

Audit and Auditing Standards in SAI India

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India

- One of the oldest civilizations
- Twenty-nine states and six union territories
- Seventh largest in terms of area (32.87 lakh sq km area)
- Bounded by the Himalayas (north), Bay of Bengal (east), the Arabian sea (west) and the Indian Ocean (south).

India-three tiers of government

- The Union or federal Government
- States and UTs
- Local self government bodies
 - Municipalities
 - Panchayats

System of government

- Parliamentary democracy with President as Head of State
- Council of Ministers with PM as the Head of Government
- Parliament is bi-cameral
 - Rajya Sabha
 - Lok Sabha

System of government: states or province

- Governor -Head of State
- Council of Ministers with CM as the Head of provincial government
- State Legislature uni-cameral in most states but bi-cameral in a few states.
 - Vidhan Sabha
 - Vidhan Parishad

SAI India

- CAG of India-a constitutional authority, heads SAI India
- Indian Audit and Accounts Department

SAI India- source of authority

- Consitution of India- Article 148 to 151
- CAG (DPC) Act 1971 enacted by the Parliament
- Several other Acts of Parliament read with CAG (DPC) Act
- Regulations on audit and accounts issued by CAG of India under section 23 of CAG Act
- Judicial pronouncements

SAI India- authority

- 149. Duties and Powers of the Comptroller and Auditor-General :- The Comptroller and Auditor-General shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament and, until provision in that behalf is so made, shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States as were conferred on or exercisable by the Auditor-General of India immediately before the commencement of this Constitution in relation to the accounts of the Dominion of India and of the provinces respectively.
- 150. Form of accounts of the Union and of the States :- The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor-General of India, prescribe.
- 151. Audit Reports :-
 - (1) The reports of the Comptroller and Auditor-General of India relating to the accounts of the Union shall be submitted to the president, who shall cause them to be laid before each House of Parliament.
 - (2) The reports of the Comptroller and Auditor-General of India relating to the accounts of a State shall be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State.

SAI India- responsibility

- Two fold
 - audit
 - accounts (States)
- Third dimension of SAI India's responsibility
 - Technical Guidance and Supervision of audit and accounts of Local self government bodies

SAI India: Vision

- The vision of SAI India represents what we aspire to become: We strive to be a global leader and initiator of national and international best practices in public sector auditing and accounting and recognised for independent, credible, balanced and timely reporting on public finance and governance.

SAI India: Mission

- Our mission enunciates our current role and describes what we are doing today: Mandated by the Constitution of India, we promote accountability, transparency and good governance through high quality auditing and accounting and provide independent assurance to our stakeholders, the Legislature, the Executive and the Public, that public funds are being used efficiently and for the intended purposes.

SAI India: core values

- Independence
- Objectivity
- Integrity
- Reliability
- Professional Excellence
- Transparency
- Positive Approach

Organizational set up

- Two tier
- Office of CAG- apex entity
- Audit offices, accounts offices and training institutions

SAI India: Auditees

- Central government ministries and departments
- State government ministries and departments
- Government companies and corporations
- Autonomous bodies and other government assisted bodies
- Urban/rural local self government bodies

Three dimensions of audit

- Compliance audit
- Financial audit
- Performance audit

SAI India :Broad audit criteria

- Legality and Regularity
- Propriety
- Economy
- Efficiency
- Effectiveness
- Best practices

SAI India: Reports and opinions

- Inspection Reports
- Audit Reports
- Opinions on financial statements
- Performance audit reports

SAI India-Auditing standards

- Auditing standards prescribe norms of principles and practices which the auditors are expected to follow in the conduct of audit
- Provide broad guidance to auditors
- SAI India has suitably adapted the auditing standards of INTOSAI with due consideration to Indian constitution, relevant statutes and rules and regulations.

SAI India-Auditing standards

Four parts

- Basic postulates
- General standards
- Field standards
- Reporting standards

Auditing standards; basic postulates

- The SAI should comply with the INTOSAI auditing standards in all matters that are deemed material.
- The SAI should apply its own judgement to the diverse situations that arise in the course of Government auditing.
- There is a need for the accountability process to be in place in the entities managing public resources. SAI to bring to light system weaknesses and deficiencies in accountability processes.
- SAI shall advise the government for promulgation of acceptable accounting standards for financial reporting and disclosure.
- Auditors should make use of INTOSAI guidelines on evaluation of Internal Controls and reporting thereon.
- All auditing activities like- financial audit, regularity (compliance) audit and performance audit shall be within the mandate of SAI.
- SAI should work towards improving techniques for auditing the validity of performance measures.
- SAI to avoid conflict of interest between the auditor and the audited entity.

