At the very outset, I would like to express my deep appreciation to CAG and his office for associating me with this Conference. I am happy to be present for the inauguration of the 27th Conference of Accountants General. Let me begin by complimenting the Audit Institution in India, which has a history of over 150 years.

In 1858, this supreme audit authority was called the Accountant General. The authority was re-designated four times before the adoption of the Constitution when the term Comptroller and Auditor General (CAG) of India was provided.

Under Article 148 of our Constitution, the CAG is an independent constitutional authority which is neither a part of the legislature nor the executive. Article 151 prescribes that the reports of the CAG relating to the accounts of the Union and the States are submitted to the President or the Governor of the State respectively and they shall cause the reports to be laid in the Parliament or the State Legislative Assembly.

Evidently, the founding fathers of our Constitution had envisaged a prominent role for public audit in our country's governance and accountability framework. The concept is not new. In the old treatises, ancient texts of administration, particularly Arthashastra, Kautilya prescribed extensive arrangements for accounting and auditing. The organizational structure for financial management comprised two distinct hierarchies - a Treasurer and a Comptroller-Auditor – both were directly responsible to the King. He placed high premium on public audit conducted by incorruptible officials. I am happy to note that during this Conference, the participants will have
the opportunity to deliberate on the achievement of this vision. I also take this opportunity to mention that all CAGs so far, without any exception, have displayed exemplary courage, integrity and excellent performance.

**Ladies and Gentlemen:**

Good governance is the exercise of power, within the framework of the Constitution, for efficient and effective management of our economic and social resources for the well-being of the vast multitude of the people, through the institutions of state. But it has to be nurtured. Audit institutions play an enabling role in ushering in good governance in democratic functioning.

Accountability of public functionaries is an integral part of any good governance framework, more so in a democratic polity. Accountability of public servants extends to maintenance of probity in official dealings, compliance with legal obligations and commitment to efficient delivery of public service. In recent years, there has been a global surge in demand for accountability of those entrusted with governance. In a parliamentary democracy like ours, the executive is held accountable to the Legislature. The reports of the CAG submitted to the Legislature play a seminal role in the enforcement of accountability.

The audits by the Indian Audit & Accounts Department under the CAG cover the three tiers of government and other instrumentalities of the State. The CAG is also the only supreme audit institution with an accounting mandate as well. The Constitution has placed this institution at a vantage point providing it with insight into performance of different agencies engaged in financial administration of our country.

The broad audit mandate provides the CAG access to programme and project implementation at national and sub-national levels. You scrutinize the allocation and flow of public funds between different implementing authorities. Thereafter, you evaluate and report on their prompt and effective utilization, disseminate good practices and stimulate course correction through identification of bottlenecks. The perspective available to you by virtue of auditing multiple governance entities provides valuable inputs for promotion of good governance in the country.

**Ladies and Gentlemen:**

Audit is a means to an end rather than an end in itself. While audit findings are a barometer of good governance, their utility is manifested only when all the stakeholders, particularly the Executive, Legislature and citizens believe in the credibility of these findings and use them for enhancing the quality of governance. This casts a great responsibility on the public auditor to conduct audit professionally with utmost diligence and independence, and to report in a fair and balanced manner. Both the public auditor and the audited entity have to recognize that the objective of audit is ultimately to improve the implementation of governance strategies. Towards this end, audit should be considered a tool for improvement.

Accountability of the Executive stems from the requirement of rendering an account to the Legislature that authorized it to tax and expend. Here I would like to mention that more time needs to be devoted in Parliament for detailed scrutiny of financial proposals and financial matters. The Audit report is a valuable input for the authorities empowered to hold a public functionary to account, in making judgments on their level of performance and recommending improvements. In India, this responsibility is vested with the Public Accounts Committee and Committee on Public Undertakings that act on behalf of the Legislature. Effective functioning of
these legislative committees, and close association between them and the audit authorities are a blueprint of audit effectiveness, and through it, of governance practices.

There is no static finality about the scope and objective of public audit. They are shaped by societal concerns which find expression through legislative enactments and judicial pronouncements.

The frontiers of public audit have been the subject of public debate and litigation in our country recently. Judicial verdicts have underscored the paramount role of our audit institution in ensuring parliamentary accountability in use of public resources by any entity, whether in the public or private domain. The right of CAG to carry out performance audits of government entities and to verify underlying transactions of even private concerns to provide assurance about the State receiving its legitimate share of revenues arising out of the use of public resources is now well established. This paradigm shift in your audit mandate encourages development of appropriate policies and procedures to govern your audit process. It calls for substantial capacity development in your Department. I hope that the recommendations of the Conference on the sub-themes 'Emerging areas of audit' and 'Capacity building in Indian Audit & Accounts Department' will address these concerns.

Ladies and Gentlemen:

The platforms used for delivery of public service influences the conduct of audit. As 'Digital India' becomes the backbone of government functioning, it calls for transformation in the traditional methods of audit. The leverage that e-governance can provide for improving efficiency, cost and coverage of audit have to be utilized well by revisiting your standard operating procedures.

In States where the CAG has an accounting role, there is scope to improve services without compromising on due diligence. You must proactively engage with the States in their programmes for modernization of government accounts and financial management systems. Partnerships already initiated by you have to continue to make accounting an effective tool for accountability.

Time-bound delivery of goods and services by public functionaries is the right of citizens. It is not a bounty from the State. Many States have legislated for prompt delivery of public services. The institution of CAG can facilitate successful implementation of this right by reporting through its compliance audits the achievement of these performance standards by public authorities.

Ladies and Gentlemen:

Sir Walter of Henley's 13thCentury Treatise of Housebandry mentions and I quote: "The Auditors ought to be faithful and prudent, knowing their business…. It is not necessary so to speak to the Auditors about making audits for they ought to be so prudent, and so faithful, and so knowing in their business, that they have no need of others' teaching about things connected with the accounts" (unquote).

The value of an audit system, where no outsider prescribes as to how to go about auditing, is universally recognized. The institution of CAG of India is no exception. Such trust in the capability and independence of your institution also casts a huge responsibility on you to keep
your knowledge up-to-date and to uphold highest professional standards. Public auditing is a knowledge-based venture. Knowledge is fast multiplying. I am confident that you will be up to the task in keeping yourself abreast of latest developments in diverse fields of contemporary relevance.

Remember that as watchdogs of national public finances, the institution of CAG has a positive and pre-eminent role in accelerating national development. With these words, I conclude. I wish you all the very best in your endeavours.

Thank You.

Jai Hind.
Indian Audit and Accounts Department (IA&AD), headed by the Comptroller and Auditor General of India, constantly strives to discharge its professional duties, both as an auditor and an accountant, in accordance with the international best practices. Today auditors are seen as partners in upgrading the governance and audit reports serve as an aid to the Government. In the public domain, there is an increasing awareness and demand for transparency and accountability in public sector service delivery. The Comptroller and Auditor General is seen as the agency which is mandated to keep a watch on economic, efficient and effective governance. The foundation of sound governance with accountability rests on a system of robust public financial reporting.

The IA&AD regularly organizes seminars, conferences and workshops to adapt and upgrade professional practices, structures and methods of functioning. The Accountants General Conference is a prime platform where the entire top level management of the IA&AD come together to review, discuss and recommend the direction in which the IA&AD needs to move in order to deliver its mandated duties in the best possible manner. It offers a forum for exchange of ideas, grappling with evolving issues and experience sharing.

The biennial Conference of all senior officers (Accountant General/Principal Director level and above) of the Indian Audit and Accounts Department offers a forum for exchange of ideas and experience for grappling with evolving issues.

The 27th such Conference was held during October 27-29, 2014. The theme of the Conference was 'Promoting Good Governance and Accountability through Public Audit'. Nearly 170 senior officers of the Department participated in it.
President of India inaugurated the Conference on 27th October at 12 noon. Mrs Sumitra Mahajan, Speaker and Prof. K V Thomas, Chairman, PAC graced the inaugural function.

On October 28, 2014, a panel discussion was organised as part of the Conference on "Reporting for Public Interest: Value and Impact of CAG’s Audit". Shri K. M. Chandrashekhar, former Cabinet Secretary, Dr. Bibek Debroy (eminent economist), Shri H. K. Dua (eminent journalist and MP) and Shri Anand Mahindra (eminent industrialist) were the panellists. Shri Subrat Das, Executive Director of the Centre for Budget and Governance Accountability had prepared the background paper for this session.
Valedictory Address was delivered by Shri Arun Jaitley, Hon. Finance Minister on October 29, 2014.

During the conference, the participants deliberated on the following 4 sub-themes in 4 different Groups:

- Emerging Areas of Audit
- Measuring the impact of Audit
- Capacity Building in IA&AD
- Challenges for Accounts & Entitlement offices

**Emerging Areas of Audit**

The CAG's audit jurisdiction covers the Central and State governments, Central and State Public Sector Undertaking where Governments are majority shareholders, Government financed Autonomous Bodies. With changes in governance structures, the methods of financing infrastructure and public services also undergo changes. Besides, a limited examination of private sector entities controlling public resources under licenses or contracts is also entrusted to Audit. All such evolving developments which impact audit resources are called emerging areas of audit.

**Measuring the impact of Audit**

The CAG Reports are submitted to the Parliament and State Legislatures through the respective Governments. Some Paras of these Reports are discussed by the Public Accounts Committees or the Committees on Public Undertakings of these Legislatures. The current Audit Reports also give some statistical information on the follow-up action taken by the governments on the previous CAG Reports. Such analysis of what action was taken on the Audit Report is called measuring the impact of Audit.

**Capacity Building in IA&AD**

The CAG has a vast jurisdiction to audit a wide range of entities at home and abroad. The CAG of India has been appointed a Member of the Board of External Auditors for the United Nations and is responsible for audit of a number of International Organizations. Auditing is a knowledge-intensive activity and the Department has excellent training facilities using latest modern technological tools so that the officials at different levels in the Indian Audit and Accounts Department keep their knowledge and skills uptodate. Such aspects of management are covered under capacity building.

**Challenges for Accounts & Entitlement offices**

The Indian Audit and Accounts Department is responsible for compiling the accounts of State governments. In some States, it is also responsible for authorization of pension and/or maintenance of General Provident Fund accounts of Government employees. These offices continuously strive for improving the quality of services rendered to the governments and government employees through increasing use of Information and Communication Technology.
Speech by Comptroller & Auditor General of India

XXVIIth Accountants General Conference, 2014

Welcome Address by Comptroller & Auditor General of India at the 27th Accountants General Conference on 27th October, 2014

Honourable Rashtrapati Ji, Speaker Lok Sabha, Honourable Chairman-Public Accounts Committee, My distinguished predecessors Shri T.N. Chaturvedi, Shri V.N. Kaul and Shri Vinod Rai, Esteemed members of the Audit Advisory Board, Senior Officers from the Government, Members of the Audit & Accounts fraternity, Ladies and Gentlemen.

1. It is a matter of great honour, for each one of us in the Indian Audit and Accounts Department, to welcome you to this inaugural function of the 27th Conference of Accountants General. We are grateful to the Hon'ble Rashtrapati ji, for having agreed to inaugurate this conference and inspire us with his presence. Sir, with your rich experience and vast knowledge on various issues of governance, we look forward to be guided by your words of wisdom.

2. We are fortunate to have the presence of Smt. Sumitra Mahajan, Hon'ble Speaker of the Lok Sabha. The Comptroller & Auditor General of India plays an important role, in ensuring the executive's accountability to the Parliament. Madam, we look forward to your valuable guidance, and encouragement in fulfilling our constitutional duties.

3. CAG has been described as a friend, philosopher and guide to the Public Accounts Committee. We are honoured by the presence of Prof. K.V. Thomas, Hon'ble Chairman PAC. He is a source of strength and support to our organisation.

4. James Madison, the 4th President of US and one of the framers of the US constitution had said, and I quote, "in framing a government, which is to be administered by men over men, the
great difficulty lies in this: You must first enable the government to control the governed; and in the next place, oblige it to control itself. A dependence on the people, is no doubt the primary control on the government; but experience has taught mankind, the necessity of auxiliary precautions", unquote. One such precaution in the Indian democratic system is the institution of the Comptroller and Auditor General, which is tasked by the Constitution to help people in holding the government to account.

5. Independence, credibility and timeliness is our core value. I am proud that this institution, during its existence, has withstood the test of independence and objectivity. Credibility of the institution emanates from the quality of our audit process. Timeliness helps in making the audit findings relevant to influence policy-making and improving implementation.

6. In pursuance of our mandate, we audit more than fifty thousand organisational units every year and produce more than 135 audit reports to be placed in the Parliament and State Legislatures. They contain about fifteen hundred recommendations to the governments.

7. We annually certify more than five thousand five hundred accounts of the Union and State Governments, PSUs, Autonomous Bodies and Externally Aided Projects. We contribute to the public exchequer by pointing out under recovery and incorrect assessment of taxes, duties and other sources of revenue.

8. As part of our accounting and entitlement functions we provide important financial MIS to the state governments. Annually we finalise the pension for about 5.5 lakh retiring employees and manage the provident funds of about 41 lakh employees of 23 state governments.

9. In the last two decades we have been contributing to the global development and peacekeeping efforts by providing external audit services to 13 international organisations which includes the United Nations Headquarters, World Food Programme and the International Atomic Energy Agency. In July 2014 the CAG of India has been appointed as a Member of the UN Board of Auditors for a six year term.

10. Changing dynamics of governance and expectations of society have thrown up new challenges for public audit. There is a growing demand around the world for public auditors to intervene during the life cycle of a project rather than restricting themselves to post-mortem analysis. As Public services and projects are involving more and more private players, auditing Public Private Partnerships is a new frontier.

11. We hope to meet these challenges by developing sound audit frameworks and building our capacity in the emerging areas. Our attempt is to work out strategies for increasing the impact of audit in improving governance.

12. Biennial conference of Accountants General is an occasion for us to put our minds together and review our functioning in the face of emerging challenges. The Conference would focus on four important themes. These include deliberations on the "Emerging Areas in Audit" like the audit of Public Private Partnerships and regulatory bodies. We would also be discussing on the ways of enhancing the impact of audit on governance and making our interaction with the Parliament more meaningful. We would be exploring ways of strengthening the capacity of the Department to undertake new responsibilities. Challenges faced in the accounting and entitlement functions is another important agenda for the Conference.
13. As part of the Conference, we have organised a panel discussion on, "Reporting in public interest – value and impact of CAG's audit." This is aimed at exploring ways of aligning our audit reports with public interest and thus increasing their impact. To give a perspective of external stakeholders, eminent persons from different fields will be participating in this discussion.

14. I am sure the deliberations in this Conference would lead to strengthening of our Institution. The words spoken by our eminent guests during this inaugural session would guide and inspire us.

15. I once again extend a very warm welcome to Hon'ble Rashtrapathi Ji for having spared his valuable time to be with us. I again extend a warm welcome to the Hon'ble Speaker Lok Sabha and Hon'ble Chairman Public Accounts Committee for gracing this occasion. I welcome all our distinguished guests and members of the media on behalf of the Indian Audit & Accounts Department and on my own behalf.

Jai Hind.
Land Management in Kerala

Issues in Land Management in Kerala

Dr. Biju Jacob, IA&AS, AG (ERSA), Kerala and Shri I.P. Arun, Sr AO, Office of AG(ERSA), Kerala

"We abuse land because we regard it as a commodity belonging to us. When we see land as a community to which we belong, we may begin to use it with love and respect." - Aldo Leopold.

Land is the fundamental natural resource for developmental activities. Hence, the demand for land has multiplied several times. Like other natural resources, Kerala Geographic Regionsthe limited supply has caused severe pressure on the available land. This has become very serious in Kerala due to its small size - 38,86,287 Ha. (38,863 Sq Km) - 1.18 per cent of the total area of the country. Out of this 11,309.48 sq km – 29 per cent – is forest land. Among the three physical divisions of the State – highlands, midlands and lowlands - the land available for developmental activities is limited to the mid and low lands. This has further increased the pressure and land has become a precious commodity with sky high prices. The total land can be classified into three - Government land managed by Revenue department, Forest land by Forest department and private land of individuals, institutions, PSUs, companies and autonomous bodies.

The Acts and Rules give sufficient power to conserve and manage the land – including private land – in public interest. However successive Governments failed to safeguard the public
interest and powerful individuals/social groups could amass vast tracts of land violating the rules.

The development of a private airport at Aranmula violating all land laws and the Government allotment of land for a foreign developer for an IT Smart city added new dimensions to the complexity.

Hence, a performance audit on land management by the Government of Kerala for the period 2008 to 2013 was conducted by AG (ERSA). The data/information collected were analysed with reference to the audit criteria and findings of Audit were discussed with the Department and Government.

A unique multi sectoral report

The topic land management was planned for 2013-14 in the three sectors under the audit jurisdiction of AG(ERSA) viz – Revenue, PSU and Economic Sectors – to consolidate it into one common report.

- Revenue Sector – Government land, forest land and Airport project
- PSU sector – Private land acquired by three PSUs
- Economic Sector – Smartcity, Kochi under IT department

This was made possible due to the sectoral reorganisation of IA&AD; where these three sectors converged in AG(ERSA).

