

Unit – 5

Audit of Government & Local Bodies

Meaning: Government audit is an audit conducted to ensure that the social welfare has been uplifted in a given period through various activities of different types of govt or different layers of govt.

Origin of government audit: The govt audit came into existence on the account of following factors:

- With the increase of democratic govt, it called for public accountability to report about the performance of such govt.
- The financial stakes involved in the govt organizations necessitated the performance evaluation in the evaluation in the systematic way to ensure the upliftment of social welfare.
- There was a necessity to compare the plan and performance of such govt undertakings.

Types of govt audit:

- **Compliance Audit:** It is an audit conducted to ensure that the various rules and regulations, contractual obligations, provisions of any law or legislation procedure, if they are not properly observed, it is the duty of the auditor to enlighten such limitation in the audit report.
- **Financial Audit:** Financial audit is to ensure that the finance is used properly for the pre-determined purpose or channels, the auditor has to confirm that the specific grants are appropriated towards the specific programs and properly authorized and accounted.
- **Performance Audit:** A performance audit is to ensure that the system is working efficiently to result in expected end result and the auditor must check whether such expected end result has been achieved and if not, what are the possible causes so that an improvement can be made in the future.
- **Transaction Audit:** A transaction audit is an audit conducted for all the transaction of a certain period or some specified transaction based on some criteria. It is to ensure that the transactions are legal and proper and to ensure that the organizational result would be achieved.
- **CCO Based Audit [Chief Controlling Officer]:** CCO based audit is an audit conducted on the direction of CCO of the auditor general office of the govt. this audit normally conducted when the CCO has sufficient proof to believe that the things are normal in a particular govt department or office.
- **Thematic audit:** The thematic audit is the in depth audit conducted to bring into light any abnormalities which may involve in one or more entities or departments. An auditor would go and audit the accounts to identify any serious error or a fraud. This is not a normal or periodic audit and it is conducted in special or emergency situation.
- **IT Audit:** An IT audit is the audit of informational technology. The infrastructure development and the effective utilization of IT in implementing the various schemes of the govt.
- **Employee welfare or benefit Audit:** An employee benefit audit is an audit conducted to ensure that a proposed benefit has been actually passed into the employees he should ensure that the benefit to the employees has been helpful to boost up their efficiency.

Objectives of govt audit: The following are the important objective of govt audit:

- To ensure that procedure or other formalities are duly observed in the conduct of activities.
- To ensure that any payment is made out of the authorized funds or pre-determined funds, an off-hand payment is not allowed in the govt departments.
- Every payment must be authorized by an official before it is disbursed.
- To ensure that payments are properly classified as capital and revenue and recorded as per canons of accounting.
- The auditor has to ensure that the receipts are properly classified into capital and revenue, any capital receipts must be added to specific fund or a fresh fund should be created if it is not already existing.
- To ensure that the stock and stores are properly accounted and valued. The accounting and valuation of stock and stores in the most scientific way would protect the public wealth.
- To ensure that all the expenditure is in the public interest.
- All the amounts due to the govt should be properly recovered and the auditor should ensure that amounts received is duly credited to the accounts concerned.

Private Audit & Govt Audit: difference:

Sl no	Basis	Private Audit	Govt Audit
1.	Appointing authorities	In case of the owner will appoint the auditor. In case of partnership partners will appoint the auditor. In case of company and societies, the auditor is appointed in general meeting.	The auditor is appointed by the govt on the advice of Comptroller and Auditor General.
2.	Person who carries out audit	The auditor is an external party who is an qualified CA or Cost Accountant.	The audit is conducted by the employees of the govt.
3.	Type of audit	It is always periodical audit, but for certain exceptional cases.	It is a continuous audit in the case of govt organizations.
4.	Payment of Remuneration	The remuneration is fixed by the owners of the business on the appointment.	The govt. which appoints the auditor would also fix the remuneration.
5.	Submission of Report	The audit report is submitted to the owner of the business proprietor, partners or BOD.	The audit report would be presented to the head or chief of the dept whose Accounts are audited.
6.	Presentation of audit report	The audit report would be presented in the meeting of the partners or members.	The report would be submitted in the parliament - if it is central govt undertaking, in state legislative – if it is state level

