the report also includes well thought out suggestions, in broad terms, for improvements, rather than how to achieve them. In presenting the suggestions due regard should be paid to the requirements of rules and orders, operational constraints and the prevailing milieu. The suggestions should be discussed with sufficiently high level functionaries of the entities and as far as possible, their acceptances obtained before these are incorporated in the report.

1.18. Timeliness requires that the audit report should be made available promptly to be of utmost use to all users, particularly to the auditee organisations and/or Government who have to take requisite action.

2. Follow up of Audit Reports

2.1. Adequate, prompt and proper follow up action by the entity on and in the light of audit conclusions projected will enhance the effectiveness of audit and promote public accountability.

2.2. Systems and procedures should be in place and implemented for securing appropriate conclusions and preventive follow up action on audit reports. In subsequent audits and otherwise, the Auditor should examine and report whether satisfactory action was taken on the audit reports.

3. Report distribution.

3.1. Written audit reports are submitted by the audit Organisation to the appropriate officials of the Organisation audited. Copies are also sent to other officials who may be responsible for taking action on audit observations and conclusions. However, the report is not a public document till it is presented to the legislature.

4. Reporting on compliance with laws and regulations and on internal control

4.1. This standard is discussed under two sections, viz.,

➤ (a) Value for money/Performance audit; and

➤ (b) Audit of Financial statements.

5. Value for money audit.

5.1. Auditors should report all significant instances of noncompliance and all significant instances of abuse that were found during or in connection with the audit. In

some circumstances, auditors should report illegal acts promptly to the audited entity without waiting for the full report to be prepared after the audit.

6. Noncompliance and Abuse.

6.1. When auditors conclude, based on evidence obtained, that significant noncompliance or abuse either has occurred or is likely to have occurred, they should report relevant information. The term "noncompliance" comprises illegal acts (violations of laws and regulation) and violations of provisions of contracts or grant agreements. Abuse occurs when the conduct of a government Organisation, program, activity or function falls far short of societal expectations for prudent behavior.

6.2. Whether a particular act is, in fact, illegal may have to await final determination by a court of law. Thus, when auditors disclose matters that have led them to conclude that an illegal act is likely to have occurred. They should take care not to imply that they have made a determination of illegality.

6.3. In reporting significant instances of noncompliance, auditors should place their findings in perspective. To give the reader a basis for judging the prevalence and consequences of noncompliance, the instances of noncompliance should be related to the universe or the number of cases examined and be quantified in terms of money value, if appropriate.

6.4. When auditors detect non-significant instances of noncompliance they should communicate them to the auditee, preferably in writing. If the auditors have communicated such instances of noncompliance to top management, they should refer to such communication in the audit report. Auditors should document in their working papers all communications to the auditee about noncompliance.

6.5. Auditors may report illegal acts directly to specified parties in the auditee Government (for example, to the Union and State Vigilance authority etc) in certain circumstances.

6.6. The auditee may also be required by law or regulation to report certain fraud illegal acts to specified internal or external parties (for example, to a Central/State Government investigating agency or Central/State Vigilance Commission). If auditors have communicated such illegal acts to the auditee, and it fails to report them, then the auditors should include such matters in their report.

7. Internal Controls.

7.1. Auditors should report the scope of their work on management controls and any significant weaknesses found during the audit.

7.2. Reporting on management controls will vary depending on the significance of any weaknesses found and the relationship of those weaknesses to the audit objectives.

7.3. In audits where the sole objective is to audit the management controls, weaknesses found of significance to warrant reporting would be considered deficiencies and be so identified in the audit report. The management controls that were assessed should be identified to the extent necessary to clearly present the objectives, scope and methodology of the audit. In a performance audit, auditors may identify significant weaknesses in management controls as a cause of deficient performance. In reporting this type of finding, the control weaknesses would be described as the "cause".

8. Audit of financial statements.

8.1. The report on the financial statements should either (1) describe the scope of the auditors' testing of compliance with laws and regulations and internal control over financial reporting and present the results of those tests or (2) refer to the separate report(s) containing that information. In presenting the results of those tests, auditors should report fraud, illegal acts, other material noncompliance, and reportable conditions in internal control over financial reporting. In some circumstances, auditors should report fraud and illegal acts promptly to the specified authority in the audited entity.

8.2. These responsibilities are in addition to and do not modify auditors' responsibilities to (1) address the effect fraud or illegal acts may have on the report on the financial statements and (2) determine that the approximate authority are adequately informed about fraud, illegal acts, and reportable conditions.

8.3. Auditors may report on compliance with laws and regulations and internal control over financial reporting in the report on the financial statements or in separate reports.

8.4. When auditors report separately (including separate reports bound in the same document) on compliance with laws and regulations and internal control over financial reporting, the report on the financial statements should state that they are issuing those additional reports. The report on the financial statements should also state that in considering the results of the audit, these reports should be read along with the auditor's report on the financial statements.