The report "Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi" (Report no:6/2014) was placed in the Kerala legislature in July 2014.

Management of Government land

Total absence of centralised information on Government land by the revenue department was the major hurdle. The information on land – such as survey number, sketch etc. is kept in 1,634 village offices spread all over the State. Each village had three sets of land records viz. Settlement register, title deed register for private land and Government land register. Audit had to be limited to a sample of 25 villages belonging to 16 out of 63 taluks in seven out of 14 districts including the Commissionerate of Land Revenue, Thiruvananthapuram.

Land Bank – Side-lining the best practice, the mission failed to take off

The attempt of Revenue & Disaster Management department to form a Land Bank was a best practice followed by the Government/Department. Land Bank is a repository of details of Government land, for scientific inventorisation and professional management of land in the State. The innovative approach was aimed at preparing comprehensive information of saleable Government land to landless people with focus on development of rural areas. It also aimed at promoting commercial establishments and curtails the activities of land mafia and speculative price hike of land. Though the procedure of inventorisation commenced in 2007, the department was not able to take stock of the land even by 2014.
The absence of centralised information is exposed to the risk of possible encroachment of Government land. There were several instances of encroachments in Government lands in the test checked villages.

Revenue department as the custodian of Government land failed to follow the land management policy laid down through various orders and circulars. The department also failed to identify and account for Government land, monitor the use of leased out land, plug violations of lease conditions and collect lease rent regularly. There was no system for periodical renewal of lease and revision of lease rent.

The Government land was under continuous demand from different socio-political pressure groups and powerful individuals and successive Governments assigned/leased large tracts of land under different schemes. Since these assignments were done under the directions of the Cabinet, the Government Secretaries were reluctant to produce the records; which was the second major hurdle in the audit. However the files were obtained through constant contact.

There were several instances of illegal occupation too. The department not only failed to prevent alienation of Government land but abetted the encroachment. Audit noticed such short comings in respect of 338. 60 Ha of land which had a financial impact of ₹ 1,077.74 crore.

Management of forest land

Considerable area of forest land - 1,19,178.88 Ha was given on lease to Public Sector Undertakings. Audit was conducted in Forest headquarters, three territorial circles and five divisions where large areas of forest land were leased out.

Like the Revenue department, the Forest Department did not have consolidated records of land on lease. The absence of proper records helped to retain 9.63 Ha of forest land in 'the Alwaye Settlement Colony' under the jurisdiction of Chalakkudy Forest Division. The department also failed to check violation of the lease conditions and to act upon in cases of such violations.

In order to facilitate regulation of land and utilisation of resources, there is a need to critically maintain a data base.

The department failed to collect lease rent arrears of ₹ 196.85 crore in 140 cases in respect of 42,130.49 Ha of leased forest land. Though the lease rent was to be revised every three years, it remained unchanged since 1990 and the lessees paying a nominal lease rent at the rate of ₹ 1,300 per Ha per annum causing loss of revenue.

Periodical revision of lease rent is an essential ingredient in revenue mobilisation.

Vast areas of forest land were leased out or given as grants by the former Maharajas of Travancore and Cochin to private individuals and the forest department failed to monitor such cases. 35.18 Ha of forest land in Forest Division Chalakkudy was sold several times in violation of the rule that Government land on lease cannot be transferred by way of sale. In one case the last occupant availed two loans for ₹ 85 lakh mortgaging such property. The illegal mortgage of forest land and non-repayment of loan had doubled the magnitude of irregularity. A similar instance of transfer of 389.34 Ha of leased forest land was noticed in Forest Division Thrissur.
The forest department failed to initiate resumption procedure against alienation of Government land in violation of lease rules. Total financial impact of audit observations in this regard amounted to ₹ 215.46 crore.

The essence of monitoring mechanism typically involves managing public land records and registers to determine the lease rent due, defining land use and support development initiatives.

**Acquisition, development and allotment of private land for industrial purpose by PSUs**

Audit also examined the records relating to the acquisition, development and allotment of land for industrial purpose by three PSUs viz. KINFRA, KSIDC and KSITIL. These PSUs had acquired 5003.78 acres of private land under Land Acquisition Act, 1894 at a cost of ₹ 763.74 crore.

**Impact of acquisition of land for industries**

Acquiring agriculture land for unjustified industrial activities and for creating infrastructure ended up in drastic fall in cultivable land. The richer section found it convenient to develop the agricultural land for construction of building for commercial uses and improvement of infrastructural facilities necessitated conversion of large area of cultivable land.

There was wasteful/extra expenditure on acquisition/development, purchase of land at exorbitant price and extending undue benefit to private sector companies. Out of the total land; 2,290 acres were allotted to 558 persons and the balance is yet to be allotted. Even though the allotments were at throw away prices; 41 persons did not utilise (March 2014) the allotted land measuring 180.57 acres defeating the very objective of setting up of industrial units.

INKEL – a private company – obtained several undue benefits including 60.95 acres of land and became a major player in the land development activities in a short span. Kerala State Industrial Development Corporation (KSIDC) acquired a total area of 1096.12 acres of land for setting up of four Industrial Growth Centres (IGC) out of which 447 acres was allotted to entrepreneurs. Of the 258 acres of land acquired for IGC at Malappuram, 243.79 acres remained vacant for 12 years due to non-creation of infrastructure by KSIDC. The joint venture partner (INKEL) was allowed to possess 60.95 acres of land through sub-lease. The MD of INKEL who decided to transfer 60.95 acres of land was simultaneously holding the position of Secretary of Industries Department.

The financial impact of deficiencies noticed in the acquisition, development and allotment of land by the PSUs amounted to ₹ 212.02 crore.

**Issues in respect of land and ecological impact – Aranmula Airport**

GoK approved a Greenfield airport by the private developer KGS group in the World heritage site of Aranmula village in September 2010. The proposed one was the fifth airport in the small State of Kerala having a length of 580 km. There were widespread protests citing gross violation of land laws and environmental impact. Being a totally private airport without any Government stake, audit focussed on the land issues of the project.

As far as the Aranmula Airport project was concerned, four village offices, Taluk office – Kozhenchery, Taluk Survey office – Kozhenchery, Collectorate – Pathanamthitta, Taluk Land
Board –Kozhenchery and Commissionerate of Land Revenue, Thiruvananthapuram were selected for audit. Audit also test checked the Government files in the administrative departments viz. Transport, Industries, Revenue and Environment at Government Secretariat.

The land belonged to an individual Shri Abraham Kalamannil who had illegally possessed 153.31 Ha – including Government land – which was more than 25 times the ceiling limit prescribed by the Land Reforms Act. He sold a major part (94.94 Ha) of the land to KGS group; retaining the balance 58.37 Ha with him. The Company purchased additional 39.9285 Ha of land, encroached 24.35 Ha of Government land and is currently in possession of a total of 159.22 Ha. The individual and the company are in possession of 217.59 Ha of land violating six land laws.

The departments favoured the industrialist to take hold of land without following due procedure.

The Revenue department right from the lowest revenue officials to the highest level failed to prevent or take action against encroachment of Government land, filling of paddy fields, illegal acquisition of land etc. enabling the individual to hold excess land and to transfer a major part of it to the Airport Company. Registration department permitted to alter the nature of land and boundaries in the sale deeds in respect of 19.05 Ha of land at the time of registration.

Once the land was transferred to the airport company the industries, transport and the environment Secretaries supported the airport project violating the financial and administrative rectitude.

Even though the Transport department was the nodal department for the project, the Industries Secretary over-stepped the jurisdiction, accepting the application for NOC from the airport company and granting in-principle approval without conducting sufficient verification regarding the land with the developer and the impact of the proposed airport on the airports existing/under construction.

Industries department declared 444.72 Ha as industrial area, based on a claim of the company without the knowledge of the Revenue department. The estimated requirement of land for the airport was only 200 Ha and the company held only 159 Ha at the time of declarations. Thus the Industries department helped the company classifying large extent of land as industrial area to help the company.

The Government's decision to accept shares of the company cast suspicion over its involvement in land deal by unfair means.

The transport department accepted 10 per cent equity offered by the airport company free of cost and the airport became a joint venture between GoK and KGS Group Chennai and Government became a partner to all the illegal activities of the company. Environmental department submitted false information to Government of India regarding the objections raised by Legislative Committee on the project, farmers apprehension against the reclamation of paddy field etc. and helped the company to obtain environmental clearance for the project. Audit has recommended an independent enquiry to investigate the issue.

Smart City Project, Kochi – A unique audit approach
Govt of Kerala launched a Special Purpose Vehicle (SPV) termed Smart City (Kochi) Infrastructure Pvt. Ltd., with Dubai Internet City (DIC), a subsidiary of TECOM Investments FZ LLC, Dubai (Tecom) for setting up knowledge based IT township in Kochi. GoK leased out (in 2007 and 2008) 246 acres of land to SPV for 99 years for a one time lease premium of ₹ 104 crore and had a limited stake of 16 per cent in the SPV. The balance 84 per cent was held by DIC. This was projected as a mega project to transform Kerala into a major IT destination within 10 years and generate 90,000 jobs in 8.8 million sq.ft built up space.

Auditor’s Challenge

The principles of transparency, discreet and far-sighted governance were sacrificed for ostensive reasons like development of IT industry, providing jobs to pro-poor etc. In the bargain, the developers got hold of a great deal of land. Since the Government stake was limited to 16 per cent, we excluded the implementation of the project and focused on four areas were the public interest was affected.

- Transparency in the selection of partners
- Land issues
- Loopholes in agreement
- Future liability of Government

Hence the records regarding the initial discussions, the Memorandum of Understanding (2005), the Framework Agreement (2007), lease deeds, orders issued by various departments of Government of Kerala/India with reference to Smart City Project, financial statements of Special Purpose Vehicle for five years from 2007-2011, adherence of Special Economic Zone Act, 2005 for the project were scrutinized.

The nature of Framework Agreement (FWA) - which defined the role of parties - was ambiguous as it was neither a contract nor a PPP project; but at the same time, the project retained all the characteristics of a PPP project. Considering the very minor stake of GoK in the SPV, Audit focussed on the FWA agreement to examine whether public interest was safeguarded adequately. The audit conducted in 2013 - seven years after the launch – revealed that the project has not at all progressed and that the SPV was not bound to spell out a time frame due to the deficiencies in the FWA.

There was total lack of transparency right from the conceptualisation stage about the justification for a Smart City and the need for creation of a new SPV. The partner for the project was selected in an exhibition at Dubai. The selection was not transparent and was done without giving opportunities to other players in the field. The past track record of partner was also not considered.

The attempt by audit brings out the mismanagement of land by a foreign developer in which the Government was a facilitator. The report exemplifies the allotment of land on long term lease in an arbitrary manner to private entities without any return to safeguard the social interests. The deal was distinctive as the lessee was granted free hold rights over 12 per cent of the total area of the land under their possession at any point of time.

Government transferred 246 acres of land in three parcels - parcel 1 of 131.41 acres, parcel 2 of 100.65 acres and parcel 3 of 13.94 acres - on lease without properly assessing the land required for the project and had committed to acquire and hand over additional land for the project in
future. The valuation of land for fixing lease rent was much below as compared with the land value considered for registration of land of the adjoining areas.

Proposed Site of Smart City Project

Though the project could be commenced in parcel I (131 acres) with the attainment of developer status in 2008, the SPV delayed the project insisting for SEZ status for the entire 246 acres of land. Unlike other IT parks established by Government, the lessee was granted freehold rights over 12 per cent of the total area of land under their possession at any point of time.

The authority to command compliance was only a mute spectator in decision making process.

GoK had only two nominees – IT Minister and IT Secretary - in the ten member Board of Directors of the SPV. The quorum for Board meetings was set at five – with at least three from DIC and one from GoK ; and all decisions could be taken by a simple majority of Directors present and voting. Thus DIC could overrule GoK in all significant decisions.

Illogical penal provisions hinder the administration of agreement conditions, helping the developer to prolong the commencement of the project at the discretion of developer.

The strict penal provisions to ensure creation of 90,000 jobs envisaged in the negotiations diluted in the FWA agreement and SPV could escape from its commitments to generate jobs. Remedies for non performance were totally in favour of DIC and were against the interests of GoK. Heavy liability was cast upon GoK for defaults in providing minimum infrastructure; it was not possible against DIC for lack of co-operation in this regard. As a result, the SPV was totally indifferent to the project thereby delaying Government's efforts in providing minimum infrastructure that it was supposed to do.

Non-transparent decision renders non fulfilment of objective of setting up of a knowledge based IT/ITeS township in Kochi while GoK loses prime industrial land.

Neither the Government nor the SPV had spelt out any precise timeframe to operationalise the project. Even after seven years from signing the agreement, construction of 8.8 million sq.ft.
built-up space and creation of 90,000 jobs are far from sight; though the foreign partner had obtained 246 acres of land at a throw away price.

**Conclusion**

Land management involves activities on land and natural resources such as land allocation, land use and planning. A need based allotment/acquisition only can salvage the scarce resource. GoK had failed miserably in managing the limited land- one of the most important natural resource – in public interest. Successive governments succumbed to various extraneous influences so as to help powerful socio-religious pressure groups and individuals.
Inter-se Tax Devolution

An analysis of Inter-se share of tax devolution determined by 13th Finance Commission

By Shri K. S. G. Narayan, IA&AS, Principal Director (IT Audit), Office of the CAG of India, New Delhi

The setting up of a Finance Commission (FC) every five years is a constitutional mandate- the Finance Commission determines the resource sharing based on constitutional division of functions and finances between the Centre and the States. While this fact is known to all, few would be aware of the power enjoyed by this constitutional entity, and its impact on the finances of the States, which an analysis of the method following in deciding the relative share of the states indicates.

Any FC has to arrive at two key decisions – what should be the relative share of Centre and States in the net proceeds of Taxes, and what should be the relative share of each state vis-à-vis other states. In addition, the FC also recommends grants-in-aid to States, which because of its relatively lower amount, is not considered in this analysis.

The first decision of the FC- relative share of Centre and States, is not backed by any quantitative analysis, and is simply stipulated by the FC. The States share remains roughly in the region of 30 %, with the 13th FC providing 32% to the States. It is in the determination of inter-se share of the States that the FCs have exercised their discretion by constructing various quantitative models involving multiple parameters.

The 13th FC had used four parameters with differing weights in determining the inter-se share of States in tax devolution

![Parameter/Criteria](image)

The share of each State after considering the impact of the four parameters is presented as a single number (in %) by the FC in its report (Table 8.2). The impact of individual parameter is not shown anywhere in the report.

All parameters, except Area, tend to population based share. That is, if the aspect being measured by a parameter (fiscal capacity or fiscal discipline) is the same for all States, then the share of each State is the same as its population based share. In some ways, population based
share appears to be the most natural and just way of determining the share of each state, with each citizen getting the same per capita amount as his share of the shareable taxes. The earlier FCs recognized this aspect- the weight of population as a parameter in determining the relative share of States varied from 80% to 100% in the awards of the first five FCs. Subsequent FCs introduced additional parameters, with gradual reduction in the weight of population.

With all parameters tending to a population based share, a convenient measure to show the impact of the FC award on inter-se share of States is by representing it as % Deviation from its population based share. The 13th FC recommended inter-se share of States, along with its representation as deviation from population based share is shown below:

<table>
<thead>
<tr>
<th>State</th>
<th>FC State Share % (Award)</th>
<th>FC State Share Impact (% Deviation from 1971 population based share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjab</td>
<td>1.389%</td>
<td>-44.3%</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>5.199%</td>
<td>-44.0%</td>
</tr>
<tr>
<td>Haryana</td>
<td>1.048%</td>
<td>-43.3%</td>
</tr>
<tr>
<td>Kerala</td>
<td>2.341%</td>
<td>-40.4%</td>
</tr>
<tr>
<td>Gujarat</td>
<td>3.041%</td>
<td>-38.1%</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>4.969%</td>
<td>-34.5%</td>
</tr>
<tr>
<td>Karnataka</td>
<td>4.328%</td>
<td>-19.8%</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>6.937%</td>
<td>-13.4%</td>
</tr>
<tr>
<td>West Bengal</td>
<td>7.264%</td>
<td>-11.0%</td>
</tr>
<tr>
<td>Jharkhand</td>
<td>2.802%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Chhattisgarh</td>
<td>2.470%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Orissa</td>
<td>4.779%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>0.781%</td>
<td>22.6%</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>5.853%</td>
<td>23.4%</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>19.677%</td>
<td>27.4%</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>7.120%</td>
<td>28.8%</td>
</tr>
<tr>
<td>Assam</td>
<td>3.628%</td>
<td>34.7%</td>
</tr>
<tr>
<td>Uttarakhand</td>
<td>1.120%</td>
<td>35.4%</td>
</tr>
<tr>
<td>Bihar</td>
<td>10.917%</td>
<td>40.7%</td>
</tr>
<tr>
<td>Tripura</td>
<td>0.511%</td>
<td>78.0%</td>
</tr>
<tr>
<td>Goa</td>
<td>0.266%</td>
<td>82.2%</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>1.551%</td>
<td>82.5%</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>0.408%</td>
<td>119.4%</td>
</tr>
<tr>
<td>Manipur</td>
<td>0.451%</td>
<td>127.8%</td>
</tr>
<tr>
<td>Nagaland</td>
<td>0.314%</td>
<td>230.5%</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>0.328%</td>
<td>281.4%</td>
</tr>
<tr>
<td>Mizoram</td>
<td>0.269%</td>
<td>341.0%</td>
</tr>
<tr>
<td>Sikkim</td>
<td>0.239%</td>
<td>512.8%</td>
</tr>
</tbody>
</table>

While the % share of each State varies in a fairly narrow range- from 0.239 % for Sikkim to a high of 19.677% in case of Uttar Pradesh, the same share when presented as deviation from population based share shows a wide variation, varying from (-)44% in case of Maharashtra to +513% in case of Sikkim. The true impact of FC award, and the application of its discretion in arriving at the share of each state is visible only when displayed in this manner. This may be one reason why we do not hear loud protests from states like Maharashtra, Gujarat and Kerala which
lose a significant share of their population based share of taxes. FC should display the States' share using the above measure to make it better understood by all stakeholders.