			undertaking & to the bodies, if local govts – if it is local organization.
7.	Preliminary examination	In private organization there is no preliminary examination of any transaction and its owner discretion.	A treasury officer, either actual or designated always conducts a preliminary examination of all transactions.
8.	Qualification of auditor	A qualified CA or Cost Accountant is eligible to become auditor and conduct the audit.	Any govt employee [AG office] are eligible to conduct a govt audit.

Scope of govt audit: The scope of govt audit covers the various areas in the process conducting audit:

- The procedures: While conducting a govt audit, it should be confirmed that all the procedures that all the procedures are systematically followed. There is no scope for flouting the procedures.
- Policies: A policy defines how a task should be performed a govt auditor should ensure that the various relevant policies are duly observed and followed.
- Rules: It define do's and dont's of an organization a govt auditor must verify that these do's and don't's rules clearly followed by the organization subject to audit.
- Technology: The govt auditor should ensure that infrastructure exist to acquire and use the latest technology and the technology is been put into use.
- People: The govt audit covers only those people who are employed by any govt department or govt ministry. It may include people employed in central govt or state govt or local govt. The activities of govt employees only is covered under the govt audit.

Characteristics of govt audit:

- * A govt audit evaluates whether the standards are accepted principles of the system has been followed and to report any deviation which are cognizable. The idea is to improve quality of the system.
- * **Impartial process or activity:** A govt audit is impartial process in the sense that the audit is commenced with a trust on the work of the employees no negative presumption is made any deviations from the accepted principle are being brought to light.
- * **It is a reporting activity:** An auditor can only report on the work he has audited he can make suggestions, indicate corrective actions to be taken any other comments towards a **positive end he has no authority to implement any of his recommendations.**
- * **Its comparison process:** An auditor compares the actual work done with the standard practices or accepted practices. Any deviation which are cognizable are reported with suggestions to improve.
- * **It is a protection process:** Through govt audit various public properties and resources are being protected by ensuring that their utilization or appropriation is proper and in the public interest.

Benefits / role of govt audit: The following are the benefits of govt audit:

- It improves the financial performance of the organization: Though audit the efficiency of the employees is measured and reporting qualifications are made regarding area of improvement and there by overall efficiency and financial performance is lifted.
- **It prevents or reduces the fraud:** Through govt audit it is possible to detect the frauds which may be committed by bureaucratic or the concerned officials. Detection of frauds is useful to save loss of revenue to the govt and there by improve the social welfare.
- **It protects public money and public property:** Through govt audit the public money flow to the wrong areas and the swindling of the public property is been protected in so many cases the govt audit is able to bring to light the misuse of public money and public property and protect them in the public interest.
- **It develops an internal control system:** Through govt audit it is possible to build up a good internal control system after an audit an auditor would suggest the improvements to be affected in the policies and procedures such as improved would prevent or reduce the wrong usage of the public resources.
- **It enhances the external functions:** A govt audit steps up the efficiency of the govt organizations it also influences the external agencies to step up their level of performance and reduction of the cost of operations. Many external or private organization are compelled to become cost effective over a period of time.
- **It improves economic structure of the society:** When the govt audit becomes the part of the system it is useful to create a sound economic system and improve the economic structure of the society. All the economic resources are properly protected and also used to enhance the social welfare.

Professional Ethics: The term professional ethics refers to the generally accepted standards of professional and personal behavior by professionals. The professional ethics acts as guiding factors of the behavior while executing the professional duties or otherwise.