8.5. Auditors should report the scope of their testing of compliance with laws and regulations and of internal control over financial reporting, including whether or not the tests they performed provided sufficient evidence to support an opinion on compliance or internal control over financial reporting and whether the auditors are providing such opinions.

9. Fraud, illegal acts and other noncompliance.

9.1. When auditors conclude based on evidence obtained, that fraud or an illegal act either has occurred or is likely to have occurred they should report relevant information. Auditors need not report information about fraud or an illegal act that is clearly inconsequential. Auditors should also report other noncompliance (for example a violation of a contract provision that is material to the financial statements).

9.2. Whether a particular act is, in fact, illegal may have to await final determination by a court of law.

9.3. Thus when auditors disclose matters that have led them to conclude that an illegal act is likely to have occurred, they should take care not to imply that they have made a determination of illegality.

9.4. In reporting material fraud, illegal acts, or other noncompliance, the auditors should place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and be quantified in terms of money value, if appropriate. In presenting material fraud, illegal acts or other noncompliance, auditors should ensure that standard for objectives, scope and methodology, audit results and presentation standards, as appropriate are observed.

Auditors may provide less extensive disclosure of fraud and illegal acts that are not material in either a quantitative or qualitative sense.

9.5. When auditors detect fraud, illegal acts, or other noncompliance that are not of materials nature, they should communicate those findings to the auditee, preferably in writing and should refer to such communications in their report on compliance. Auditors should document in their working papers all communications to the auditee about fraud, illegal acts, and other noncompliance.

9.6. Management is responsible for taking timely and appropriate steps to remedy fraud or illegal acts that auditors report to it. When fraud or an illegal act involves assistance received directly or indirectly from another government or agency, (for example Central Government Grants received by the State Government or a government agency including an autonomous body received a government grant) auditors may have a duty to report it directly (to the other government/agency) if management fails to take remedial steps.

9.7. Auditors should obtain sufficient, competent and relevant evidence (for example, by confirmation with outside parties) to corroborate assertions by management that it has reported fraud or illegal acts.

9.8. Auditors under some circumstances may be required to report promptly indications of certain types of fraud or illegal acts to law enforcement or investigatory authorities. When auditors conclude that these type of fraud or Illegal act either has occurred or is likely to have occurred, they should ask those authorities and/or legal counsel if reporting certain information about that fraud or illegal act would compromise investigative or legal proceedings. Auditors should limit their reporting to matters that would not compromise those proceedings, such as information that is already a part of the public record.

10. Deficiencies in Internal Control.

10.1. Auditors should report deficiencies in internal control that they consider to be reportable conditions. The following are examples of matters that may be reportable conditions:

- Absence of appropriate segregation of duties consistent with appropriate control objectives;
- Absence of appropriate reviews and approvals of transactions, accounting entries or systems output;
- Inadequate provisions for the safeguarding of assets;
- Evidence of failure to safeguard assets from loss, damage or misappropriation;
- Evidence that a system fails to provide complete and accurate out put consistent with the auditee's control objectives because of the misapplication of control procedures;
- Evidence of intentional override of internal control by those in authority to the detriment of the overall objectives of the system;
- Evidence of failure to perform tasks that are part of internal control, such as reconciliation not prepared or not timely prepared;

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- Absence of a sufficient level of control consciousness within the Organisation;
 - Significant deficiencies in the design or operation of internal control that could result in violations of laws and regulations having a direct and material effect on the financial statements; and
 - Failure to follow up and correct previously identified deficiencies in internal control.

10.2. Audit follow-up standard requires auditors to report whether satisfactory action was taken or not, on the audit reports.

10.3. In reporting reportable conditions, auditors should identify those that are individually or cumulatively material weaknesses. Auditors should ensure that standard for objectives, scope, methodology, audit results and report presentation standards, as appropriate are followed in their reports on audit of financial statements.

10.4. When auditors detect deficiencies in internal control that are not of material nature, they should communicate those deficiencies to the auditee, preferably in writing. If the auditors have communicated other deficiencies in internal control to top management, they should refer to such communication when they report on internal control. All communications to the auditee about deficiencies in internal control should be documented in the working papers.

11. The form and content of audit opinion and report.

11.1. The form and content of all audit opinions and reports are founded on the following general principles-

- (a) Title. The opinion or report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.
- (b) Signature and date. The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which, in the case of regularity (financial) audits, may be beyond the period of the financial statements).
- (c) Objectives and scope. The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.
- (d) Completeness. Opinions should be appended to and published with the financial statements to which they relate, but performance reports may be free standing. The auditor's opinions and reports should be presented as prepared by the auditor. In exercising its independence CAG may acquire information from time to time, which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation the auditor should consider the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.
- (e) Addressee. The opinion or report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and

local regulations or practice. This is unnecessary where formal procedures exist for its delivery.