The Fiscal Capacity Distance parameter had the highest weight at 47.5%. This parameter has the largest redistributive impact, as assessed by its impact on the change from population based share. The impact in terms of deviation from population based share varies from -92% (Maharashtra, Goa, Haryana) to +108% (Bihar). The parameter addresses the need for equity component in determination of relative fiscal need. FC 13 has said in its report: "The intent of the equity component in the devolution formula is to ensure that all states have the fiscal potential to provide comparable levels of public services to their residents, at reasonably comparable levels of taxation".

To compute the fiscal capacity distance, a uniform Tax to GSDP ratio has been taken separately for general category and special category states. FC 13 has stated that "Ideally, tax frontiers specific to each state should be estimated, but an exercise of this kind was constrained due to lack of the necessary data". By taking a single Tax to GSDP ratio for all states within a category (GC or SC), the fiscal capacity distance parameter, which was meant to promote equity, penalizes states which have a lower Tax to GSDP ratio (Bihar, Jharkhand, West Bengal at less than 5%) and benefits states with higher Tax to GSDP ratio (Tamilnadu, Karnataka at over 9%). This happens because fiscal distance is computed from the assumed fixed Tax to GSDP ratio, which is different from what is observed in the last 10 years, and what the state is likely to see in reality. The Tax to GSDP ratio remains relatively flat over a long period of time, as can be seen in the graph for GC States below.

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If the ideal state of computing the tax frontier for each State cannot be reached, a more equitable process may be to assume a notional Tax to GSDP for each state which is in keeping with the past trend, adjusted marginally for performance that can be reasonably expected. If such an approach is followed, many of the higher GSDP states may no longer be in need of fund allocation from this parameter. The notional distance of ₹ 100 taken by FC 13 for three states dilutes the objective of equity which that parameter seeks to attain. The final impact of this parameter with the largest redistributive effect is best seen in the map chart (below), with the Red states representing the states getting less than their population based share, and the Green denoting the reverse.

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Fiscal capacity model uses a linear distance model, which works fine in a situation of scarcity. But when funds available are in excess of that required for reaching equality, the distribution is no longer fair. For this reason, the weight assigned to this parameter needs to be back calculated by first determining the fund requirement for reaching fiscal capacity equality. FC 13 devolution was sufficient to reach fiscal capacity equalization objective. This is a remarkable achievement, and should have been given wide publicity, and prominently stated in the FC report. However, it is to be noted that FC does not have any specific mandate to target such redistribution. Canada, with a similar federal mechanism targets revenue equalization based on a 1982 constitutional amendment.

The Fiscal Discipline criteria with 17.5% weight is meant to serve as an incentive to States for managing their finances prudently. This incentive will have an impact only if the States know
how well or badly they have performed. The FC 13 report does not separately show the impact of individual parameters. Fiscal discipline parameter is based on the ratio of Own Revenue Receipts of the States to its Revenue expenditure. However, the way this parameter is configured within the devolution criteria, the impact does not seem to be rewarding States with high performance in this parameter. As can be seen in the scatter plot, the high performing States (on the right, with high Own Revenue as % of Revenue expenditure) are actually showing a very small impact, with many also showing a negative impact.

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The criteria also does not take into account the fact that there is possibly an upper limit to this parameter (near 100%) or that there is bound to be a catch-up effect which will taper off at some stage.

The final parameter, Area, has a weight of 10%. It uses a floor of 2% so as to ensure that smaller states get a minimum of 2% share from this parameter. The net impact is that for most of the Special Category states, this becomes the most important funding parameter, as can be seen in the graphic below showing the relative share of various parameters in a given State's share. It also leads to an anomalous situation where Goa, the richest state at the time of FC 13 award, gets 82% more than its population based share in the final award. FC needs to seriously consider revising the use of 2% floor in the Area parameter.

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The above analysis was done using QlikView and Tableau Desktop software, the two leading Business Analytics tools which enable exploratory data analysis through data visualisation.
Disinvestment in CPSEs

Disinvestment in CPSEs-A Critique-Post 2009

By Ms. Sangita Choure, IA&AS, Joint Secretary, Dept. Of Disinvestment, Ministry of Finance GoI

The objective of the GoI Disinvestment Policy is to unlock the true value of the Central Public Sector Enterprises (CPSEs) for all stakeholders and encourage people's ownership in our State run Companies. The purpose behind listing of Companies is to encourage transparency and accountability in their functioning thereby ensuring Good Corporate Governance norms. One of the important constituents of the Government's current disinvestment policy is to retain at least 51 per cent equity and management control in all cases of disinvestment in profitable CPSEs.

Brief Recap of the Disinvestment programme since 2009

The Department of Disinvestment (DoD) which implements the GoI Disinvestment policy and programme have successfully disinvested Government's equity in several CPSEs either by an Initial Public Offering (IPO) or Further Public Offerings (FPO). Some of the CPSEs in which Government have disinvested its equity since 2009 onwards through minority stake sales of shares are REC, NHPC, NMDC, NTPC, OIL, ONGC, NALCO, NBCC to name the important stake sales. During the period 2009-10 to 2012-13 Government realized the following disinvestment receipts which are in the nature of "Non Debt Capital Receipts" under the Government Budget/Accounting nomenclature:

<table>
<thead>
<tr>
<th>Year</th>
<th>Disinvestment Receipts (₹ in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>23553</td>
</tr>
<tr>
<td>2010-11</td>
<td>22144</td>
</tr>
<tr>
<td>2011-12</td>
<td>13894</td>
</tr>
<tr>
<td>2012-13</td>
<td>23956</td>
</tr>
<tr>
<td>2013-14</td>
<td>15819</td>
</tr>
</tbody>
</table>

In addition, in 2012-13 and 2013-14, those listed CPSEs which were not having 10 per cent of their shares with the public, were made compliant to the public shareholding norms under the Securities Contract (Regulations) Rules (SCRR), by offloading of minimum ten per cent equity to the public, before the SEBI set deadline of August 08, 2013. The CPSEs which were made SCRR compliant were MMTC (Minerals and Metals Trading Corporation), RCF (Rashtriya Chemicals and Fertilizers), Hindustan Copper, NFL (National Fertilisers), STC (State Trading Corporation) and ITDC (India Tourism Development Corporation)

The Government sets budgetary targets for disinvestment receipts. Though an Internal Action Plan is drawn up in DoD, the achievement of these targets is subject to concurrence/cooperation of all the concerned Administrative Ministries and more important the prevailing market conditions in general and specifically for the particular stock - for timing the divestment transactio
Valuation of Shares

In the sale of Government equity, the crux of the issue is the valuation of the share of the CPSE. As the sales are done in the capital markets which are ever unpredictable and volatile, it poses a great challenge, balancing the twin requirements of ensuring the best return for the seller that is the Government and an attractive price for the Investor in order to ensure a successful sale.

It has been observed that as soon as the market receives the information of a disinvestment issue the hammering of the stock commences. While some reduction in the traded price is normal, because of the additional 5-10 per cent liquidity which would be infused with the forthcoming stake sale, a substantial reduction of say more than 25 per cent drop in the share price due to the sale announcement erodes the market cap of the Company and adversely affects the valuation/fixation of the floor price for the sale.

Our interaction with the market players leads to an inference that the hammering of the stock is with the primary objective of making short term quick profits, by way of shorting/arbitrage transactions both in the cash and futures markets, on the expectations that the Government may sell the stock cheap to meet its budgetary requirements. This perception of cheap sales is not correct as the Government is not desperate to do distress sales to meet its targets and very often many a transaction have been postponed for better valuations/timings.

Is the market always a correct indicator for the investors about the intrinsic value of a company's share?

The point is that investors especially the "long" ones would be better off taking by taking informed decisions on their investments, guided by the company's financial fundamentals and its growth story and not necessarily the stock market prices for valuations.

We find that the shares of Maharatna and Navratna companies are traded at much lower levels than their peers in the private sector. The market seems to have separate set of perceptions about CPSE stocks, which defy logical reasoning. An example is that of Steel Authority of India Ltd. (SAIL), which is India's largest steel producer and is the world's 21st largest (source: IISI). It commands almost 1/5th of the domestic market share with its 14 Millions Tons Per Annum (MTPA) capacity. It was seen that while SAIL's scrip was trading at ₹ 47-51/- per share (Book Value (BV) ₹ 99/March 2013- ), Tata Steel, world's 12th and India's largest private sector steel company with a capacity of 24 m tons was trading at ₹ 283/- ₹ 287/- (BV ₹ 568/-) (September 2013. figures). This disparity in share prices continues. There are similar such instances of under-valuations of CPSE shares across sectors.

Further, around the time in March 2013, when the Government was planning for the Rashtriya Chemical fertilizers, offer for sale (OFS), some private companies OFS were also being done in the markets. Whereas the market received a Holiday Resort Company's shares positively at a valuation of ₹ 270/- (BV ₹ 72/ approx), the RCF share, a fertilizer stock, at a floor price of ₹ 45/- (BV ₹ 42/-) was perceived to be overvalued and did not receive the expected response from investors, who found the fertilizer sector unattractive.

In cases of illiquid stocks or those with insufficient public float also, the market price is not always the true indicator of the share price.
The divestments of MMTC and ITDC done by the Government in June/July 2013, to make the CPSEs compliant to public shareholding norms, are instances of valuations which were done taking into account the intrinsic value of the Companies rather than the inflated market prices which were on account of speculative trades in these Companies.

**Investor Response**

Foreign Institutional Investors (FIIs) : Despite adverse domestic perceptions on CPSEs and the valuation of their shares, the Government has managed to get sizeable participation of almost 35 to 60 per cent of the total deal size from Foreign Institutional Investors in some of the CPSEs divested in the Oil, Power and Mineral and Metal sectors. The funds based out of South East Asia, London and the USA find the CPSEs operating in key sectors promising stocks for their investments.

Mutual Funds : The long term investors like Mutual Funds are cautious players when taking a call in equity investments. They look at profitable companies with very good dividend paying track records and promising growth potentials. The highest participations we have got from them were in Oil India and NMDC OFS where they got allocations ranging from 19-23 per cent. The MFs could be more open to investing in CPSEs which are operating in important sectors of the economy and whose business is here to stay supported by Government policies in that Sector.

Participation of LIC in the Disinvestment Programmes : LIC is the biggest financial institution of the country which invests with a long term view in the capital markets in both public and private sector shares. They have the single largest budget for Investments based on their annual surplus income. The oft heard criticism is that Government is divesting with one hand and taking it back with the other hand and is this Divestment? Criticism about LIC’s participation in disinvestment programme is too general and unfounded. The LIC takes its own investment decisions. In case of CPSEs like OIL, NTPC and NMDC the life insurer's participation ranged only from 2 to 25 per cent, whereas in OFS of NALCO, SAIL and HCL/RCF/MMTC done in 2012-14 (March) its participation was in the range of 50-57 per cent of the issue size. Being a long term investor, the LIC has gained on most of its investments in CPSEs- the ONGC OFS being the most recent example, where the OFS which was done in February, 2012 for a floor price of ₹ 290/- at a small premium above the then traded price, was trading at ₹ 340 to 320/- since January to July 2013 and was at a peak of ₹ 400/- in October 2014 before sliding down for fundamental reasons relating to international crude prices.

At the end of the day LIC would continue to be an Anchor Investor for the Govt's Divestment Programme. Other long term investors could also take a cue from LIC’s participation and participate in the divestment programme rather than criticizing LIC’s faith in the public sector stocks.

Retail Investors Participation : The OFS of CPSEs done in 2012-13, have also received positive participation from retail investors ranging from 17.65 per cent in NMDC, 13.4 per cent in Hindustan Copper, 14 per cent in MMTC and 7 to 8 per cent in Oil India, NTPC and RCF OFS. The SAIL OFS done in December 2014 received almost two and a half times oversubscription from retail investors, for the 10 per cent allocation reserved for them. The EIL FPO and the CPSE –ETF which were launched in Feb/March 2014, also received a thumping response from retail investors and were oversubscribed.
In keeping with the Divestment Policy which encourages people's participation in the ownership of CPSEs, the Government had requested SEBI to make the OFS mechanism more retail friendly. Accordingly, the SEBI have recently further modified the OFS guidelines on August 8, 2014, whereby a separate 10 per cent minimum reservation has been made in the OFS method for the Retail Investors. Government intends to further increase the retail participation in the ownership of CPSEs by giving more than 10 per cent reservation to the retail investors. With some of the best CPSE stocks up for sale in the divestment programme of minority stake sales, it is expected that this measure will attract retail investors to take part in the share sales of CPSEs via the OFS mode. This will in turn be a positive step to revive the equity markets in particular and give a boost to the capital markets in general. The SAIL OFS which was done recently on 5th December saw a thumping response from Retail Investors and the entire 10 per cent allocation to them was oversubscribed 2.5 times.

Conclusion: This summarizes in brief, the implementation of the Government divestment programme relating to stake sales in CPSEs since 2009, and its achievements despite the challenges and criticisms. The message is that the People's ownership in our CPSEs needs to be further encouraged by more divestments, whereby good governance will be brought in by virtue of transparency and accountability to shareholders. Widening of the public shareholding will also ensure that Govt does not take CPSEs for granted and look upon them only as resource raising machines but rather strive to improve the business efficiencies and give capable and best of management to these companies. Greater Autonomy will unlock the potential of our CPSEs and their market capitalisation would with these encouraging measures, far surpass those of their private sector peers. To the Investors the lessons are that the market price of a share is not always the correct indicator of the intrinsic value of a Company and investors would be better off by taking their decisions based on the financial parameters and fundamentals of business of a Company combined with its growth potential and stay put by taking a long view on their investments in CPSEs.
Selecting Sampling Methods

Selecting Sampling Methods

By Ms. Sarah Oberst, Research Associate, Evidence for Policy Design, Harvard Kennedy School

This report considers how targeted sampling methods, paired with available data, could be used to increase the overall effectiveness of performance audit. Performance audit evaluates the efficiency, economy and effectiveness of a given entity or program, in an effort to move beyond financial compliance and "cope with the intricate questions of measuring the performance and results of [India's] huge investments and expenditure." Here we consider how methods drawn from financial audits could inform sampling mechanisms for performance audits.

In particular, we will focus on the National Rural Employment Guarantee Act (NREGA) Performance Audit (Report no 6 of 2013); however, the principles are applicable to the performance audit process in general. The recommendations contained in this document have arisen from close review of the Supreme Audit Institution (SAI), India and International Organization of Supreme Audit Institutions (INTOSAI) guidelines on performance and financial audits, data analysis through the NREGA Management Information System (MIS) Public Data Portal and 2011 Census of India data, and consultation with colleagues at SAI India and professors at Harvard University.

This analysis finds that a stratified sampling methodology based on rural population or NREGA expenditure could have aided in the identification of underperforming regions under the scheme and enhanced the effectiveness of the performance audit process. This approach would have increased the efficiency of the audit in examining a higher proportion of high-impact areas, such as those with especially high expenditures or large rural populations. This would have given a clearer picture of the implementation of NREGA in areas of high importance while still fulfilling the audit requirements of representativeness and randomization. Ultimately, this approach could have both identified a greater proportion of key failures on the ground in the audit report, and at the same time would have acted as an increased deterrent against future implementation failures in high importance areas.

Sampling in the NREGA Performance Audit

The NREGA performance audit employed a multi-stage random sampling approach for the selection of districts, blocks, gram panchayats (GPs), works and beneficiaries for inclusion in the audit, resulting in the selection of 182 districts, from which 458 blocks and then 3,848 GPs were selected. While this selection process ensures that each district in India is equally likely to be selected for audit, it neglects the wide variation in NREGA spending and rural population across the country. In FY2011-12, districts in India ranged in rural population from 5,620 persons to 6,074,188 persons and in NREGA expenditure from ₹ 0 to 337.71 crore. Thus, there is wide variation across districts in both the size of the population targeted for NREGA and the intensity of implementation of the scheme.

An alternative approach: Stratified Sampling

We propose a sampling method sensitive to the varying levels of relevance of districts to the NREGA scheme, while maintaining the random nature crucial to a representative audit. This
The sampling approach incorporates sampling strategies from financial audit to more effectively capture the rich variation between districts by using a stratified random sample to select districts with likelihood proportional to their size.