Auditing Standards: General Standards

- **Independence** from legislature, executive and audited entity.
- **Competence** – audit department needs to command the range of skills and experience necessary for effective discharge of audit mandate.
- **Due care**
 - SAI must be objective in audit and fair in evaluations and in reporting outcome of audit
 - Accounting standards and standard audit practices issued by ICAI should be kept in view during audit of companies.
 - While engaging external experts as consultants SAI must exercise due care regarding his competence and aptitude for the particular task.
 - Obtaining advice from external expert doesn't relieve the auditor of his responsibility for the opinion expressed or conclusions drawn.
 - Information acquired about an entity in the course of audit must not be used otherwise. However SAI should report offences against law to appropriate authorities.

Auditing Standards: General Standards

- ***Quality assurance review***

- ✓ To ensure that Internal quality assurance processes are in place and are operating satisfactorily.
- ✓ To institute own internal audit function with a wide charter.
- ✓ Strengthening internal review and independent appraisal of its work.

- ***Other general standards***

- ✓ SAI should adopt policies and procedures to recruit personnel with suitable qualifications and train them professionally.
- ✓ The SAI should adopt policies and procedures to develop and train employees to enable them to perform their tasks effectively and to define basis for advancement.
- ✓ SAI should adopt policies and procedures to prepare manuals and other guidance and instructions concerning the conduct of audit.
- ✓ SAI should adopt policies and procedures to support the skills and experience available within SAI and identify skills which are absent and provide good distribution of skills to auditing tasks and have proper planning and supervision.
- ✓ Standards with ethical significance like auditor should be independent and avoid conflict of interest, at all times maintain absolute integrity and devotion to duty.

Auditing Standards: Field Standards

- ***Planning***

The auditor should plan audit in a manner to ensure high quality of audit in an economic, efficient and effective way and in a timely manner.

- ***Supervision and review***

- ***Study and evaluation of internal controls***

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

- ***Compliance with applicable laws and regulations***

- ***Audit evidence***

- ✓ Competent
- ✓ Relevant
- ✓ Reasonable

- ***Analysis of Financial statements***

Financial statements should be analysed to examine whether acceptable accounting standards for financial reporting and disclosure are complied with.

Auditing Standards: Reporting Standards

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 reporting standards apply to all these reports with variations in the scope of these reports.

Auditing Standards: Reporting Standards

- 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.
- The auditor should issue the reports in a **timely manner** for use by management, legislature and other interested users.
- 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.**

Auditing Standards: Reporting Standards

- 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.
- 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.

Auditing Standards: Reporting Standards

- 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.
- 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.

Auditing Standards: Reporting Standards

- 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.
- 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.

Auditing Standards: Reporting Standards

- **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.
- **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.

Auditing Standards: Reporting Standards

- 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.
- ***Clarity*** requires that the report be easy to read and understand. Use of nontechnical 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.
- 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

Auditing Standards: Reporting Standards

- 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.
- ***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.

Reporting Standards: follow up of audit reports

Follow up of Audit Reports

- Systems and procedures should be in place and implemented for securing 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.

Reporting Standards: Report distribution

- 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.

Reporting Standards

- Reporting on compliance with laws and regulations and on internal control
- Noncompliance and Abuse.

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.

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.

Reporting Standards: Internal Controls

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

Reporting Standards: Audit of financial statements

- 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.
- 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.
- 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.

Reporting Standards

Fraud, illegal acts and other noncompliance.

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

Reporting Standards: Deficiencies in Internal Control

- 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;

Reporting Standards: form and content of audit opinion and report

- 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).

Reporting Standards: form and content of audit opinion and report

- (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.

Reporting Standards: form and content of audit opinion and 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.

Reporting Standards: form and content of audit opinion and report

- (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.

Reporting Standards: form and content of audit opinion and report

- An audit opinion is normally in a standard format, relating to the financial statements as a whole. 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.
- 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.

Reporting Standards: form and content of audit opinion and report

- **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.
- **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.

Reporting Standards: form and content of audit opinion and report

- **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.

Reporting Standards: form and content of audit opinion and report

- 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.

Reporting Standards: form and content of audit opinion and report

- **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.
- 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.