The following are some of the professional ethics:

- **Integrity:** A professional auditor must be very loyal for his profession and to its clients he must provide the best service to protect the interest of his service to protect the interest of his clients at no point of time he must get yielded to any kind of attractions.
- **Principle of objectivity:** A professional auditor must be objective in his outlook in carrying out of his professional duties, the purpose for which the auditor is taken up should be his prime mover of his work he should not be influenced by any subjective factors like the relationships, influence, monetary consideration so on, he must do his best to be transparent in executing the professional duties with the objective in the mind.
- **Professional competence:** An auditor must be highly knowledgeable in the area in which he is working he must have a expertise knowledge of accounting, tax matters, supporting legislations, supporting software in the modern days and any related area to give the best service to his clients. He must be so capable or competent has to install confidence in the minds of his clients.
- **Confidentiality:** The professional must maintain the confidentiality about all the aspects of his clients the various points which comes to his knowledge has a professional council should be

kept as top secret should not be shared or leaked with other clients or other people. This would add to his reputation only decided cases can be quoted, but not undecided instance as it would endanger the interest of his clients.

- **Professional behavior:** A professional must have a dignified behavior physically and professionally his language of expression, his body language physical posture, and such are credentials must be such has to emulate him or follow him he must be able to present himself with lot of dignity and honor.
- **Compliance of social behavior:** A professional must comply with all the requirements of a good social behavior as everyone is a social being by such a social behavior he is identified as a part of society.

Professional threats: An auditor has to be impartial objective and fair in his approach while auditing the client's organization he has to be frank enough to express a true and fair view of state of affairs in his report. But in some situation, he is hindered not to be unbiased and be partial in his report and such situations or instance are known as professional threats.

The following are the instance of professional threats:

- ⇒ **Self interest threat:** In some situations, the auditor would not express his opinion as frankly as he should have done because he posses an interest as a partner or ex-partner or director or ex-director or officer or ex-officer or any kind of personal benefit accrues to him or has accrued to him. These factors of personal favour or benefit which would make him not to express things as they are is known as self interest threat or professional interest threat.
- ⇒ **Professional review threat:** An auditor may sometime make a review of his own work or report or statement in the past in such a situation the auditor holds back from making an impartial report or expression and is known as professional review threat. He would present an altered report to hide his mistakes in the past.
- ⇒ **Advocacy threat:** Sometimes, the auditor would have given advices on certain factors or issue or would have made certain recommendations which may not have resulted in the expected level of success while analyzing the reasons for the failure of his advocacy, he would not be frank or cannot be frank about his own mistake and such a threat is known as advocacy threat.
- ⇒ **Familiarity threat:** Sometimes, the auditor and the client would be so close and familiar that the auditor will not be able to express his true opinion on the true state of affairs such previous knowledge or friendship or close relationship which alters his audit report is known as familiarity threat.
- ⇒ **Intimidation threat:** In some situation an external party would threaten either morally or physically to make the auditor to alter his report or adjust his report to the liking of such external party and such a threat is known as intimidation threat.

Audit of Panchayat Raj Institutions: The audit of Panchayat Raj Institution is conducted u/s 14,15,16,17,18 and 19 of the CAG [Comptroller & the Auditor General Act and rules there and all the Panchayat Raj Institution must be subjected to annual audit under these rules.

- ◆ Audit u/s 14: An audit u/s 14, a subject to the following aspects:

- The annual year period should be clearly defined and the financial year of the govt should be the annual year for all the local bodies under very rare situations an alteration may allowed subject to the prior approval of the consult authorities.
- The Quantum of grant, the amount granted and released the sponsorship, the amounts and sponsorship directly from the central govt should be properly recorded this is to ensure that a proper control is maintained over the grants which is a critical component of local bodies and will be useful for the development of the local areas.
- A list of all the village panchayats must be maintained along with their accounts. This will be useful to commence and complete the audit in a systematic way.