The Financial Attest Audit manual of SAI India notes that "where either monetary values or assessed risks of error vary widely between transactions, alternative sampling methods [to simple random sampling] are usually preferable." If each district in India is viewed as one "transaction" or unit in the overall implementation of NREGA, there is wide variation in the "value" of each district in terms of the target population of the scheme and in terms of the intensity of implementation. The Performance Auditing Guidelines put forth by SAI India require that the sample selected be representative of the entire population, unbiased, and of sufficient size to extrapolate results to the entire population. In addition, the auditor is given discretion to "use judgment in determining which kind of sampling is best suited to his audit job." The methodology proposed here ensures that all three of these requirements are met, while giving CAG deeper insight into those districts where NREGA implementation has been most intensive. For more insight into creating representative samples with post-stratification weights, see Box 18.

**Box 1: Obtaining Nationally Representative Figures with Weights**

When selecting a stratified sample, results can be extrapolated to the national level with the use of weights. In a stratified sample, observations have varying probability of selection into the sample, whereas in a simple random sample, every observation has an equal probability of inclusion. Thus, to obtain nationally representative figures, each observation within a strata must be weighted to reflect the ratio of the strata size as a proportion of the sample to the strata size as a proportion of the population. Thus, the formula for computing post-stratification weights is:

\[ \text{Strata weight} = \frac{\text{Strata Size in Sample} \times \text{Sample Size}}{\text{Strata Size in Population} \times \text{Population Size}} \]

Three indicators could potentially be used for this stratified sampling: NREGA expenditure, rural population, and person days worked. The first is a financial measure of the scope of NREGA implementation in the district, and would ensure that districts with the highest level of expenditure were accordingly most likely to be audited. In effect, as in Monetary Unit Sampling, each rupee of expenditure becomes the unit on which sampling is based, and each rupee of spending becomes equally likely to be selected for audit. Rural population measures the potential population which qualifies for NREGA in the district, thus ensuring that the larger the targeted population in a district, the higher the probability of audit. Finally, person-days worked provides a measure of the intensity of implementation in an area. The variation in each of these three characteristics across India can be seen in the maps below.

The clear pattern seen in these three maps is that particular regions of the country are significantly more NREGA intensive by design. As can be seen in "Rural Population 2011," the areas with the highest concentration of rural inhabitants are Uttar Pradesh, Bihar, Maharashtra, West Bengal and Andhra Pradesh. Though the "NREGA Expenditure" map shows a similar pattern, several states are notably low in NREGA expenditure relative to their rural population, including Bihar and Maharashtra; by contrast, districts in Andhra Pradesh and West Bengal rank highly in expenditure, and rightfully so given the size of their rural populations. Similar patterns can be seen in "Person Days Worked FY 2011-12," which captures a combination of both implementation and rural population. The clear pattern is that some geographical areas of the
country are more NREGA intensive than others, both in the size of the scheme's target population and in the implementation of the program. In evaluating the program, then, it would be useful to look in greater detail at those districts where either the target population or implementation has been particularly intensive.
Proposed methodology

The methodology proposed is a stratified random sample, and with strata assigned based on quartiles of one of the above three variables (NREGA expenditure, total rural population, or person-days worked) and quartiles with the highest values assigned a higher probability of selection. This ensures a random sample which is representative of the entire country and in which every district has some probability of selection into the audit, but also reflects the varying levels of intensity of NREGA in different areas. This methodology is already widely used in financial audits, and is similar to Monetary Unit Sampling.12

This methodology offers significant flexibility in terms of the number of strata chosen for the variable and the weights assigned in each stratum. In this case, there are four strata reflecting the four quartiles of the variable. The probabilities used and resulting quantity of districts chosen are reflected in Table 1. This method could be adjusted to have a greater number of strata, and if desired, one or more 'key' strata could have a 100% probability of selection13. The weights used in this case were designed to result in a total sample approximately equal to that of the original performance audit, after the inclusion of districts in the second step below.

<table>
<thead>
<tr>
<th>Quartile</th>
<th>Prob</th>
<th># districts selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quart. 4</td>
<td>0.56</td>
<td>88</td>
</tr>
<tr>
<td>Quart. 3</td>
<td>0.34</td>
<td>53</td>
</tr>
<tr>
<td>Quart. 2</td>
<td>0.17</td>
<td>26</td>
</tr>
<tr>
<td>Quart. 1</td>
<td>0.06</td>
<td>9</td>
</tr>
</tbody>
</table>
This method will naturally select a greater number of districts from higher priority units as determined by the sampling variable. In order to ensure that all states have at least one district selected, a second sampling step includes randomly selecting one district from each state or Union Territory (UT) where no districts were selected. Using each of the proposed sampling variables, this brought the total districts sampled to 184-187 districts total with at least one from each of India's 34 states and UTs. The characteristics of each of the three samples relative to the sample used in the audit and the full universe of districts can be seen in Table 2. Maps of each of the three proposed samples can be seen below.

As can be seen in Table 2, all three of the proposed sample frames capture districts which are on average higher in expenditure, rural population and person days worked than the full population and audit sample. This was achieved while maintaining the random nature and geographic spread of the original sample. The maps highlight that the targeted samples concentrate proportionally more on districts in high-intensity areas, which is desirable. For example, Andhra Pradesh has a large rural population and high level of NREGA spending, as was seen in the maps above. While only 4 of Andhra Pradesh's 22 districts were selected in the original performance audit, these three sampling methods would have resulted in between 12 and 16 of Andhra Pradesh's districts being included in the sample. This would give a much more in-depth look at the implementation levels of NREGA in these areas where the intensity of both need and implementation are highest.
Table 2. District Characteristics

<table>
<thead>
<tr>
<th>Characteristics of…</th>
<th>All NREGA districts</th>
<th>Sample 0: Actual performance audit sample</th>
<th>Sample 1: Rural population</th>
<th>Sample 2: Person-days</th>
<th>Sample 3: Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Population (mean in lakh)</td>
<td>1.34</td>
<td>1.40</td>
<td>1.84</td>
<td>1.47</td>
<td>1.59</td>
</tr>
<tr>
<td>Total Person Days Worked (mean in lakh)</td>
<td>3.22</td>
<td>3.39</td>
<td>4.48</td>
<td>5.13</td>
<td>4.95</td>
</tr>
<tr>
<td>MGNREGA Expenditure (mean in crore ₹)</td>
<td>54.78</td>
<td>57.91</td>
<td>74.60</td>
<td>77.05</td>
<td>82.79</td>
</tr>
<tr>
<td>Number of districts</td>
<td>624</td>
<td>179</td>
<td>187</td>
<td>185</td>
<td>184</td>
</tr>
</tbody>
</table>

Outcomes under this sampling mechanism

For each of the three proposed samples, a variety of MIS variables were computed and compared to those outcomes for the audit sample. This gives a sense of what might have been found at the ground level, and could be used as indicative data in determining the focus of the audit. Though the MIS data has been criticized as containing some inaccuracies14, so long as these inaccuracies are broadly consistent across districts, this does not negate the usefulness of the data in determining relative levels of the indicators of interest. Moreover, the use of logical checks within the MIS data can uncover likely instances of falsification, which can be further explored on the ground15.
Recall that each of the three samples is representative of the average rural person, person-day of NREGA work, or rupee spent on NREGA, respectively. Thus, where the sample has a higher value of an indicator than the country as a whole (seen in "All NREGA Districts" in Table 3), this suggests that the indicator has higher values in higher-intensity areas. By contrast, where there is a lower value, this suggests that there may be less of a problem in higher-intensity areas.

Outcomes considered:

Table 3 shows key outcomes under each sample for variables related to: (1) expenditure, (2) works, (3) job cards, and (4) 'logical checks,' which indicate discrepancies in the MIS data. We will highlight key findings for this sampling approach generally and for each of the samples specifically.

All three samples hold one common advantage over the audit sample, which is that they perform substantially better in highlighting internal logical failures in the MIS data. These are simple flags within the MIS data indicating whether there were a greater number of households 'allotted work' than 'demanded work,' worked' than 'demanded work,' or 'worked' than 'allotted work,' each of which is logically impossible. Districts in which this occurs are those in which there is an anomaly in the data that merits further attention. The three proposed sample frames capture 3-4 fold more of these districts relative to the audit sample.16

Sample 1: Rural Population

The rural population sampling approach has the major advantage of highlighting areas where NREGA is not reaching its intended beneficiaries, an important area of review in determining the performance of the program. The percentage of rural households allotted work, demanded work, and worked are all substantially lower than in the audit sample; thus, this sampling approach would have uncovered a greater number of areas with high rural population but low NREGA coverage. In addition, the percent of rural households reaching 100 days in this sample (2.2%) is roughly half that of the audit sample (3.9%), again highlighting an important deficiency in these areas. By contrast, these four variables appear artificially high in the expenditure and person-days samples, because by design those samples are studying areas with high levels of NREGA implementation.

Sample 2: Person-days

Whereas the rural population sample uses NREGA's intended recipients as its basis for sampling, the person-days and expenditure samples draw more intensively from areas where NREGA has been more intensively implemented. These two samples are thus largely similar in their findings.

However, the person-days sample has two key shortcomings. Due to the fact that the person-days sample emphasizes areas where labor expenses are high, it by design captures fewer districts where material expenses exceed the 40% limit. Where the rural population sample captures 42 of these districts, and the expenditure and original audit samples each capture 40, the person-days sample would have found only 34 such districts. In addition, the proportion of households reaching 100 days of work is artificially high, at 5.7%, relative to 4.3% in all districts. Thus, while person-days and expenditure generate broadly similar samples, this may be an inferior measure along the material-labor expenditure ratio and the proportion of households...
reaching 100 days of employment, both of which are crucial measures of NREGA implementation.

Sample 3: Expenditure

The expenditure sample shares similar characteristics to the person-days sample above, but does not suffer from the same shortcomings along the two variables highlighted. In addition, as seen in Table 2, it more effectively captures the high-spending areas where audit may be most likely to capture program failures. Thus, this sample is superior to the person-days sample.

Table 3

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>All NREGA Districts</th>
<th>Sample 0: Actual audit sample</th>
<th>Sample 1: Rural Population</th>
<th>Sample 2: Person-days</th>
<th>Sample 3: Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of works sanctioned that were completed</td>
<td>district mean</td>
<td>0.87</td>
<td>0.875</td>
<td>0.916</td>
<td>0.853</td>
</tr>
<tr>
<td>Material expenses exceed 40%</td>
<td>total in sample</td>
<td>150</td>
<td>40</td>
<td>42</td>
<td>34</td>
</tr>
</tbody>
</table>

Works

| % demanded who were allotted work | district mean | 0.995 | 0.994 | 0.985 | 0.999 | 0.999 |
| Proportion of person-days by women | district mean | 0.392 | 0.4 | 0.39 | 0.436 | 0.431 |
| % rural households allotted work | district mean | 0.354 | 0.351 | 0.296 | 0.44 | 0.42 |
| % rural households demanded work | district mean | 0.356 | 0.352 | 0.296 | 0.44 | 0.421 |
| % rural households worked | district mean | 0.338 | 0.336 | 0.289 | 0.456 | 0.399 |
| % rural households reaching 100 days | district mean | 0.043 | 0.039 | 0.022 | 0.057 | 0.044 |

Job cards
<table>
<thead>
<tr>
<th>% job cards applied that were not issued</th>
<th>district mean</th>
<th>0.012</th>
<th>0.015</th>
<th>0.013</th>
<th>0.014</th>
<th>0.011</th>
</tr>
</thead>
</table>

**Logical Checks**

| Greater # households allotted work than demanded | total in sample | 42   | 12   | 14   | 18   | 12   |
| Greater # households worked than demanded work  | total in sample | 22   | 4    | 16   | 12   | 14   |
| Greater # households worked than allotted work | total in sample | 23   | 5    | 16   | 13   | 15   |

**Potential extensions of this methodology**

**Sampling at 100% in key areas**

For certain strata of a variable it may be advantageous to sample at 100% probability. For example, if expenditure was broken into strata based on decile, it may be useful to sample with 100% probability from the highest decile of expenditure. This would be akin to selecting 'key' or 'high-risk' observations, as is done in Monetary Unit Sampling. This methodology is useful when auditors "identify a relatively small group of transactions which are sufficiently important that an error in any one of them would have serious implications for the account area." The lowest decile of spending could also be interesting insofar as it may indicate that NREGA implementation is for some reason stalled in that area. This same reasoning could be applied to high rural population areas.

Short of sampling some areas at 100%, the probabilities chosen per strata can be adjusted dependent upon the desired composition of the sample, while still maintaining the random nature of the sample and the ability to achieve representative estimates using post-stratification weights.

**Sampling on multiple variables**

While three potential sampling variables have been presented here, numerous other possibilities exist. One variation would be to sample along two or more variables; for example, both rural population and NREGA expenditure could be used in the sampling process. This could involve sampling proportional to population and then adding districts above a certain spending threshold, or drawing two samples (without replacement) first along population and then along expenditure. Either of these methods would capture the strengths of both sampling strategies without being significantly more intensive to implement.

**Using 'flags' to sample key districts**
In Table 3, a number of logical checks are performed on the NREGA MIS data to identify internal contradictions. Other flags were also created, such as for districts where the material expenses exceed more than 40% of total works expenses overall in the district. These types of comparisons within the MIS data could be used to identify a sample of 'key' districts which are sampled at 100%, similar to the practice used in Monetary Unit Sampling for high-risk transactions.

Purposeful sampling at the Pradhan village

While it is crucial to maintain a random sample to attain a representative view of what is happening at the country level in the NREGA scheme, within each GP Pradhan villages could be selected purposefully in order to examine implementation at the village level. This would be omitted for any representative analysis, but could be used to examine hypotheses, such as the possibility that works are concentrated near the Pradhan residence. Strong evidence has been shown to support this hypothesis, which could be corroborated on a wider basis.19

In conclusion

Methods from financial auditing, paired with available data, can enhance the effectiveness and efficiency of the performance auditing process. This report proposes a stratified sampling approach based on rural population or NREGA expenditure for the NREGA performance audit. This approach would have increased the effectiveness of the audit by examining a higher proportion of high-impact areas; this would give a clearer picture of the implementation of NREGA in these areas while still fulfilling the requirements of representativeness and randomization. Ultimately, this approach could have identified a greater proportion of key failures on the ground in the audit report, exposing these to the Indian people, and at the same time would have acted as an increased deterrent against future implementation failures in high importance areas of NREGA.

Source:

- Selection was Simple Random Sampling without Replacement (SRSWOR) at the district and block level, and Probability Proportional to Size without Replacement (PPSWOR) at the GP level. The size measurement used for GP selection is not noted in the Performance Audit. (Source: NREGA Performance Audit, Ch. 2)
- Calculations performed with 2011 Census of India data.
- Calculations performed with FY 2011-12 NREGA MIS data.
- In the extreme case, a district with zero rural inhabitants and no NREGA program has no relevance for the NREGA performance audit. This approach does not minimize the importance of every district with rural inhabitants having a non-zero chance of selection; it maintains this requirement while still honing the focus on areas of the highest importance to the scheme.
- SAI India Professional Practice Guidelines for Performance Auditing, 5.17, pp 75-76.
- SAI India Professional Practice Guidelines for Performance Auditing, Appendix D, p. 137.
- For additional detail, see "Post-stratification Weights," University of Illinois: www.atlas.illinois.edu/support/stats/resources/spss/create-post-stratification-weights-for-survey-analysis.pdf
For the purposes of this report we will focus on district level sampling; however, the same methods could be used to sample blocks and GPs as well.


White areas on the map indicate a lack of data in the NREGA MIS system on this measure for some areas. If this measure was recorded elsewhere, such as a state-specific MIS system, this could be easily incorporated into the MIS data for sampling. If the data is not available at all, a simple random sample could be taken for districts without data on an indicator.


This will be further expounded upon under "Potential Extensions of this Methodology" on page 11.

Regardless of sampling methodology used, these logical checks could be performed in the data and districts which fail the checks could be automatically included in the audit sample. This will be further discussed in 'Potential extensions of this methodology.'


Financial Accountability

Does Smaller Local Self Government Ensure Greater Financial Accountability?

By Ms. Gargi Kaul, IA&AS, Principal Accountant General (A&E), Odisha

The last two decades have witnessed a big change in the concepts of government's role, function and performance criteria. Governance has become the key word for any government. Anne Mette Kjaer identified legitimacy, efficiency, democracy and accountability as the core concepts of governance1. Good governance is, among other things, participatory, transparent and accountable. Good governance and accountability are thus intrinsically linked. Decentralised governance has been conceived as an instrument of local self-government for promoting healthy development. It is expected to facilitate effective people's participation, enhance degree of transparency and ensure greater accountability.

Against this background a study was attempted to compare the local governments in two countries and to understand whether size of the local government is an important element in the effective promotion of accountability, including public financial accountability. For this study, two countries were selected, India and Trinidad and Tobago both being British colonies, inheriting the West Minister model of government and both being plural societies with its pulls and pressures. For a more focused analysis, Delhi was selected from India mainly because of its urban local bodies and its similarities with Trinidad. Two bodies from Delhi namely New Delhi Municipal Council (NDMC) and Municipal Corporation of Delhi (MCD) were selected and three from Trinidad and Tobago, namely Port of Spain (POS)and Chaguanas and Tobago(Tobago House of Assembly, THA).

