

Chapter - 15 "Audit of PSU"

Topics Covered: Part - A - Basics of audit of PSU - Organisation of PSU
Framework of Govt. Audit
Objectives and scope of audit
Elements of audit of PSU
Principles governing audit of PSU

Part - B : Types of Audit ———— (i) Financial Audit
(ii) Compliance Audit

(iii) Performance Audit: Objective and Systematic Examination of Evidences for the purposes of providing an Independent assessment of a Govt. Organisation, program, activity or a function
↓ in order to

- (a) Improve public accountability; and
- (b) facilitating decision making by responsible party to oversee or initiate corrective action.

Elements of Performance Audit:

(3'E)

- ↗ Economy : Optimum utilisation of resources
- ↘ Efficiency : Measurement of Input - output.
- ↘ Effectiveness : Measurement of the Extent to which objectives are achieved.

✓ Aspects to be evaluated while carry out Efficiency Audit:

- (A) Procurement Practices: sound
- (B) Human, Financial and Other Resources: properly protected, maintained and efficiently used.
- (C) Staff, Equipment and other facilities: Used in optimum numbers.
- (d) Operating Procedures: Efficient
- (e) Objectives: met cost effectively.

Aspects to be evaluated while carrying out Effectiveness audit:

- ✓ (a) Extent: Determine the extent to which desired results are achieved.
- ✓ (b) Effectiveness: Assess the effectiveness of the programs and/or Individual Program Components.
- ✓ (c) Alternatives: whether mngt. has considered alternatives to carry out the program that yield desired results more effectively or at a lower cost.
- ✓ (d) Mngt. Control System: Assess adequacy of Mngt. Control System for measuring, monitoring and reporting the effectiveness of the program.
- ✓ (e) Compliance: Ensure compliance with laws and regulations applicable to a program.

Objectives of Performance Audit: (a) Evaluation of Economy, efficiency and effectiveness of Policies, Programmes, Organisation, Mngt.

(b) Focus on Area in which it can add value which has greatest potential for improvement and provides constructive incentive for the responsible parties to take corrective action.

Factors to be considered while planning performance audit: - Self study -
(Noting + Learning)

Steps in planning the performance audit:

- (a) Obtain Understanding: of the Entity / programme to be audited.
- For this purpose, following sources may be used:
- (i) Documents of Entity
 - (ii) Legislative documents;
 - (iii) Policy documents
 - (iv) Research Papers;
 - (v) Past Audit working Papers.
 - (vi) Media coverage etc.

(b) Defining Audit objective: in a concise manner.

(c) Scope of audit: to define nature, timing and extent of audit.

(d) Determining the audit criteria:

Criteria: Standards used to determine whether a program meets the expectation.

Imp: Criteria used should be reasonable, attainable and relevant.

Sources from which criteria may be established:

(i) Policies, Standards, directives and Guidelines available.

(ii) Procedure Manuals of the Entity.

(iii) Criteria used by other Entities engaged in similar activities.

(iv) Independent Expert opinion.

(v) General Management and subject matter literature and Research papers.

(vi) New or established scientific knowledge and other reliable information.

(e) Deciding audit approach: No uniform approach can be described that is applicable to all subject matters of performance audit.

- System oriented
- Problem "
- Result "

- Selection of approach also determines methods and means used for conducting the audit.

- Method and means that can be used include the following:

(i) Analysis of Procedures (ii) Case Studies

(iii) Use of Existing data (iv) Performing Surveys

(v) Analysis of Results (Input-output)

(vi) Quantitative Analysis etc.

(f) Developing Audit Questions: Audit team should prepare a list of questions to which they seek answers.

(g) Assessing the skills of audit team and requirement of outside expertise: so that audit function can be discharged effectively.

(h) Audit design Matrix:

Audit Objective	Audit Questions	Audit Criteria	Evidences-	Data collection AND Analysis Method

(i) Establish the time table and resources

(j) Intimation of audit: Audited Entities must be informed about the planned performance audit well before commencement of audit.

(iv) Comprehensive Audit: - Assessing Overall efficiency and effectiveness of public enterprise by reference to predetermined standards and criteria.

- Areas to be covered vary from entity to entity, based on nature of the enterprise, its objectives and operations.
- Such audit requires combination of aspects of financial, compliance and performance audit.

v-imp-

Areas to be covered in Comprehensive audit: Learning + Noting - How.

(i) Overall Capital cost of project	(iv) Adequacy - <u>Purchase Policies</u>	(vii) - R&D
(ii) Planned operational output - achieved	(v) " - <u>System of R&M</u>	(viii) - Procedures
(iii) Planned rate of return - achieved	(vi) " - <u>Cost Control Measures</u>	(ix) - Project

(v) Propriety Audit: Verification of transactions on the tests of:

- (a) Public Interest
- (b) Commonly accepted Customs
- (c) Standards of Conduct.

X

focus - documentary evidences

or

Substance of transaction

↓ Considering

- financial prudence
- public interest
- prevention of wasteful expenditure.
- scrutiny of executive actions

Principles of Propriety audit:

learning + Noting - H.W.

Functions of auditor in context of Propriety audit:

learning + Noting - H.W.