

MANDATE AND SCOPE OF AUDITS BY THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

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ABSTRACT

Comptroller and Auditor General of India is the supreme authority vested with the powers of conducting audit of Government organizations. This article examines the mandate and scope of the audits by the Comptroller and Auditor General of India as per the Regulations on Audit and Accounts framed in pursuance of Section 23 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The Constitution of India has mandated the Comptroller and Auditor General of India to carry audits of Government organizations. Scope of the audits is determined by the Comptroller and Auditor General of India keeping in mind the objectives of the audit. The broad objectives of the audit are to examine the validity, legality, propriety, regularity, economy, efficiency and effectiveness of financial management and public administration. This article discusses all such dimensions related with the mandate and scope of the audits carried by the Comptroller and Auditor General of India.

Keywords: *Comptroller and Auditor General of India, Mandate of Audit, Scope of Audit.*

1. Introduction

Established under Article 148 of the Constitution of India, The Comptroller and Auditor General of India is a Constitutional Authority in India. It is empowered to audit all expenditure and receipts of the Government of India and the Governments of the State, including autonomous bodies and corporations that are substantially financed by the Government. Moreover the Comptroller and Auditor General is also the statutory auditor of Government-owned corporations and carries supplementary audit of government companies that are financed by way of equity share of at least 51 per cent by the Government or subsidiary companies of an existing government companies. The reports of the Comptroller and Auditor General are laid before the Legislatures/Parliament and are taken up for discussion by the Committees on Public Undertakings (COPUs) and Public Accounts Committees (PACs), that are special committees state legislatures and in the Parliament of India. The Comptroller and Auditor General of India is also the head of the Indian Audit and Accounts Department, the administration of which is managed by officers of Indian Audit and Accounts Service, and has more than 40000 employees across the country. This article examines the mandate and scope of the audits by the Comptroller and Auditor General of India as per the Regulations

on Audit and Accounts framed in pursuance of Section 23 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

2. Literature Review

Kaushal (2019) writes that the government of every nation has a moral mandate to undertake all types of activities for which finance is essential. The government has to follow prudent financial management practices. The Government of India follows the entire gamut of financial management activities, having three broad facets namely budgeting, accounting and auditing, during a financial year. Audit plays a pivotal role in the financial management system. There is an extensive audit machinery at the top of which is the institution of the Comptroller and Auditor General in India, a British legacy, having constitutional status. He is the supreme audit authority of the country. As an officer of the Constitution his role is that of a watchdog. His intensive audit has brought to the fore a number of financial irregularities. Through his audit reports he is definitely contributing to improving the state of financial management in the country but several issues remain mostly unaddressed which act as challenges before a truly earnest audit.

Batra and Kaur (1993) have written that government auditors do not have sufficient appreciation of the commercial nature of the

public enterprises, and too detailed and continuous audit dampens the initiative of enterprising managers, forcing them to adopt a more cautious approach and restricting the scope of delegation of powers. In some cases the Comptroller and Auditor-General is the sole auditor, and in other cases he performs the superimposed audit in addition to the audit by the professional auditor. Therefore, finds that audit control over public enterprises varies from case to case, and the CAG should interpret this power according to the need of situation, and there should be external efficiency audit for public enterprises.

Sen (2013) state that in early 2013, India's then comptroller and auditor general (CAG), Vinod Rai, while delivering a speech at Harvard University's Kennedy School, wondered whether his office should be confined to being "mere accountants." That this question could be raised in a public forum, and that too outside India, spoke to the transformation in recent times of Rai's stature and the office that he held. The winds of change were reflected in the Indian Supreme Court's rejection in 2013 of a public interest litigation challenging the authority of the auditor general, who is a constitutional authority, to conduct performance audits of the government. Significantly, the Court ruled, the "CAG is not a munim [accountant] to go into the balance-sheets. The CAG is a constitutional authority entitled to review and conduct performance audit on revenue allocations . . . and examine matters relating to the economy and how the government uses its resources."

Aggarwal (2013) is of the opinion that judiciary has relied at many instances on the reports of CAG to question the failure of policies and deviations from the goal of public interest by different sectors and department of central and state governments. Indubitably this constitutional body has played significant role in controlling corruption in India, till now, as is evinced in the article in its regulatory, environmental, and recommendatory function. However the powers of CAG need to be increased in the light of growing incidence of corruption and thus various suggestions have been proposed in the end.

Mathur (2018) writes that the Comptroller and Auditor General (CAG) is an institution under

our constitution for enforcing the accountability of the executive and watching that public money is used with due regard to wisdom, faithfulness and economy. To perform the job efficiently, there is need for fundamental restructuring of its organisational structure, which is an inheritance from the colonial past. There is a need to convert it into a multi-member audit commission at the apex level and strengthen status of State Accountants General, who conduct the audit of state government transactions, by giving them statutory recognition and greater autonomy. To instil public confidence in the incumbent holding the high office of CAG, there is need for transparency in his appointment and only a professional of proven competence should be appointed to the post. Government should recognise the important role CAG can play in effective management of national finances and good governance.