The study was based on the hypothesis that accountability mechanisms would be similar given the history of both the countries but would be better implemented in Trinidad and Tobago and Public Financial Management and accountability in the local government bodies in Trinidad and Tobago would be simple and more effective compared to India keeping in view the size of the local bodies.

An integral and indispensable part of accountability is public financial accountability. In simple terms public financial accountability envisages an efficient and effective financial management system through which governments can ensure the citizens that their taxes are being utilized in a prudent manner for the purpose they were intended for and the donors are satisfied that there is no waste and inappropriate use of the funds donated. The Local Government financial systems and procedures were assessed using the Public Expenditure and Financial Accountability (PEFA) performance measurement framework2 as its basis. The measurement framework has been primarily used for assessment of the Public Financial Management (PFM) of Central Governments. However, these guidelines could be applied to local government level with modifications in some criteria. Thus, with some adjustments and modifications to meet the requirements of local government financial systems in the countries under study, the issues examined were; credibility and control in execution of the budget including internal controls; comprehensiveness, transparency and orderliness and participation in the budgetary process; effectiveness and transparency in accounting, recording and reporting; external scrutiny and oversight on a scale of 0-4 with 0 being the perfect score.

Credibility and Control in execution of the Budget
Credibility and control in execution of budget includes a comparison of the actual expenditure with the budgeted expenditure, effectiveness of internal controls and effectiveness of internal audit. These 3 criteria were further analysed on 8 sub-criteria namely; comparison of actual recurrent and capital expenditure vs budget; effectiveness of expenditure commitment controls, level of understanding of internal controls rules and procedures, degree of compliance, coverage and quality of internal audit reports, frequency and distribution of reports and management response to the reports. The 8 criteria were scored for each of the five bodies on the basis scoring pattern as decided. The score obtained by the bodies were as follows:

<table>
<thead>
<tr>
<th>Criteria*</th>
<th>MCD</th>
<th>NDMC</th>
<th>POS</th>
<th>Chaguanas</th>
<th>THA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate Recurrent Expenditure Out-turn Compared to approved budget</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Aggregate Capital Expenditure Out-turn Compared to approved budget</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Effectiveness of Comprehensive expenditure commitment controls</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Comprehensiveness, relevance and understanding of internal controls rules/procedures</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Degree of compliance with rules</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Coverage and quality of internal audit</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Frequency and distribution of internal audit reports</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Extent of management response</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Mean</td>
<td><strong>2.25</strong></td>
<td><strong>1.88</strong></td>
<td><strong>2.00</strong></td>
<td><strong>2.13</strong></td>
<td><strong>2.50</strong></td>
</tr>
</tbody>
</table>

**Basis of scoring at Appendix 1 (413KB)**

From the above it is quite clear that size has not had an impact on budgetary management and control. Delhi has a lower score more because of a better internal audit than compared to Trinidad and Tobago.

Indian Audit & Accounts Department

**Comprehensiveness, transparency, orderliness and participation**

Orderliness and participation in the annual budget process, classification of budget, documentation included in the budget documents, and public access to key fiscal information were the criteria on which the evaluation was carried out.

All the five bodies appear to follow a fixed schedule and come close to a perfect score except in the case of Chaguanas as they were not able to provide the required documents. The reason could be because the budget exercise has become a routine and the same pattern is observed year after year. A well laid out classification system is one which can track expenditure on administrative unit, economic, functional and program dimensions. In Trinidad and Tobago the
GFS 2001 has been adopted by the Central Government which is followed by the Local government bodies also. NDMC and MCD have passed their Municipal Accounts Regulations and their own accounts classification. This classification also follows an administrative unit, economic and program dimension.

Budget statements usually have a certain basic documents which are common all across. More detailed the documents, more transparent is the process. The budget documentation in Delhi is more comprehensive than Trinidad and Tobago. In case of Delhi itself, the documentation in MCD is more comprehensive than NDMC.

An important element of fiscal transparency is easy availability of information on budget and its implementation to the general public. This requires that the government makes relevant information widely available in a comprehensive, understandable and timely manner. Publication of fiscal information for the public is not a legal requirement but it has become an important requirement in accountability. The basis for the scoring of each body on the criteria of comprehensiveness and transparency as given below reveals that the situation in the case of THA, POS and Chaguanas is similar, with public access being partial and limited with NDMC being the closest to the perfect score.

<table>
<thead>
<tr>
<th></th>
<th>MCD</th>
<th>NDMC</th>
<th>POS</th>
<th>Chaguanas</th>
<th>THA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensiveness, transparency orderliness and participation</td>
<td>1.4</td>
<td>1.0</td>
<td>1.6</td>
<td>1.8</td>
<td>1.8</td>
</tr>
</tbody>
</table>

**Accounting, Recording and Reporting**

Accounting of expenditure, its recording and reporting are very important elements of financial management. As an important part of accounts is the timely and regular accounts reconciliation as an important tool for control and monitoring. Bank reconciliation is carried out regularly by both the three bodies in Trinidad and Tobago as per statement of the staff of the accounts wing. However, the requisite statements are not provided to audit which is one of the reasons for delay in audit. In NDMC, as per the statements of the officers of the Finance and Accounts wings Bank reconciliation was being carried out on a regular basis. Similarly, the Finance wing of MCD states that they have been carrying out bank reconciliation on a regular basis during the few last years. However due to the fact that there was a problem with the reconciliation in the year 2003-04, the opening and closing balance was not certified by the Chief Auditor.

The Municipal Corporation Act of Trinidad and Tobago does not provide for the submission of any specific in-year budget reports, except that it is the responsibility of the Treasurer to submit to the Finance Committee, whenever required, a trial balance and financial reports as necessary in addition to the Annual Financial Statements. Similarly, in the case of THA there is no provision in the Act for submission of in-year budget reports except the annual estimates. In NDMC, several reports are submitted by the Finance Department to the Council on budget and expenditure and are discussed and reviewed by the Council. The Zones in MCD submit monthly expenditure reports to the Finance wing which consolidates and monitors them. These reports are only put up to the level of the Municipal Commissioner and are not submitted to the Standing Committee. Only the annual receipt and expenditure report along with the budget is put up to the Committee. Due to various reasons, the financial statements have not been prepared within the prescribed time either by POS or Chaguanas. Regarding the quality of accounts, the Auditor General in her report on Port of Spain accounts has commented that maintenance of
accounting records and incorrect postings and further also mentioned that instances of weaknesses in internal controls was also noticed. As per Section 113 (i) of the Municipal Corporation Act, the Corporations are to keep their accounts in a format approved by the Minister of Local Government. However, no format has been provided by the Ministry despite comments by the Auditor General on this issue. No reasons for this were available with the Ministry representatives. The Annual Financial Statements of THA have been delayed over the years, however attempts are being made to complete the pending statements and bring them up to date. No specific reason for delay in preparation of the accounts could be ascertained other than the fact that the records were not complete and information was not forthcoming from the various departments.

As per the New Delhi Municipal Council (Maintenance of Accounts) Regulations, 2010 Annual Financial Statements should be prepared by 30th June each year which shall be placed for approval of the Chairperson and the Council is to approve and adopt the audited Annual Financial Statements within nine months of the close of the financial year which is being generally observed. Section 204 of the MCD Act states that the accounts shall be kept in such manner and in such form as may be prescribed by regulations. The Act or the regulations do not lay down any specific date by when the Accounts should be laid before the Committee. The annual accounts have not been reconciled since 2004-05 so they have not been audited. The unaudited figures are compiled and used for the budget and other purposes. In the absence of these statements it is not possible to comment on the quality of the accounts also.

The comparative score of the bodies was as below

<table>
<thead>
<tr>
<th></th>
<th>MCD</th>
<th>NDMC</th>
<th>POS</th>
<th>Chaguanas</th>
<th>THA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting, Recording and Reporting</td>
<td>1.63</td>
<td>1.0</td>
<td>1.50</td>
<td>1.88</td>
<td>1.88</td>
</tr>
</tbody>
</table>

**External Scrutiny and Audit**

Audit by an external agency is an important means of ensuring accountability. Traditionally auditing focused on the accuracy and probity of accounts which was mainly to examine whether transactions were within the budget, whether they were carried out according to regulations and for the purpose they were meant for. Section 59 of the New Delhi Municipal Council Act provides for the Chief Auditor whose responsibility it is to audit the accounts and all transactions of the Municipal fund and can make any queries and observations in this regard. It has the right to access any record in the conduct of his task. The MCD Act also provides for a Chief Auditor who shall conduct a monthly and annual examination of the municipal accounts and shall report thereon to the Standing Committee. Like NDMC, the auditor in MCD also has the right to access any record. Section 113(2) of the Municipal Corporation Act of Trinidad provides that the accounts of the Corporations shall be subject to audit by the Auditor General in all respects. Similarly as per Section 46 of the Tobago House of Assembly Act the accounts of THA are also subject to the audit by the Auditor General. In the case of the Corporations and THA, the audit is in arrears. The corrective measures undertaken are neither carried out in a systematic or timely fashion. Further, no record was maintained to monitor follow up systematically. However, auditors follow up on the progress as part of their subsequent audits. Thus this accountability mechanism is not effective as it should be.

In the case of POS, Chaguanas, while examining the budgetary schedule it is seen that there doesn't seem to be any examination by the Finance and Planning Committee. As the system
stands today, the budget estimates prepared by the Council have no or little meaning as the final figures are those which the Ministry of Finance decides. Once this limit is communicated, the Corporations then rework the priorities and re-distributes the amount allocated. The whole exercise actually becomes futile. The legislative scrutiny in the local government in Trinidad is virtually non-existent.

In the case of THA, legislative scrutiny of the budget is more intense than that of the Corporations, but not much debate takes place other than the budget speech and the minority leaders response. The whole process in the Assembly takes 3-4 days. From the discussions with clerk of the Assembly and the officers of the Budget wing it appears that there is no committee stage for a detailed examination.

NDMC does not have a legislative body however, for this study the Standing Committee is being treated as a legislative body. The budget is placed before the Standing Committee where it is discussed. The budget as placed before the Council is already approved by the Chairperson and the Chairperson heads the Council also. Thus the approval of the Council is a mere formality.

In MCD, the budget proposals go through two levels of legislative scrutiny. The estimates are first placed before the Standing Committee which is the main legislative committee to review all financial matters. The Standing Committee discusses the budget in great details taking in the view of the finance department and ward committees. The recommendations of the Standing Committee form a part of the budget proposals which are put up to the Council.

The legislative wings of the local bodies except that of MCD don't seem to have a major role in the budget process.

The delay in the submission of the Annual Financial Statements and subsequent delay in audits is further aggravated by the limited scrutiny by the legislature; the Parliament in the case of Trinidad and Tobago. The reports of the Auditor General are examined by the Public Accounts Committee of the Parliament. There is a backlog in the examination of audit reports and those on local government bodies being victims of this process. During the last 5 years, only one report on Chaguanas has been examined by the PAC. There appears to be no systemic follow-up on the recommendations of the PAC and reoccurrence of the same findings in the audit reports suggests that the recommendations of the PAC are not taken seriously by the executive.

NDMC does not have a legislative body however, for this study the Council is being treated as a legislative body. The audit reports are placed before the Council and then a committee created for audit examines the reports in depth. Hearings are held with the departments. On an average this committee meets once in a quarter and has been successful in clearing/settling outstanding paras.

The legislative scrutiny of audit reports in MCD is carried out at in depth. The report is placed before the Standing Committee and then it is examined at length by the Municipal Account Committee. The Committee then gives its recommendations to the Standing Committee for settlement of the observations or the Department for corrective action. While the recommendations regarding corrective actions given by the Accounts Committee, were taken seriously by the executive, its scope was limited as the Committee has over the years considered only a small portion of the audit reports. Even today, audit observations pertaining to the years 1957-58 are being examined and discussed simultaneously with those of later years5.
Importance and relevance of audit appears to have taken a back seat in the scheme of things in the local government context across the board as is evident from below:

<table>
<thead>
<tr>
<th></th>
<th>MCD</th>
<th>NDMC</th>
<th>POS</th>
<th>Chaguanas</th>
<th>THA</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Scrutiny and Audit</td>
<td>1.3</td>
<td>2.1</td>
<td>2.8</td>
<td>2.7</td>
<td>2.9</td>
</tr>
</tbody>
</table>

**Conclusions**

The evaluation of the financial management systems and procedures on the eleven criteria brings out a comparative position of the five bodies under study. In an ideal situation the bodies would have a score of 0. However, the position is very different as seen below:

**Overall Average Comparative Score**

<table>
<thead>
<tr>
<th>MCD</th>
<th>NDMC</th>
<th>POS</th>
<th>Chaguanas</th>
<th>THA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.65</td>
<td>1.58</td>
<td>2.06</td>
<td>2.19</td>
<td>2.35</td>
</tr>
</tbody>
</table>

When the scores of Delhi and Trinidad and Tobago are consolidated and compared it reveals that the score of Trinidad and Tobago is 36.67 per cent higher than the Delhi score.

It was assumed at the beginning of this study that Trinidad and Tobago being a smaller country and the local government being more manageable in terms of size and expenditure, financial management would be more effective. However, the hypothesis has not proved to be correct.

A sound and effective public financial management system should reflect a high degree of fiscal discipline, strategic allocation of resources and the efficient delivery of services. Budgets in Trinidad and Tobago are prepared primarily to comply with statutory requirements, are incremental and are not generally used as tools for financial control, planning and effective management decision making. A top down approach reduces public participation, transparency and accountability and can lead to insufficient attention being paid to the felt needs of the local populace. The process needs to be made more participative.

The system of funding the local bodies in Trinidad is only by way of subventions, while in Delhi they raise their own revenues which fall short of their requirement for all the activities. This makes them dependent on the Centre. If local bodies remain financially dependent on the grants from Centre, then they would be principally accountable to these governments and not to the people. Accountability to the people rather than to a centralized bureaucratic system should be the objective to achieve the goal of self-governance. In addition, the Urban Local Bodies (ULB) should be given increased authority to broaden their revenue collection so that they can meet their expenditure requirements and do not have to depend on the State/Central Government for funds.

In line with increased revenue generation by the ULB's, there will also be a need for the establishment of a detailed and comprehensive accounting and auditing system, that meets the requirements of transparency and accountability.

A good internal control framework comprises of clear policies, systems and procedures incorporating internal checks and controls, and a monitoring mechanism – generally internal
audit - to identify deviations and promptly address risk areas. The legislation in both the countries does not provide for internal audit. However, where internal audit has been provided in some form, there are no detailed policy guidelines, procedures and formats for such audits. In light of the shift to modern systems of accounting, the need for an internal auditor becomes more pronounced as it allows for necessary corrective action to be taken at the time of the transaction itself.

External Audit or Statutory audit is a very important tool of accountability. As explained by the Institute of Internal Auditors, 'the credibility of the audit activity strengthens public governance by providing for accountability and protecting the core values of government, which it does by assessing whether managers and officials conduct the public's business transparently, fairly, honestly, and in accordance with laws and regulations.' The credibility of audit comes under question if it is not carried out regularly and does not follow set standards. Audit is in arrears in all the local bodies in Trinidad and Tobago, partly due to delay in preparation of the accounts and partly due to delay by audit. Local Government it seems comes low in the priority of audit in Trinidad as the audit is conducted by the Auditor General who has to cover the entire government. In MCD the delay in audit is primarily on account of delay in preparation of accounts. Not only should audit be conducted in time, but corrective action needs to be taken on its recommendations. As compliance to audit is weak in nearly all instances the very purpose is defeated giving rise to another problem of accountability.

The above brings out the fact that size has no clear direct link with degree of financial accountability. Delhi, though bigger in size obtained a better score as procedures are more standardized and implemented, while in Trinidad and Tobago procedures existed but the implementation was weaker.

Source:

- PEFA is a multi-agency partnership program sponsored by the World Bank, the International Monetary Fund, the European Commission, the United Kingdom's Department for International Development, the French Ministry of Foreign Affairs, The Royal Norwegian Ministry of Foreign Affairs, the Swiss State Secretariat for Economic Affairs. The PEFA secretariat is based in Washington and the measurement framework is provided by this organization.
- Section 40(g) of the Municipal Corporation Act, of Trinidad and Tobago, Act 21 of 1990
- Audit report on the Accounts of Port of Spain Corporation for the year ended 2000 September 30; of the Chaguanas Borough Corporation for the year ended 2007 September 30.
- Interview with Chief Auditor MCD on 26th August 2011.
- Institute of Internal auditors 'Role of Auditing in Public Sector Governance' November 2006 theiia.org
By Shri L. V. Sudhir Kumar, IA&AS, Director General, NAAAA, Shimla

The Indian Audit & Accounts Department (IA&AD) has a history of over a hundred and fifty years. The Audit Department was formed in 1860 when the Government's Accounting and Auditing functions were amalgamated and placed under the Auditor General of India. In 1919, the Auditor General was given statutory recognition. In 1935, the status of the Auditor General was further enhanced and in 1950, when the Constitution came into force, the Auditor General was re-designated as the Comptroller & Auditor General (CAG) of India. In 1971, the CAG's (Duties, Powers and Conditions of Service) Act was formulated which defines the duties and powers of the CAG of India and derives its authority from Article 148-151 of the Constitution.