◆ **Audit u/s 15:** Under section 15 the audit conducted include the following:

- Full details about the various grants received or sponsorship received should be kept ready as a statement.
- The authorities have a direct access to the books or documents to ensure that everything is proper by instant visits.

Procedure of audit of bodies: The following procedures should be followed in the local bodies.

- The date of commencement of audit should be intimated in advance this will help for the preparation to present the accounts and documents so that the audit is conducted in a scientific way.
- An audit program has to be prepared to commence and finish the audit work in a systematic way.

General auditing of Panchayat Raj Institutions and the aspects to be covered there: The following aspects has to be covered in the audit of Panchayat Raj Institutions:

- The various procedures laid down under the specific orders or by the CAG are followed or not should be checked.
- The policies which are pre-decided are duly observed or not should be ensured.
- The various receipts and payments should be properly accounted and authenticated.
- Special care must be taken to audit the grants received during the audit period.
- The utilization of grants for the general or specific purpose as per the notification should be ensured.
- Any other area specifically assigned particular period should be properly inspected and reported.
- Property like Equipments and Buildings should be audited.

Audit report: After the audit work is completed, an auditor would prepare and present a report to the authority which has appointed him under the CAG Rules. If all the points or the area of audit are properly carried out he gives a clean report stating that all the aspects are duly fulfilled.

If any of the requirements are not duly satisfied, the auditor would give a qualified report with audit objections and attaches audit paras.

Audit objections: During the audit the auditor may come across certain areas or aspects not fulfilled by an organization or a department of a govt such area or aspect of non-fulfillment of the credentials are known as Audit objections. The audit objections may fall under one of the following areas:

- ▶ Any financial irregularity identified and pointed out by the auditor that is misuse of funds.
- ▶ Non- compliance of the pre-determined procedures.
- ▶ Non-fulfillment or breach of policies like reservation policy, purchase policy so on.
- ▶ Breach of rules laid down for specific function or functional area.
- ▶ Any other unauthorized commitments.

Rectification of audit objections:

- ⇒ A written notice would be served for the person responsible for the breach committed giving a fort night time to explain the causes for the la..... And the under reasons are pardonable, such official may be exonerated.
- ⇒ If any amount was spent without proper authorization, the official who has spent may be asked to reimburse such amount or recovered from his salary.
- ⇒ If any amount disallowed spent by the official, it may be recovered or he may be asked reimburse.
- ⇒ In some major cases of irregularity, it may be referred to Public Accounts Committee [PAG] to consider and decide the action to be taken or to exonerated the mistakes.
- ⇒ If no other alternate is possible a penalty may be imposed on the person committing irregularity.

An Audit para is an extension of an audit report which includes any comments or recommendations or measures suggested by the auditor to get over with certain mistakes or objections raised by him in the audit report.

Types of Audit Para:

Types of audit paras: There are three types of audit paras:

- **Suggestive paras:** This includes the suggestions made by the auditor in respect of the organization he has audited. Whatever points he wants to suggest may be included in this para. Normally, measures to improve the efficiency or achieve accounting perfection are included in this para but no restrictions are there to make any other suggestions.
- **Recovery paras:** In this para the auditor may make recommendations to collect any amount due to the govt department over the allowed period or reasonable period. It may also be to recover the unauthorized amounts paid or amount paid without or beyond sanctions by any of the officials of any govt department.

The Recovery paras are useful to identify the long due or over due amount or any amount to be received by an organization.

- **Analytical paras:** Analytical para include the analysis made by the auditor regarding certain issues which he may find fit. Such an analysis is useful for the concerned govt department to improve its performance in future.