Sharma (2014) writes that auditing functions are constantly changing because of the interaction between audit profession and the public and thus they have largely been recognised as a social phenomenon. Reforms in the public sector have directly influenced the auditing practices. Conventionally it was concerned with legality, regularity and probity of government agencies and expenditures because of reforms in the field of the public sector. Audit function has expanded to include wider monitoring functions over government agencies and is now concerned with terms such as accountability, output, efficiency and value of money. Genesis of auditing practices in ancient civilisations, reforms in auditing practices in the UK and auditing development shift to the USA from the UK because of economic growth of the USA in 1920–1960, introduction of computerised auditing practices and development of auditing practices from ancient India to post-independent India are the main contents of the article.

3. Mandate And Scope Of Audits By The Cag

Mandate of the Comptroller and Auditor General refers to the authority that is vested in him with regard to accounts and audit under the Constitution of India and the Act. The mandate of the Comptroller and Auditor

General derives its mandate for audit of Union and States, Government corporations and companies and, authorities and bodies from the Constitution and also the Comptroller and Auditor General's (DPC) Act, 1971. The Comptroller and Auditor General is the only authority prescribed in the Constitution that is entrusted with the responsibility of audit of the accounts of the States and the Union. Under Section 13, (read with Section 17) and Section 16 of the Act, it is the responsibility of the Comptroller and Auditor General to conduct audit all receipts, all expenditure, and other transactions of the Governments of the State, Union and each Union Territory. The mandate of the Comptroller and Auditor General's, under the Constitution and under Section 14, 15, 19 and 20 of the Act, also extends to the audit of authorities, bodies, Government companies and corporations. The reports of the Comptroller and Auditor General are placed before the Parliament or the Legislature of State or Union Territory, as the case may be. To safeguard the independence of the Comptroller and Auditor General, as provided by the Constitution, the Executive authorities do not have powers of giving any direction to the Comptroller and Auditor General's regarding the audit mandate and its execution. Section 23 of the Comptroller and Auditor General's (DPC) Act, 1971 provides that the extent and scope of the audit shall be determined by the Comptroller and Auditor General. Such authority is not restricted by any considerations other than ensuring that the objectives of audit are achieved. The scope of audit is defined, consistently with the type of audit and the audit objectives, and may also include an assessment of internal controls in the auditable entities. Such an assessment of internal controls may be undertaken either as an integral component of an audit or as a separate audit assignment. The Comptroller and Auditor General may, additionally, decide to undertake any other audit of activity, transactions, scheme, programme, entity or organization, both integral and incidental to the fulfillment of audit mandate, and for the achievement of the objectives of audit. The Comptroller and Auditor General prescribes the scope of audit, which comprises the quantum of audit that includes the period of

coverage of the audit, the application of sampling, in case sampling is used, the units of the auditable entity, and the boundaries of audit enquiry. Under Section 24 of the Comptroller and Auditor General's (DPC) Act, 1971, the Comptroller and Auditor General may, when circumstances so necessitate, dispense of with any part of detailed audit of any class of transactions or accounts and apply test checks in relation to such transactions or accounts as he may ascertain.

4. Other Related Provisions To The Cag Audit

The objective of the audit is to examine the validity, legality, propriety, regularity, economy, effectiveness and efficiency of financial management and public administration. The main types of audit carried by the CAG are financial audit, compliance audit, performance audit, and other audit. Financial audit deals with the audit of financial statements of the audit entity. Compliance audit deals with ascertaining if there is compliance in all material respects with the applicable rules, laws, regulations, established codes etc. and also the conduct of public officials and general principles of sound public financial management. Performance audit is an independent assessment to ascertain if Government institutions, entities, programmes, operations, funds, activities are operating in accordance with the principles of efficiency, economy, and effectiveness and to find out if there is scope for improvement. A combination of the three types of audit can also be conducted. All the audits conducted by the Comptroller and Auditor General, or on his behalf, are as per the Constitution of India and the Act. The conduct of such audits are within the framework of the Regulations, Audit Quality Management Framework, Guidance Notes, Auditing Standards, Practice Notes Standing orders, Code of Ethics, Guidelines, Manuals, and other instructions issued by the Comptroller and Auditor General.

5. Conclusion

The Comptroller and Auditor General of India derives its mandate to conduct audit of Government organizations from the Constitution of India. It is the sole authority

that is vested with the power to conduct audit of the accounts of the Union Government, State Government and the Union Territories. Additionally it has powers to conduct audit of local bodies and authorities and also government companies. The scope of the audit conducted by the Comptroller and Auditor General of India is primarily governed by the objectives of the audit. The scope of audit has to be defined, consistently in line with the type of audit and the audit objectives, and can also include an assessment of internal controls in the auditable entities. The main types of audit

carried by the CAG are financial audit, compliance audit, performance audit, and other audit. The reports of the Comptroller and Auditor General are placed before the Parliament or the Legislature of State or Union Territory, as the case may be. To safeguard the independence of the Comptroller and Auditor General, as provided by the Constitution, the Executive authorities do not have powers of giving any direction to the Comptroller and Auditor General's regarding the audit mandate and its execution.

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