Role of Indian Audit and Accounts Department

In the discharge of his duties, the CAG of India conducts Financial, Compliance and Performance audit of all units and formations of the Union and State Governments, Government Companies, Autonomous Bodies and such other organizations that are substantially financed by the Union and State Government. The Committees concerned of the Parliament and State Legislatures examine the results of audit, which are brought out in the Audit Reports of the CAG of India, and recommend corrective action.

Another important role performed by the CAG of India is the compilation of accounts of the State Governments and regulation and authorization of entitlements like Provident Fund and pensionary benefits of State Government employees in most States. For carrying out his diverse functions, the CAG of India is assisted by one of India's oldest and premier services - the Indian Audit & Accounts Service (IA&AS), whose officers are deployed in offices spread throughout the country besides three overseas offices located at London, Washington and Kuala Lumpur.

While the officers of IA&AS are required to acquire and possess not only the professional skills of an accountant and auditor, they are primarily trained to develop administrative competence to manage the staff of the IA&AD which has a strength of nearly 60,000 personnel. Their job requirements include scrutiny of intricate contracts, understanding of tax and revenue laws, assessing the financial health of commercial corporations, grasping for instance the complexities of oil exploration or the working of an atomic power plant and comprehensively reviewing the effectiveness of implementation of country-wise schemes for rural development, health services, education etc. IA&AS officers also go abroad to conduct audit of Embassies and High Commissions of India situated all over the world.
Training of IA&AS officers

With the intention of creating a cadre of disciplined and efficient officers, Shri V. Narahari Rao, the first CAG of India (1948-1954), decided to institutionalize training arrangements for IA&AS officers by setting up the IA&AS Training School at Chadwick House in Shimla in 1950. This not only greatly enhanced the functional efficiency of the Department, but also led to the Training School emerging as a premier training institute in India.

Just prior to the implementation of this wide-reaching departmental training arrangement, the IA&AS Training School had functioned for a year at Chennai. It was renamed as the IA&AS Staff College in 1969, and upgraded on 28th February 1990, as the National Academy of Audit & Accounts.

The National Academy of Audit and Accounts (NAAA) is the apex training institute of the IA&AD. It has trained hundreds of Officer Trainees of the IA&AS over the years, with the objective of moulding them into highly professional and competent Officers. The NAAA thus plays a vital nurturing role in helping the IA&AD to discharge its constitutional mandate, under the guidance of the CAG of India. The institute also offers mid career and in-service training to officers at the Executive as well as higher management levels within the Department.

The Academy and its hostel complex, Yarrows, are situated among the verdant splendor of the Dhauladhar hills, with the formidable Himalayas appearing as a splendid backdrop. This picturesque locale, along with the towering cedar trees and the diverse range of local wildlife, make for a truly scenic setting.

The NAAA represents an interesting confluence of academic rigour and intellectual freedom. The campus is a virtual melting pot where people across generations, from every part of our country and beyond, come in contact with each other. It is a place where participants from every state of our diverse country, speaking different languages, with diverse qualifications and socio-educational backgrounds meet, interact and learn from each other.

Since its inception, more than 60 batches of IA&AS officers have received comprehensive and holistic training at the Academy, and have carried out their responsibility towards assisting the CAG of India in discharging his constitutional and statutory duties.
Incidentally, it is not only Officers of the IA&AS who have flourished under the expert and proficient framework of the Academy, but also Officers from other services like the Indian Railway Accounts Service (1950s) and the Indian Civil Accounts Service (1984-92) who were trained here along with the IA&AS probationers. The Academy has also extended its academic and professional training expertise to Officers from foreign countries such as Nepal, Bhutan and Oman.

The Academy has aided transformations in the Department by being attuned to the changing environment facing IA&AS Officers. This has resulted in the Academy being flexible, constantly updating and re-orienting its training programmes to ensure they are relevant to the Department's needs and in sync with best practices from Supreme Audit Institutions (SAIs) in other countries. Over the years, the NAAA has made a steady transition from being merely an outstanding training institute to becoming a prestigious institution in its own right in the IA&AD.

**Vision and Mission**

The vision of NAAA is to become a centre of excellence and innovation for good governance and public financial accountability through research and training in public auditing and accounts.

The NAAA's mission is to:

- Create a learning environment that fosters individual growth and highest ethical and professional standards in our officers;
- Develop and mould, through our well-structured and holistic training courses, a cadre of competent officers, well-versed with contemporary best practices in the field of public administration, auditing, accounting and good governance;
- Impart managerial skills and leadership qualities to officers, so that they are well-equipped to carry out the critical responsibilities and duties entrusted to the SAI of India;
- Promote and carry out research in the field of auditing and accounting and good governance with a view to facilitate better policy formulation and more efficient auditing/accounting procedures.

The Academy functions as a field office under the CAG of India and reports in all matters to the Dy. CAG. For training curriculum and related matters, the Academy is guided by a Central Training Advisory Committee, consisting of senior management of the organization of the CAG of India.

The Academy is headed by the Director General, who is an officer of IA&AS of the rank equivalent to the Additional Secretary to the Government of India (GoI). The Director General is assisted by faculty members who are all officers of the Indian Audit & Accounts Service. The faculty members train the Officer Trainees on various subjects as per the training syllabi. They function as Course Directors and Coordinators for different Semesters and Phases of the Induction Training for Officer Trainees, the various in-service training programmes, seminars and visits of foreign delegations. They also function as Counselors to the Officer Trainees and provide professional guidance and personalized attention to them. In addition, they look after administrative functions relating to the Academy complex, hostel complex, information technology, infrastructure and training matters.
Training Programs at NAAA

Academy conducts the following types of courses:

- Induction Training for directly recruited officers of Indian Audit and Accounts Service is in two phases of 54 weeks and of 06 weeks respectively. The Officer Trainees are also given Field Training for 34 weeks in the various AG office in between the two phases;
- Programmes aimed at enhancing the effectiveness of Group Officers in the IA&AD. These programmes are divided in two distinct categories. Refresher Courses in identified areas and Skill-oriented training programmes in Computer Systems & Applications;
- Some vertically integrated courses in order to facilitate experience sharing and some seminars/workshops on subjects of topical interest from time to time;
- Orientation training programmes for newly promoted IA&AS officers;
- 'Inter Services Workshop on Best Practices in Governance' sponsored by DoPT;
- Course for IAS officers for 'Improving Governance through Accountability';
- Courses for outside agencies/services e.g. Financial Management & Audit Sensitization courses for Indian Forest Service, Indian Information Service Officers and Senior Officers of the Armed Forces.

Training Methodology

The training methodology of Induction Training includes lectures, practical sessions, group discussions, guest faculty interaction, assignments, case studies, motivational films & videos, games etc. Hand-holding of Officer Trainees is done to the extent of leading them through concepts and domain specific inputs. However, the Academy lays more stress on participative and interactive methods. Extensive training material under Academy Training Series and Computer Training Series, are also supplied to the Officer Trainees so that they can get suitable guidance for self-study.

The Academy gives great importance to developing camaraderie, leadership qualities and personality as well as character building, team building. The Officer Trainees are expected to actively participate in various activities and assignments, such as committee assignments, escort duty assignments, group leader assignments, in-house journal work, book reviews, and speakers forum.

To promote personality development and team spirit, a variety of assignments are entrusted to the Officer Trainees. To develop leadership quality and team management, all the Officer Trainees are nominated in turn for Group Leader assignments during the activities organized outside Shimla e.g. Winter Study Tour, PWD Training, Trek, Bharat Darshan – cum – Study Tour etc. During these assignments, the Group Leader has to ensure successful completion of these activities and other Officer Trainees are required to co-operate with Group Leaders and help promote teamwork.

Performance of all the Officer Trainees is under constant review. Overall conduct, participation in classes, discussions, sports and cultural activities, performance in various assignments, internal and departmental examinations and social behaviour are all taken into consideration in making the assessment. To organize their extra-curricular activities in a systematic manner, following Committees from among the Officer Trainees are constituted to coordinate the various activities during their training at the Academy:
- Literary Committee
- Outdoor /Trekking Committee
- Photography/ & Movie Committee
- Sports Committee
- Cultural Committee
- Mess Committee
- Committee for Community outreach
- Ginger Group

The Office Bearers are selected by the Officer Trainees from amongst themselves.

Officer Trainees are evaluated quarterly by all faculties and suitably advised. The evaluation is also communicated to the CAG of India. The Academy has instituted a Scheme of Award of Medals and Certificate starting from the 1990 Batch of IA&AS Officer Trainees.

Seminars on Contemporary issues of Governance : The Academy hosts prestigious annual seminars organized by the CAG of India. These seminars provide a forum for exchanging of views among officers occupying senior positions in the Government of India and the States and leading non-governmental organizations. The themes of these seminars are related to Good Governance and best practices in auditing and accounting. The themes of seminars conducted during five years are 'Good Governance: Issues and Outcome', 'Good Governance: Accounting Reforms', 'Public Accountability and Audit', CAG's Audit Mandate' and 'Decision Making in Government'.

International Cooperation : The Academy gives great importance to cooperation with other SAI and other professional training agencies engaged in capacity building both within the country and outside. NAAA has provided/provides training to young officers of the SAIs of the Kingdom of Bhutan, Sultanate of Oman and Nepal. As part of international cooperation, the Academy has hosted delegations from several SAIs like Israel, Venezuela, Afghanistan, China, Kuwait etc.

Life in the Academy
Successive generations of IA&AS Officer Trainees have stayed in 'Yarrows' – a very picturesque, stately and regal structure built on one of the spurs running from pleasant Hill. 'Yarrows' is built in the Swiss Chalet style. On either side are the beautiful 'Annandale' and 'Glen' Valleys. For those who have passed out of the Academy, 'Yarrows' has been a home away from home. Each and every IA&AS Officer has fond and nostalgic memories of 'Yarrows'- its ambience, warmth and comfort. In fact, 'Yarrows' is an integral part of the training Academy and one cannot imagine training in Shimla without 'Yarrows'.

A variety of outdoor and indoor activities are available to the Officer Trainees. These include Lawn Tennis, Squash, Billiards, Carom, Chess, and Table Tennis. The sports complex has a state-of-the-art Gymnasium, as well. The facilities cater to a broad range of interests. Participation in extra-curricular activities is designed to develop espirit de corps as well as individual personalities. All Office Trainees are expected to participate in the corporate life of the Academy making full use of the facilities according to their tastes and disposition. The Academy places great emphasis on these activities and an appraisal of the participation in sports and other extra-curricular activities is taken into account in the overall assessment of an Officer Trainee.

Documentary :To sensitize the Officer Trainees with socially sensitive issues, the Officer Trainees are encouraged to prepare short films on socially relevant and sensitive issues in Shimla and surrounding areas. The last few batches made movies on 'Problems of Migrant Labourers in Shimla', and 'Urban Local Governance in Shimla' among others.

Crèche for Children of migrant labourers : An initiative by IA&AS Officer Trainees

Desire to help is inherent in all human beings and all want to make a positive contribution to society. Officer Trainees at the NAAA, Shimla have also made a humble effort to contribute to society by way of operating a Child Care Centre for children of migrant labourers.
At the Child Care Centre, an attempt has been made to create a safe and conducive environment for their healthy development. The children are provided with pre-school education, healthy and nutritious food and regular health check-ups. Two full-time caretakers ensure that the crèche functions efficiently and regularly. The Directors and Officer Trainees also monitor the Centre daily. The Centre is run primarily on contributions by the faculty and trainees at the Academy.

**Conclusion:**

The Academy, thus, gives the Officer Trainees training for both their careers as well as provides the inputs for overall development of personality and character. The bond created therefore does not diminish with time but grows deeper with every passing year. The Academy and 'Yarrows' have grown to be the alma mater of the IA&AS Officers over generations and will continue to be so for many more years to come.
The International role of the Supreme Audit Institution of India extends to following areas:

- INTOSAI
- ASOSAI
- Bilateral relations with other SAIs
- Audits of International Organizations
- The CAG of India occupies important positions in the above agencies. The prominent ones among these are the Chair of INTOSAI Committee on Knowledge Sharing and Knowledge Services (KSC), the INTOSAI Working Group on IT Audit (WGITA), the Panel of the External Auditors of the UN and its Agencies, etc. The CAG of India is also the Chairman of ASOSAI. Some of the recent major events involving active participation of SAI India were:
  - The 23rd meeting of the INTOSAI Working Group on IT Audit was held in Kuwait from 10-12 February, 2014. The meeting was presided over by Mr. Shashi Kant Sharma, Comptroller & Auditor General of India and Chairman of the Working Group. The 23rd meeting was attended by the 63 delegates from the 30 member countries. The member SAIs presented their progress reports on the various projects and also presented country papers. All the progress reports and country paper presentation were appreciated by the members of the Working Group.
  - The Global Audit Leadership Forum (GALF) – formerly known as Global Working Group, provide select group of 19 Auditor Generals to meet annually for organised yet informed discussions on current and emerging issues of concern to their Government and offices and to explore opportunities to share information and work closely. The first meeting of the GALF was held at Mexico City, Mexico from 21-23 May, 2014 and was attended by Mr. Shashi Kant Sharma, Comptroller & Auditor General of India and his delegation comprising Mr. Jagbans Singh, Director General and Mr. Anadi Misra, Secretary to CAG. SAI-India presented a country paper on "Citizen Engagement
Practices: Synergizing Social Audit with the Audit of Supreme Audit Institutions" in the above meeting.

- Mr. Shashi Kant Sharma, Comptroller and Auditor General of India and his delegation comprising Mr. Parag Prakash, Director General and Mr. Anadi Misra, Secretary to CAG attended the XXII Commonwealth Auditors General Conference (CAGC) which was held at Malta from 25th to 27th March 2014 on the theme of "Securing Independence of Supreme Audit Institutions to Improve the Effectiveness of Reporting and Communication of Audit Findings".

The theme had following two sub themes:

Ensuring Independence of SAIs for effective SAI Reports.

Effective Communication of Audit Findings to Key Audiences.

The Comptroller and Auditor of India conducted the proceedings of the second sub-theme. It was decided in the Conference that the XXIII Conference of the Commonwealth Auditors General will be held in India in 2017.

- The 6th meeting of the Steering Committee of INTOSAI Committee on Knowledge Sharing and Knowledge Services was held at Cairo, Egypt from 14-15th October, 2014. The main purpose of the 6th KSC Steering Committee meeting was to collectively review the progress achieved by the Working Groups and Task Forces under KSC in relation to programmes and activities undertaken by them in tandem with the updated INTOSAI Strategic plan 2011-2016.

- A meeting of the Subject Matter Expert and Audit Planning meeting under INTOSAI Development Initiative (IDI) Global Programme on Specialised Audits –IT Audit (ASOSAI & PASAI region) was held at Information Centre for International System of Audit (iCISA), Noida from 6-17 October, 2014. Mr. Neelesh Kumar Sah, AG(A&E)-I, Uttar Pradesh and Mr. Anindya Dasgupta, Director (IT Audit), iCISA attended the above meeting.

- In addition the above domestic and international engagements in INTOSAI, the CAG of India and other nominated officers from SAI India participated in 16 other meetings/seminars organized by different SAIs.

MoU with SAI-Ukraine signed during the XXI INCOSAI 2013 at Beijing, China

The Comptroller and Auditor General of India signed MoU on 25 October, 2013 with SAI-Ukraine and also attended courtesy meetings with SAIs of South Africa, Vietnam, Nepal and Bhutan.
Renewal of MoU with SAI of Bhutan

On the Invitation of the Auditor General of Bhutan for renewal of existing Memorandum of Understanding for cooperation, the Comptroller & Auditor General of India visited Bhutan from 22-26 April, 2014 with delegation comprising Mr. R. Srinivasan, Pr. Director and Mr. Anadi Misra, Secretary to CAG.
6th Indo-Kuwait Joint Seminar

The 6th Indo-Kuwait Joint Seminar was hosted by SAI Kuwait from 14th to 17th April 2014 on "Environment Auditing". Participants from SAI India were Mr. Balvinder Singh, Additional Deputy Comptroller & Auditor General and Mr. M. K. Biswas, Director General and members of delegation from SAI Kuwait were Mr. Tareq Sulaiman Alkandari, Controller, Mr. Khaled Ameen Alawadhi, Chief Auditor and Mr. Talal Tareq Alwuhaib, Assistant Auditor. Both the SAIs presented two papers on Environment Audit and discussed the audit techniques and guidelines for the Environment Audit.

14th Indo Polish Seminar

14th Indo Polish Seminar on 'Analysis of Audit Reports' was organised at Warsaw, Poland from 30 June to 4 July, 2014. Mr. Andrew Langstieh, Director General and Mr. S.A. Bathew, Pr. Accountant General attended the Seminar. Two Country Papers on 'Understanding a large IT audit project: Unique Identification Authority of India (UIDAI) and 'Analysis of an IT Audit Report on Computerisation of Land Records in Tamil Nadu' were presented in the Seminar by SAI India

Indo-China Seminar

SAI India organised Indo-China Seminar at Kochi from 27-29th November, 2014 on the topic of "Audit of Public Debt". Chinese delegation comprising of four members was led by Mr. Yuan Ye, Deputy Auditor General. From SAI India Mr. A.K. Singh, Deputy Comptroller & Auditor General led the delegation of three members.