- (f) Identification of subject matter. The opinion or report should identify the financial statements (in the case of regularity (financial) audits) or area (in the case of performance audits) to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited.
- (g) Legal basis. Audit opinions and reports should identify the legislation or other authority providing for the audit.
- (h) Compliance with standards. Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.
- (i) Timeliness. The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

11.2. An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion.

11.3. An unqualified opinion is given when the auditor is satisfied in all material respects that:

- (a) The financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- (b) The statements comply with statutory requirements and relevant regulations;
- (c) The view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- (d) There is adequate disclosure of all material matters relevant to the financial statements.

11.4. **Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references that are meant as "emphases of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

11.5. **Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.

11.6. **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction that is so fundamental that an opinion, which is qualified in certain respects, would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

11.7. It is customary to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

11.8. In addition, regularity audits often require that reports are made where weaknesses exist in systems of financial control or accounting (as distinct from performance audit aspects). This may occur not only where weaknesses affect the audited entity's own procedures but also where they relate to its control over the activities of others. The auditor should also report on significant irregularities, whether perceived or potential, on inconsistency of application of regulations or on fraud and corrupt practices.

11.9. In reporting on irregularities or instances of non-compliance with laws or regulations, the auditors should be careful to place their findings in the proper perspective. The extent of non-compliance can be related to the number of cases examined or quantified monetarily.

11.10. Reports on irregularities may be prepared irrespective of a qualification of the auditor's opinion. By their nature they tend to contain significant criticisms, but in order to be constructive they should also address future remedial action by incorporating statements by the audited entity or by the auditor, including conclusions or recommendations.

11.11. In contrast to regularity audit, which is subject to fairly specific requirements and expectations, performance audit is wide-ranging in nature and is more open to judgement and interpretation; coverage is also more selective and may be carried out over a cycle of several years, rather than in one financial period, and it does not normally relate to particular financial or other statements. As a consequence performance audit reports are varied and contain more discussion and reasoned argument.

11.12. The performance audit report should state clearly the objectives and scope of the audit. Reports may include criticism (for example where, in the public interest or on grounds of public accountability, matters of serious waste, extravagance or inefficiency are drawn to attention) or may make no significant criticism but give independent information, advice or assurance as to whether and to what extent economy, efficiency and effectiveness are being or have been achieved.

11.13. The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements. Where the nature of the audit allows this to

be done in relation to specific areas of an entity's activities, the auditor should provide a report, which describes the circumstances and arrives at a specific conclusion rather than a standardised statement. Where the audit is confined to consideration of whether sufficient controls exist to secure economy, efficiency or effectiveness, the auditor may provide a more general opinion.

11.14. Auditors should recognise that their judgement is being applied to actions resulting from past management decisions. Care should therefore be exercised in making such judgements, and the report should indicate the nature and extent of information reasonably available (or which ought to have been available) to the audited entity at the time the decisions were taken. By stating clearly the scope, objectives and findings of the audit, the report demonstrates to the reader that the auditor is being fair. Fairness also implies the presentation of weaknesses or critical findings in such a way as to encourage correction, and to improve systems and guidance within the audited entity. Accordingly the facts are generally agreed with the audited entity in order to ensure that they are complete, accurate and fairly presented in the audit report. There may also be a need to include the audited entity's responses to the matters raised, either verbatim or in summary, especially where an auditor presents its own views or recommendations.

11.15. Performance reports should not concentrate solely on criticism of the past but should be constructive. The auditor's conclusions and recommendations are an important aspect of the audit and, where appropriate, are written as a guide for action. Generally these recommendations suggest what improvements are needed rather than how to achieve them, though circumstances sometimes arise which warrant a specific recommendation, for example to correct a defect in the law in order to bring about an administrative improvement.

11.16. In formulating and following up recommendations, the auditor should maintain objectivity and independence and thus focus on whether -identified weaknesses are corrected rather than on whether specific recommendations are adopted.

11.17. In formulating the audit opinion or report, the auditor should have regard to the materiality of the matter in the context of the financial statements audit or regularity audit as the case may be or the nature of the audited entity or activity being audited where performance audit is being conducted.

11.18. If the auditor concludes that, 'judged against the criteria most appropriate in the circumstances, the matter does not materially affect the view given by the financial statements, the opinion should not be qualified. Where the auditor decides that, a matter is material the opinion should be qualified, having determined the type of qualification.

11.19. In the case of performance audits that 'judgement will be more subjective as the report does not relate as directly to financial or other statements. Consequently, the auditor may find that materiality by nature or by context is a more important consideration than materiality by monetary amounts involve.