Types of audit conducted for the Panchayat Raj Institutions or Local bodies:

- **Special audit or other audits:** This type of audit is taken up at the discretion of the authorities under special situations or specific situations they are not regular audits. For ex: A Corona fund utilization audit may be conducted as a special audit.
- **Financial statement audit:** In financial statement audit the auditor peruse the financial statement prepared by local bodies may be receipts and payments, income and expenditure accounts and statements of assets and liabilities and compares the various items included there in the comparison of the statements of a few years is also done to identify wide deviations of increase or decrease and to get the explanations for such deviations such a comparison would bring into light any accounting or other manipulations done by the department under audit this type of audit is normally a regular or annual audit.
- **Statutory audit:** A statute is a legislation or enactment in India if any audit of a local body is conducted under the provisions of a legislation, it is known as statutory audit. The audit of panchayat Raj Institutions or local bodies are normally conducted under the provisions of CAG Act and the rules under there may be audits conducted using any other legislations requiring such an audit brought under statutory audit. For ex: When a local bodies receives a contributions in a foreign exchange from NRI village or local area a FEMA audit may be conducted.
- **Employee Benefit audit:** Under this audit the auditor would ensure that the employee benefit plans are properly implemented and the benefit has passed on to the employees. For example: A post pregnancy leave of 6 months is available for women employees it should be seen that it is implemented.
- **Performance audit:** Performance audit is an audit conducted to ensure that the various jobs are performed with efficiency in addition to efficiency, the effectiveness should also be ensured efficiency ensures the speed of performance and effectiveness ensures the quality of performance.
- **Operation audit:** An operation audit is a task assigned at the levels of local bodies, the auditor should ensure that these tasks or operations are carried out properly with transparency, i.e. any kind of favoritism or biases do not exist and things are in black and white.
- **Compliance audit:** In compliance audit, the auditor should ensure that the local bodies have followed policies, rules and regulations or procedures laid down in respect of certain activity the employees in question have no power to make any deviations unless a prior permission or provisions for such deviation are allowed. For ex: In case of any appointments to the reserved category the appointments must be made as per Roaster only.
- **Information system audit:** Under this audit, the auditor should ensure that an efficient information or information technology system is acquired and installed there should be proper infrastructure upgradation such upgradation improves efficiency and effectiveness.
- **Forensic audit:** A forensic audit is an audit conducted to identify, unearth and analyze the causes and effects of an illegal activity which may be financial activity or a non-financial activity.

Committees: A committee is a group of people who are assigned certain tasks or activities.

Types of committees in the local bodies: There are 2 types of committee in the local bodies:

- **Standing Committee:** A standing committee is a committee which is assigned with particular task permanently or with no time boundedness. For ex: Sanitation committee, garbage committee, health committee, planning committee and so on.
- **Adhoc committee:** It is a temporary committee assigned with a specific task with a specific time limit. For ex: Corona relief committee, flood relief committee and so on.

Difference b/w Standing and Adhoc committee:

Sl no.	Standing committee	Adhoc committee
1.	This is a permanent committee with no time limitations.	It is temporary committee.
2	The task is standardized well defined task.	No specific task is pre-defined, but based on situations and circumstances.

Duties and responsibilities of Adhoc committee of local bodies:

- To define limits or boundaries for the specific duty assigned for Adhoc committee.
- To plan execution of the specific duty or task to prepare a budget in respect of the task and get the approval from the concerned officials.
- To execute the task in the best interest of the public.
- To conduct a review of the work done.
- To maintain proper accounts and documents to be submitted to the audit or any other purpose.

Functions of a govt auditor of Urban local bodies:

- He would ensure that the local body has followed the applicable state laws.
- To ensure that the local body has followed its own policies.
- The procedures laid down by the local bodies should be followed.
- The receipts and payments of local bodies should be properly appropriated and recorded and the auditor should ensure the presence of such documents.
- In respect of grants the auditor should confirm that they are properly accounted and spent for the general purpose or emergency depending upon whether they are general grants or special grants.
- The auditor physically check the presence of various asset and ensure that they are in working conditions.
- They should check stocks and stores by comparing the physical balance with book balance and the method of their valuation.