Other Activities

Based on the request from the Auditor General Nepal and Comptroller & Auditor General of Bangladesh, SAI India conducted Peer Review of SAI Nepal and SAI Bangladesh from 16 June to 7th July, 2014 and from 3-30 June, 2014 respectively. The objective was to assess the performance of the two SAIs with reference to the Performance Measurement Framework prepared by the INTOSAI. The team leader of the Peer Review of SAI Nepal was Mr. Purushottam Tiwary, Pr. Director and in respect of SAI Bangladesh, Mr. G.Bhattacharjee, Director General led the team. The final Report of the Peer Review of SAI Nepal has been
issued in November, 2014 after approval of the Comptroller & Auditor General of India. In respect of SAI Bangladesh, the report is under finalisation.

**UN Board of Auditors (UNBOA)**

The United Nations General Assembly approved the appointment of the Comptroller & Auditor General of India as a Member of UN Board of Auditors for the period 1 July 2014 to 30th June 2020.

**Audit Portfolio of CAG of India**

The Comptroller& Auditor General of India is conducting Financial/Certification, Performance, Compliance audit of the following UN Organizations/Agencies every year:

- United Nations Peace Keeping Operations (UNPKO)
- United Nations Children's Fund (UNICEF)
- UN University (UNU)
- United Nation Joint Staff Pension Fund (UNJSPF)
- UN Framework Convention on Climate Change (UNFCC)
- UN Convention to Combat Desertification (UNCCD)
- UN Institute for Training and Research (UNITAR)
- UN Escrow Account
- Portion of UN Headquarter (Procurement, HRM, Office of High Commissioner of Human Rights, UN Office at Geneva)
- World Food Programme (WFP)
- International Organization for Migration (IOM)
- World Intellectual Property Organization (WIPO)
- International Atomic Energy Agency (IAEA)
- UN World Tourism Organisation (UNWTO)

**Panel of External Auditors of United Nations and its Technical Group**

The External Auditors of UN (Members of the Board of Auditors) and its Specialised Agencies constitute the "Panel of External Auditors of the United Nations". The Panel meets once a year to address issues of developments in accounting/auditing practices worldwide. We have been a member of the Panel since 1993, by virtue of being the External Auditor of UN or its specialised agencies. CAG was the Chairman of the Panel from 2011 to 2013 and Director General (IR) was the Convener of the Technical Group of the Panel during that Period.
Communications

- Guidance Note on "Types of Audit"
- Guidance Note on Preface to Audit Reports
- Guidance Note on Direct Access to Private Sector Records for Audit by CAG– Protocol
- Revised Guidelines on Audit Quality Management Framework 2014
- Guidance Note on "Developing Recommendations"

Guidance Note on "Types of Audit"

Communications

Guidance Note on "Types of Audit"

Audit methodology is how the office of the CAG of India codifies the standards and practices to be followed by auditors in carrying out their work. It gives rigour and discipline to our work and provides the structure within which audit teams exercise professional judgement. It is - what we do, why we do it, and how we do it. SAI India has been committed to follow a structured approach to its functioning, to ensure quality, standardisation and transparency. CAG’s Auditing Standards and Regulations on Audit and Accounts provide the desired direction in this regard.

The issue presented here is about the terminologies being used in the audit reports or in the annual audit plans for the types of audits undertaken/ to be undertaken. We have been using the following terminologies in the documentation to indicate types of audits:

- Performance audits
- Financial Audits
- Compliance Audits
- Audit of transactions
- CCO based audits
- District audit
- Thematic audit
- IT audit

A need is being felt to clarify the use of terminologies. Regulations on Audit and Accounts, 2007 clearly define types of audit as financial, compliance and performance audits. Further, ISSAI 100 - Fundamental Principles of Public Sector Auditing discusses types of public sector auditing giving definitions of financial, compliance and performance audits and discriminating among these types.

Defining the types of audits has some clear purposes:

- It helps in determining the purpose for which the audit is being undertaken. Essence of “Compliance Audit” is in assessing the extent to which laws and regulations (authorities) have been respected. “Financial Audit” provides assurance that the financial statements properly present the financial situation. Financial and compliance auditing may be performed together where the auditor also gives an assurance that funds have been spent
in accordance with the laws and regulations, in addition to true and fair view of the financial statements. Properly prepared financial statements and compliance with applicable authorities does not, of itself guarantee that public programmes deliver value for money to the taxpayers, which gives rise to the third key area of activity for SAIs. “Performance Auditing” is focused on improving good performance in public administration by examining whether public programmes and services achieve the principles of economy, efficiency and effectiveness and identifying conditions or practices that hamper performance and enable the auditor to make suitable recommendations.

- Different types of audit require different set of guidelines, standards, and rigour and quality assurance requirements. As the parameters against which the functioning of the audited entities is to be judged in the audit would differ in financial, compliance and performance audit, the audit procedures are designed differently. For example, in compliance audits, normally the parameters are available as part of rules governing the audited entities, but in the case of performance audits, the benchmarks against which the performance of the programme or the entity is to be judged may not be available in such a straightforward manner.

- The types of audits are determined by objectives. Audits are conducted to achieve either assurance on financial statements or assurance on compliance with rules and regulations or achievement of intended objectives. These are different dimensions of the public sector audits.

- International best practices require that each audit indicates the methodology and the standards adopted. It is only possible if there is clarity about the audit types. However, it is not to say that a combination of types of audits is not possible. It is possible to conduct audit having objectives of financial + compliance or compliance + performance or any other combination. In case of such audits, discipline of the dominant type of the audit has to be maintained.

Keeping the above differences in mind, it is essential that while designing the audit plan these distinctions are kept in mind and allocation of audit resources is done accordingly. It is also essential to clearly state the type of audit to make the process transparent and easily understandable to the external stakeholders.

With the commitment of adapting ISSAIs appropriately in SAI India and being the participant of designing SAI Performance Measurement Framework, maintaining discipline of audit methodology has become imperative.

The specific terminologies being presently used in the Department are:

- **Audit of transactions** – is normally being used to denote compliance audit
- **CCO based audits** – are mainly compliance audits, or what we have been calling transaction audit. The crucial difference in these audits from the earlier DDO based audits is that it is a top down approach and an effort towards integrated audit. These audits may also include certain features of performance audits
- **District audit** – Audit of a district, combining features of compliance as well as performance audits, is taken up to provide the audit profile of a district.
- **Thematic audit** – This is the terminology which is being used for audits which may have both compliance and performance audit objectives. The objectives of such audits are to focus on a particular audit objective across sectors or audited entities. These audits could be basically compliance or performance audits. Presently however, thematic audits are being shown as a different class of audit while designing the annual audit plan and
also in the final Audit Reports, which gives an erroneous impression that thematic audits are a different type of audit.

- **IT audit** – Audits done in the IT enabled environment or audit of IT based system are termed as IT audits. Most of the IT audits are, by their very nature, compliance audits.

The above analysis has been presented to bring the focus on the use of appropriate terminologies in the audit documentation in the Department. The following guidance is being provided to all internal stakeholders, for proper application:

- There are three types of audits in public sector auditing, viz., financial, compliance and performance. There are specific standards applicable to each of these types of audits, which need to be applied.
- However, it is possible to have combinations of these audits. In those cases, standards applicable to the dominant type would be applicable, unless specific guidance for the combination audits is available.
- IT audits, environment audit etc., are audits conducted in those particular sectors or using a particular methodology. It is possible to conduct compliance and performance audit in the IT sector or environmental sector. IT audit techniques can be used for financial, compliance or performance audits.
- While allocating resources during the Strategic Audit Plan or the Annual Audit Plan, the types of audits should be kept in the view. The total resources should be divided among financial, compliance and performance audits as per the priorities.
- Performance measurement and peer reviews expect a clear demarcation among types of audits. Quality assurance and quality control procedures are also more effective if there is clarity about types of audits, as applicable standards are different as per types of audit.
- The determination of the type of audit is to be guided by the objectives of the audit assignment and the kind of audit assurance it strives to provide.
- Use of alternative terminologies like, thematic audits, CCO based audits or District audits, should be avoided while preparing Audit Plans or in the structure of the Report, in the interest of professionalism and clarity.
- However, it is not necessary that the title of the Audit Report or the Audit Topic (if it is part of a Report) should carry the words – financial, compliance or performance audit. The title of the Report or the Topic should be indicating the subject matter of the audit.
Guidance Note on Preface to Audit Reports

Communications

Reference No. 70-160-PPG/44-2013 dated: April 4, 2014

A need has been felt for bringing about some uniformity and consistency in the preface to the audit reports to the audit reports of CAG of India. The preface is essentially to convey to the reader of the glimpse and scope. It is therefore, necessary that the following essential elements must be present in the preface of all the audit reports of the Union and State Governments.

Mandate

Constitutional mandate that the report has been prepared under Article 151 of the Constitution for submission to the President/Governor, as the case may be, has to be mentioned in all reports other than the reports prepared exclusively on the Public Sector Undertakings (PSUs).

In the case of reports dealing exclusively with the audit of PSUs, a reference has to be made about the mandate available under Section 619 of the Companies Act 1956. A reference has also to be made about the supplementary nature of the accounts/audit which is being done under Section 19(1) of the CAG’s (DPC) Act.

There is no requirement of mentioning the provisions of the CAG’s (DPC) Act for any other report.

Scope of the Report

Scope of the report would cover the following 4 sub-elements:

- **Year of the report** – In case of the reports which are prepared on an annual basis i.e. the report on State Finances, the Compliance and performance audit reports, a reference has to be made about the year for which the report has been prepared. However, there is no requirement of mentioning for the year ended in the case of the stand alone audit reports.

- **Audited entities** – Names of the departments whose results of audit are covered in the report may be mentioned. This has become necessary after restructuring of the Department and splitting of reports to report in different sections. A reference may also be made that departments not covered in this particular report would feature in other reports. However, it is not required to mention the name of department under audit in the report No.1 of the Union Government and the report on State Finances as those reports cover the concerned Government as a whole. In case of the stand alone reports the subject matter under audit may be mentioned.

- **Type of audit** – The preface should contain the information about the nature of the audit i.e., that this report contains results of performance/financial/compliance audit as applicable.

- **Period of audit** – The preface should explain period to which the cases pointed out in this report belong to. Mention that certain matters may also belong to the earlier year or subsequent years as applicable may be required.
Standards

Preface should mention that the audit has been undertaken in conformity with the CAG’s auditing standards.

Acknowledgement

In case of the stand alone reports, an acknowledgement of the cooperation extended by the Executive may be mentioned. However, in the case of other reports the acknowledgement could appear in the relevant chapters. Formats designed for different types of Audit Reports are attached. The modifications in the structure and language can be made, if necessary, with the approval of DAI/ADAI for the Report concerned.

DRAFT PREFACE

(Applicable to the Reports dealing with Economic (including Revenue) and General & Social Services sectors)

This Report for the year ended March (the relevant year) has been prepared for submission to the President /Governor of (Name of the state) under Article 151 of the Constitution of India. The Report contains significant results of the performance audit and/or compliance audit of the Departments of the Union Government/Government of (Name of the state) under the (Economic/General and Social Services), including Departments of (name of the departments covered in the report). However, Departments of (name of the departments not covered in the report) are excluded and covered in the Report on (General and Social Services/Economic).

This report deals with the results of audit of Government companies and Statutory corporations for the year ended March (the relevant year). (Scope of Audit: Year, Audited Entities, Type of Audit)

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period (relevant financial year) as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports; instances relating to the period subsequent to (relevant financial year) have also been included, wherever necessary. (Period of Audit)

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India. (Standards)

DRAFT PREFACE

(Applicable to reports dealing exclusively with PSUs)

This report deals with the results of audit of Government companies and Statutory corporations for the year ended March (the relevant year).

The accounts of Government Companies (including companies deemed to be government companies as per the provisions of the Companies Act ) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act 1956. The accounts certified by the statutory Auditors (Chartered Accountants) appointed by the
Comptroller and Auditor General under the Companies Act are subject to supplementary audit by officers the CAG and the CAG gives his comments or supplements the reports of the Statutory auditors. In addition, these companies are also subject to test audit by the CAG.

Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by CAG for laying before Parliament/State Legislature of (as applicable) under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

(Reference may be made to the corporations and authorities who accounts stipulate that they come under the ambit of sole audit of CAG, if applicable)

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period (relevant financial year) as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports; matters relating to the period subsequent to (relevant financial year) have also been included, wherever necessary. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

**DRAFT PREFACE**

(Applicable to stand alone reports)

This Report for the year ended March (the relevant year) has been prepared for submission to the President/Governor of (Name of state) under Article 151 of the Constitution of India.

This Report of the Comptroller and Auditor General of India contains the results of performance/compliance audit of (subject matter) in (period covered in the audit).

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Audit wishes to acknowledge the cooperation received from (the Department) at each stage of the audit process.

**DRAFT PREFACE**

Applicable to State Finance Report.

- This report has been prepared for submission to the Governor of (Name of State) under Article 151 of the Constitution.
- Chapters I and II of the Report contain audit observations on matters arising from examination of Finance Accounts and Appropriation Accounts respectively, of the State Government for the year ended 31 March (relevant year) information has been obtained from the Government of (as applicable) wherever necessary.
- Chapter III on 'Financial Reporting' provides an overview and status of the State Government's compliance with various financial rules, procedures and directives during the current year.
- The Report containing the findings of performance audit and audit of transactions in various departments and observations arising out of audit of Statutory Corporations,
Boards and Government Companies and the Report containing observations on Revenue Receipts are presented separately.
The duties and powers of the Comptroller and Auditor General of India (CAG) to directly access and audit the records of the private sector have been under discussion for some time. This issue was examined by the Hon'ble Delhi High court and the Supreme Court of India in the case of access of records of private telecom companies by the CAG. The Hon'ble Courts recognized that the records of private players entrusted with the responsibility of delivering public goods and services by utilizing the state owned resources should be accessible to the CAG for audit.

Important arguments accepted, the rationale behind the judgments and the highlights of the abovementioned judgments (copies enclosed) that have wider implications for audit by the CAG of private sector organizations are brought out below:

**Judgement dated 6th January 2014 of the Delhi High Court**

- Applicability of Principle of 'Res Communes' - The doctrine of 'res Communes' claims that some things are common to mankind - the air, the water etc. Thus, the titles of these resources are vested with the State as the sovereign, in trust for the people. (Para No. 21)
- Licensees are the accountants of the Central Government and are expected to maintain complete, accurate and honest books of accounts as to any transaction(s) involving revenue as a fiduciary duty. (Para No. 31)
- Revenue would include any income of the nation derived from any source, to be credited into the Consolidated Fund of India. Therefore, the revenue shared by the licensees with the Central Government, flowing into the CFI is the income of the nation and is revenue under Article 266 (1) of the Constitution. (Para No. 48)

**Judgement dated 17th April 2014 of the Supreme Court of India**

- Article 149 of the Constitution and the Comptroller and Auditor General (DPC) Act, 1971 is to provide for Parliamentary control of executive on public funds, consequently, ambit of audit by CAG has to cover all issues that are required to be examined by the Parliament. (Para No. 18)
- Article 266 of the Constitution of India take in "all revenue receipts received by the Government of India" and submitted that a combined reading of Sections 13, 16 and 18 of the C&AG (DPC) Act would indicate that it is obligatory on the part of the CAG to audit all transactions entered into by the Union and the States pertaining to the Consolidated Fund. (Para No. 19)
- When nation's wealth/natural resources , like spectrum, is being dealt with either by the Union, State or its instrumentalities or even the private parties, like service providers, they are accountable to the people and to the Parliament. (Para No. 37)
- CAG's examination of the accounts of the Service Providers in a Revenue Sharing Contract is extremely important to ascertain whether there is an unlawful gain to the Service Provider and an unlawful loss to the Union of India, because the revenue generated out of that has to be credited to the Consolidated Fund of India. (Para No. 41)
The expression "to audit all receipts" does not distinguish the revenue receipts and non-revenue receipts. (Para No. 45)

Section 13 read along with Section 16 makes it clear that the expression "to audit all transactions" so also "audit of all receipts", payable into Consolidated Fund of India would take in not only the accounts of the Union and of the State and of any other authority or body as may be prescribed or under any law made by the Parliament but also to audit all transactions which Union and State have entered into which has a nexus with Consolidated Fund, especially when the receipts have direct connection with Revenue Sharing. (Para No. 45)

Unless the underlying records which are in the exclusive custody of the Service Providers are examined, it would not be possible to ascertain whether the Union of India, as per the agreement, has received its full and complete share of revenue, by way of licence fee and spectrum charges. (Para No. 48)

CAG is not actually auditing the accounts of the UAS Service providers as such, but examining all the receipts to ascertain whether the Union is getting its due share by way of licence fee and spectrum charges, which it is legitimately entitled to, by way of revenue sharing. (Para No. 50)

CAG's function is separate and independent and is not similar to the audit conducted by the DoT under clause 22.5 or special audit under clause 22.6. (Para No. 51)

**Role of CAG in a changing audit environment**

In essence, these judgments have emphasised that the duties and powers of the CAG, being part of the basic structure of the Constitution, are to be interpreted and carried out to meet the changing needs and requirements of accountability. In the current scenario, the purpose of audit by CAG of records of private sector organisations can be stated as under:

- Providing an independent assurance that the terms and conditions of the agreements have been complied with in letter and spirit.
- Assisting in protecting the legitimate interest of public at large
- Ensuring parliamentary oversight

An independent assurance by the CAG, as an external auditor, to the Government is necessary and different from the roles of executive, the statutory auditor and the regulator. As the audit of such private sector records is to safeguard the interests of the State or its agencies or instrumentalities, it is the constitutional mandate of CAG and has been upheld in the above said judgments. Therefore, there may be no requirement of specific entrustment of such audits

**Protocol**

The emerging audit scenario requires a new protocol to be established for accessing/auditing private sector records. This guidance note aims at laying down the procedure on the following aspects

- Identification of agreements involving private sector participation
- Determination of need to access private sector records
- Scope of examination of private sector records
- Mode of interaction with private sector
- Composition of audit parties and capacity building
Identification of agreements involving private sector participation

The field audit offices are required to prepare a master data base of all agreements/ contracts entered into by the Union and State Governments State and its agencies or instrumentalities with private sector

- For delivery of public goods and services
- Dealing with transfer of natural resources (like land, water, spectrum and genetic resources) or public properties to private sector, if such transfer affects public interest
- Nexus with consolidated fund of India or State
- Having an impact on public interest

Presence of one or more of the above mentioned parameters could be the basis of identification of agreements for this purpose. These parameters would help in identifying the agreements / contracts which could require access to private sector records by CAG

Determination of need to access private sector records

The decision to access the records of any private sector organization has to be taken with the approval of controlling DAI/ ADAI. The necessity of accessing the private sector records would be decided by the HQ, on a case by case basis, depending upon the risk assessment of the subject matter and the ability/ inability of the CAG to effectively fulfill his mandate only through audit of records of the government/public entity which comes under the CAG audit purview. HQ would also decide the applicable section of the CAG’s DPC Act under which such audit would be conducted, deciding in turn the scope of audit. A self contained proposal giving justification/necessity for such direct access has to be sent by the field audit offices to the headquarters. While recommending the need to access/audit private sector records the following aspects may be kept in view:

- The contract may provide for specific agreement clauses requiring private sector organizations to provide access to information / records to public sector partners or any other public authority.
- In most of the cases, it may be possible to get the required information through the public sector audited entity entering into agreement with the private sector entity in question. The public sector entity should be the first port of call.
- In certain cases, it would not be possible to provide assurance that the terms and conditions of the agreement are being complied with, unless the underlying records that are in the exclusive custody of the private sector organization are examined
- In all cases, the materiality and the risk perception need to be given due consideration.

Scope of examination of private sector records

The scope and the extent of examination of private sector records needs to be clearly understood and mentioned in the justification proposal to the controlling DAI/ADAII. Following factors are crucial for determination of the scope of examination:

- The access to private sector audit records and the audit of such records should be limited to compliance audit to ensure that the terms and conditions of the agreement/ contract in question have been complied with. A financial audit or the performance audit of the private sector organization is not to be undertaken.
In case performance audits of public sector audited entities, there may be a need to access the records of private sector partners. However, even in such cases, the audit of private sector records would be restricted to checking of compliance with the agreed terms and conditions of the agreement/contract.

Only those underlying records are to be examined which are essential to provide assurance for the above; request for access to be restricted to such documents only.

The scope should clearly indicate the time period to be covered and the records to be accessed; audit should not be open ended.

Mode of interaction with private sector

A communication protocol is required while auditing records of private sector organizations. Important components of the communication protocol are:

- Private sector should be approached, initially through administrative department/public sector audited entity. Scope and methodology of audit should be explained up front to the private sector entity, clarifying doubts, if any.
- Liaison officers from administrative department/public sector entity, private partner and the field audit office should be appointed for effective coordination. A regular communication channel would help in audit management.
- Concerned administrative department/public sector entity to be kept informed of all important developments during the course of audit.
- All possible constraints in conduct of the audit should be identified and mitigating strategies should be planned.

Composition of audit parties and Capacity Building

Prima-facie, domain knowledge is not a constraint. We have cadres having specialized knowledge in sectors such as Railways, P&T, Defence and the staff is well versed with intricacies of functioning of these sectors. Even in other sectors like oil, road, and electricity, domain knowledge is available. However, it is important to keep abreast of latest developments in these sectors. Specific attention may be paid on the following issues for proper conduct of audit:

- The audit teams deputed for carrying out such audits should possesses necessary professional competence to conduct these audits, as a group. This would include knowledge of the domain of the audited entity, sound knowledge of auditing techniques, as well as analytical, writing and communication skills. The considerations for selection of a particular audit team should be placed on record.
- In specialised areas, external experts can be used to complement the knowledge of the audit team. Auditors should evaluate whether and in what areas external expertise is required, and make the necessary arrangements. The procurement of the services of the expert or using their work will be as per the general guidelines approved by the C&AG office from time to time.
- Effective supervision of the implementation of such audits will ensure that the audit is performed as planned. The audit teams should be guided by the concerned group officers on a regular basis.
- Besides, the field audit offices should also give emphasis on specific capacity development with regard to audit of agreements in the particular and sophisticated IT
systems – ERPs, etc. Specific requirements for specialized training may be sent to controlling DAI / ADAI, if necessary

Communications

Revised Guidelines on Audit Quality Management Framework 2014

(Reference No. 528-PPG/43-2013 dated 27th August, 2014)

An AQMF, identifying the policies, practices and guidance on the six broad parameter of quality management viz Leadership & Direction, Ethical Requirements, Human Resource Management, Audit Performance, Client and Stakeholder Relations and Continuance Improvement to be kept in mind while carrying out various types of audits, has been issued for ensuring compliance with Auditing Standards in particular INTOSAI Auditing Standards, ASOSAI Guidelines and applicable Legislative requirements. The guidelines can be seen by accessing the link provided under Our Processes - Audit Methodology - Audit Procedure and Practices - Audit Quality Management Framework at our website www.saiindia.gov.in.
Guidance Note on "Developing Recommendations"

Communications

Indian Audit & Accounts Department

Guidance Note on "Developing Recommendations" (Reference No. 194/35-PPG/2014 dated 31st October, 2014)

Objective of the guidance note

The objective of this guidance note is to emphasise on the significance of recommendations in Performance audit reports and provide guidance to Audit Offices in developing appropriate, practical and constructive recommendations.

The quality of our recommendations is a measure of our professional excellence and positive approach. It is thus, essential that recommendations made in our various performance audit reports are directed towards enhancing the economy, efficiency and effectiveness of the performance of the Government undertaking, program, system, activity or organisation that was the subject of the performance audit.

This Guidance note draws attention to the relevant paragraphs from the Performance Auditing (PA) Guidelines and contains the various requirements that need to be considered while developing and incorporating recommendations in the Performance Audit Report. The Guidance note also cites sample examples to explain the nature of recommendations that need to be developed. These guidelines have equal relevance in the area of financial attest audits and compliance audits as well.

Significance of recommendations in performance audits

Performance auditing carried out by the Department is an independent, objective and reliable examination of whether Government undertakings, programs, systems, activities or organisations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement (Para 1.4).

Performance Audits are currently one of the most visible ways in which the institution of the C&AG promotes accountability, transparency and good governance.

The institution of the C&AG plays a vital role in holding Governments to account for their stewardship of managing public funds and in helping ensure the transparency of Government operations. We aid the legislature in this regard and rely on a legislative audience for our reports so that findings and recommendations may translate into effective advice to Governments to help improve financial control and efficiency, and ultimately public-sector performance. Performing audits focus on areas in which we can add value for citizens and those areas have the greatest potential for improvement.

Flow of recommendations from the audit findings

Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. (Para 1.5).
It is essential that recommendations flow from the audit findings. The PA guidelines require that recommendations should be linked to the audit objectives, findings and conclusions.

To be convincing, there must be clearly defined and logical links from the audit evidence to the findings, the conclusions and recommendations. If this chain of links is broken at any point, then the reader can dismiss the argument from that point on. If, for example, the findings do not necessarily lead to the conclusions drawn by the auditor, then the reader may reject the conclusions and the recommendations, even if the recommendations actually solve the problems highlighted by the findings.

**Identification of "cause(s) of a finding"

For developing recommendation, the underlying cause(s) of a finding should be identified, as this forms the basis for the recommendation. The cause is that which, if changed, would prevent similar findings (Para 5.16).

Given below is an example of how the identification of the "cause(s)" helps frame the right recommendations.

<table>
<thead>
<tr>
<th>Audit criteria and Finding</th>
<th>Cause</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The guidelines of a scheme XYZ require Gram Panchayats to prepare Annual Action Plans. However the Gram Panchayats did not prepare the same.</td>
<td>It was ascertained from the Gram Panchayats that they had not received any instructions to this effect from the Zilla Panchayats. This was confirmed by the Zilla Panchayats and Rural Development and Panchayati Raj department.</td>
<td>The appropriate recommendations would be: &quot;The department must issue instructions to the Gram Panchayats to prepare annual action plans.&quot; Merely by recommending that &quot;Annual Actions must be prepared by the Gram Panchayats&quot; would indicate that Audit has not appreciated the cause of the non-compliance.</td>
</tr>
</tbody>
</table>

The PA Guidelines encourage Audit teams to prepare an Audit Findings Matrix indicating the audit findings vis-à-vis good practices and the potential audit recommendation along with the expected benefits in case the recommendation is implemented.

The Audit Findings matrix contains columns on "Criteria, Situation found, Cause, effect, evidence and analysis, recommendation, good practices and expected benefit of the recommendation if implemented. If all the columns are filled properly, risk of making an inappropriate or redundant recommendation that is not linked to the cause of the finding is highly reduced. The Audit Findings Matrix is an excellent tool to identify system deficiencies which can lead to formulation of appropriate recommendations.

**Communication with the audited entities**
The PA guidelines have placed due emphasis on the requirement for Auditors to maintain effective and proper communication with the audited entities and other parties sharing the responsibility of the subject matter throughout the audit process and define the content, process and recipi

Using communication channels to explain the purpose of the performance audit to stakeholders also increases the likelihood that audit recommendations will be implemented (Para 2.16)

Continuous communication with the audited entity will also enable Audit to understand the entity better thereby increasing the likelihood of developing those recommendations which are practical, beneficial and carefully considered.

Audited entities should be given an opportunity to comment on the audit findings, conclusions and recommendations before the Department issues its audit report. Any disagreements should be analysed and factual errors corrected. The examination of feedback should be recorded in working papers so that changes to the draft audit report, or reasons for not making changes, are documented. (Para 2.18)

**Obtaining specific response of audited entity on the recommendation**

It is essential to obtain a specific response of the Audited Entity on each recommendation. It is advisable that the demi-official forwarding letter to the Secretary with a copy to the Financial Adviser to the ministry specifically states this requirement. In case specific response is not received, it must be pursued with the Government. The response of the audited entity must be such that it indicates whether the recommendation has been completely accepted, partially accepted/rejected or completely rejected. In the latter two cases, Audit must obtain the reasons for such a response based on which it should either delete or modify the recommendation or incorporate an appropriate counter.

Obtaining a specific response also reduces the risk of incorporating inappropriate recommendations which undermine the Performance Audit Report

**Placement of recommendations in the performance audit report**

The recommendations should be clear and be presented in a logical and rational fashion. (Para 5.18)

As per the PA guidelines, recommendations should be presented along with the conclusions wherever applicable in a box or highlighted print. The recommendation should preferably be placed along with the relevant audit observation so that the reply of the department is not only in respect of the audit observation but also specifically to the recommendation made. This will also boost the readability of the recommendations in the report.

The recommendations should also be serially numbered. This would not only help identify them uniquely which could ensure that the audited entity responds to them individually.

The language used should indicate that these are only recommendations and not prescriptions. Therefore, use of terms like ‘we recommend…’ instead of ‘Government should…’ would be appropriate.
Nature of Recommendations

Nature of Recommendations All performance audits ought to conclude with well thought-out recommendations, which should transcend inverted versions of audit conclusions or truisms and clearly spell out possible solutions, without taking over management's responsibilities. (Para 5.16)

A PA report is constructive if it manifests a remedial approach rather than a critical approach. Given below are the Do's and Don'ts which may be kept in mind while framing recommendations:

**Do's - desirable features of recommendations**

- No truisms and self evident propositions

Recommendations which are truisms or self evident propositions should not be made. Such recommendations do not aid the management in any tangible way and it dilutes the report. Further, the follow up of non specific recommendation can never be effective.

Some examples are:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Recommendation</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Avoid cost overruns in implementation of the projects.</td>
<td>Cost overruns are common in projects. Merely be recommending it is unlikely that such cost overruns would actually be avoidable. Occurrence of cost overruns would be the audit finding for which the appropriate recommendation would be one where it provides information to the department on how it could be overcome.</td>
</tr>
<tr>
<td>2.</td>
<td>Government should expedite implementation of the schemes and completion of the projects within the time schedule fixed.</td>
<td>A recommendation to complete projects within the time schedule fixed is a sine qua non for the successful implementation of any project. It is highly unlikely that the Government would not already be aware of the same. Therefore, such a recommendation though likely to be accepted by the audited entity is unlikely to be effective.</td>
</tr>
</tbody>
</table>

- No reiteration of existing Instructions

Recommendations should not be a reiteration of existing instructions, or non-compliance with existing controls/instructions. The reason being, that such recommendations are redundant. Rather, the report should seek to ascertain the cause for the non-compliance and address the cause while developing the recommendation.

Some examples are:

<table>
<thead>
<tr>
<th>S.</th>
<th>Recommendation</th>
<th>Analysis</th>
</tr>
</thead>
</table>
1. Ensure that the terms of the agreements entered into are duly enforced. The audited entity must anyway enforce the terms of the agreement. Therefore, this recommendation is redundant. The recommendation should instead have addressed the cause for the laxity in enforcing the terms of agreement.

2. Ensure the strict compliance of the provisions of the Land Acquisition Act in acquisition of land. This recommendation is not providing any new information to the department as it does not address the cause of the non-compliance with the Act and how the department could take steps to overcome it.

- No impractical recommendations

Recommendations should be practical and be addressed to the entities having responsibility and competence for their implementation. (Para 5.17)

Recommendations should not be such that cannot be implemented as they are impractical due to factors beyond the control of the department.

The inclusion of impractical recommendations not only dilutes the response to other important recommendations in the report, it also undermines the quality of the report.

For example:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Recommendation</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ensure that vacant posts are filled up urgently</td>
<td>Such a recommendation may be impractical if recruitment is not taking place or for any other reason it is practically impossible to fill the posts. Audit could examine whether there are cases where excess posts are filled which need to adjusted with those posts which are left vacant or reengineering the processes so that the entity can function with fewer posts.</td>
</tr>
</tbody>
</table>
From the Editor's Desk

Wishing all the readers a very Happy New Year.

The second issue of Journal of Government Audit and Accounts is now with you. The issue brings the highlights of the Accountants General Conference held in October 2014, including the inaugural address of the President of India. The Conference discussed pertinent issues which affect the functioning of the Department and also the strategies to address them. An eminent panel of external stakeholders shared their concerns and suggestions on value and impact of CAG's audit. The present edition of the Journal carries the background paper for this panel discussion as prepared by the Centre of Budget Governance and Accountability.

Data and information is the core and basis of any public administrative activity, whether it is about considering policy options, prioritising decisions, opting for various delivery methods or auditing it. We are presenting two initiatives where the data has been analysed in an effective fashion to support audit designing or supporting policy options. The first one considers how targeted sampling methods, paired with available data, could be used to increase the overall effectiveness of performance audit. Ms. Sarah Oberst, Research Associate, Evidence for Policy Design, Harvard Kennedy School, in collaboration with the Professional Practices Group of CAG of India has analysed the data available in public domain for the National Rural Employment Guarantee Act (NREGA) and has suggested targeted sampling methods. We hope to learn from this initiative and use similar techniques in our future audit endeavours.

In the second initiative, an analysis of inter-se share of tax devolution as determined by 13th Finance Commission has been attempted for a better appreciation of the working of the devolution model used by the Finance Commission, and in identifying aspects of the model that can be improved upon. This analysis of the horizontal devolution was done through use of Visual Analytics tools (QlikView and Tableau); the e-version of the journal makes available the data visualization in an interactive mode, and the reader can explore additional details of tax devolution.

In the next article, the author examines whether smaller local self-governments ensure greater financial accountability. This issue also carries a brief recap of challenges and criticisms of disinvestment of central public sector entities post year 2009. Under the regular entry- 'featuring an office' the National Academy of Audit and Accounts is being presented. Similarly, the Audit Report on Land management in Kerala has been included as 'featuring an audit report'. The issue also carries information on new policy initiatives, guidance notes and news from the international desk.

I sincerely hope that the readers find the issue interesting and intellectually stimulating. I will be looking forward to your valuable feedback and suggestions.