Compliance Audit-
Approach and Reporting

Paper for XXVI ACCOUNTANTS GENERAL CONFERENCE

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Introduction

1. The concept of compliance audit (CA) is encompassed by the description of the purpose of public sector audit as set out in International Organisation of Supreme Audit Institutions (INTOSAI)'s Lima Declaration: 'The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. *Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management* early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent – or at least render more difficult – such breaches.'

2. The International Standards of Supreme Audit Institutions (ISSAI) 1003 states that "*Compliance Audit deals with the degree to which the audited entity follows rules, laws and regulation, policies, established codes, or agreed upon terms and conditions such as the terms of a contract or the terms of a funding agreement*. Compliance auditing may cover a wide range of subject matters. In general, the purpose of Compliance audit is to provide assurance to intended users about the outcome of evaluation or measurement of subject matter against suitable criteria". It says further that depending of the mandate of Supreme Audit Institution, a Compliance audit may be an audit of regularity, or propriety, or both.

3. Further, ISSAI 4000 states that CA deals with the responsibility of the SAI to audit whether the activities of public sector entities are in accordance with the relevant laws, regulations and authorities that govern such entities. This involves reporting on the degree to which the audited entity is accountable for its actions and exercises good public governance.

4. In general, *the objective of CA is to enable the SAI to report to the appropriate bodies on the audited entity's compliance with a particular set of criteria*. Such criteria may be derived from relevant financial reporting frameworks, laws, regulations, parliamentary decisions, terms of contracts or agreements, or may be any other criteria deemed by the auditor to be suitable criteria. The objective, scope and nature of a particular CA depends on a number of factors, including the mandate and constitutional role of the SAI, as well as laws and regulations that are relevant to the audited entity.

Compliance Audit in IAAD Audit Literature

5. Compliance audit has not been explicitly defined in the Departments' Manual of Standing Orders (MSO) audit. However, according to Para 2.1.3 of MSO Audit , *"The broad objectives of audit are (i) to provide an unbiased, impartial and objective assessment of the reliability and fair presentation of the financial activities and financial position of the Government in their accounts; (ii) to provide an assessment of the due observance of the laws, rules, procedures and systems in keeping with the financial interests of and propriety in* *the functioning of the Government; and (iii) to provide an assessment of the achievement of economy, efficiency and effectiveness (value for money) in the implementation of the mandated activities of the Government*." **It can be clearly inferred that the second objective relates directly to conduct of CA.**

6. Regulations on Audit and Accounts, 2007 defined the broad objectives of audit as "to ensure legality, regularity, economy, efficiency and effectiveness of financial management and public administration mainly through assessment as to: (1) whether the financial statements are properly prepared, are complete in all respects and are presented with adequate disclosures (financial audit); (2) whether the provisions of the Constitution, the applicable laws, rules and regulations made there-under and various orders and instructions issued by competent authority are being complied with (*compliance audit*); and (3) the extent to which an activity, programme or organisation operates economically, efficiently and effectively (performance audit).

7. Also, regulations on Audit and Accounts, 2007, defined the scope of audit by the Comptroller and Auditor General of India stating that, *"in the exercise of his mandate, the Comptroller and Auditor General undertakes audits which are broadly categorised as financial audit, **compliance audit** and performance audit."* Further, the regulations on Audit and Accounts, 2007, also state the main principles of CA as comprising of examination of rules, regulations, orders, etc., for consistency when conducting audit of expenditure, audit of receipts, audit of assets and liabilities and audit of grants in aid and loans. **A clear definition of CA along with its scope has emerged in the department, however the current audits practices need a lot of enhancement.**

Current status of Compliance Audit in IAAD

8. At present, in our Department, financial (attest) audit and performance audit are quite well defined and their processes are well laid down through various manuals and guidelines. However, another very important kind of audit that we do and which actually constitutes a significant audit effort is loosely termed as "transaction" audit. Issues typically covered under this "transaction" audit encompass compliance concerns- regularity and propriety, and certain Value for Money (VFM) concerns. As such, *transaction audit as practised in our department is an audit methodology to reach audit conclusions about an organisations' compliance to relevant rules and regulations or to reach a conclusion about operational performance about the organisation, that is, conclusions about effectiveness issues*. Most of the results emerging out of transaction audits being undertaken by the department are compliance issues with a scattering of performance issues. It would be fair to call the transaction audit as the bedrock of audit efforts undertaken by the Department. It is the basis for gaining knowledge of business of the entity, assessing risk, checking compliance to laws and regulations as well as assessing VFM issues and more importantly, accounts for the "deterrence" value of audit.

9. However*, it is important to acknowledge CA independently from the other two kinds of audit carried out by our department* as government agencies, programs and activities are governed by particular laws and regulations. Decision makers need to know whether relevant laws and regulations are being followed, and if not, why they are not being followed. Laws, regulations, and other compliance requirements pertaining to the audited entity may be significant to the particular audit objectives, whether it is performed as a separate audit type, or related to performance audit or to an audit of financial statements.

10. It would be correct to state that checking compliance of actions of audited units against suitable criteria is the backbone of all audits:

- In case of financial audits, compliance with financial rules and regulations has to be ensured
- In case of pure compliance audits, we need to see whether relevant laws and regulations have been followed
- In case of performance audits, compliance with scheme/ programme guidelines has to be seen

11. Seen from the perspective of public sector audit, *compliance with rules and regulations is the primary and the most important requirement for ensuring accountability of the public executive.* All public funds are spent with legislative approval and the only way to ensure accountability by the legislature to ensure that funds have been spent for the purposes they were meant for is through an external audit which is the responsibility of the IA&AD in case of India. As pointed out earlier also, compliance audit also performs the function of deterrence especially in situations where the internal controls are not as effective.

Need for change

12. If the above facts are agreed to, it is important that approach towards compliance audit needs a change in the Department; some of the reasons are as under:

i. *Compliance audit has not been acknowledged as an independent stream of audit, as it gets covered as part of transaction audit*. With a paradigm shift in governance patterns, newer ways of funding public expenditure and higher public expectations, the emphasis of audit has also shifted from mere auditing of transactions, which denote only financial affairs, to compliance and programmatic audits. This stream of audit has also not received its due share in audit planning, reporting or in acknowledging its contribution, even though it is the starting point as well as is the core element of any audit in the public sector.

ii. *Unlike Performance audit and Financial Attest audit, no detailed guidelines or manuals have been prepared for CA.* General Instructions for conduct of audit exist in various manuals and guidelines which are taken on board for conducting transaction audit; however, practices and execution varies widely within the department. Now, action has been initiated by the Department in formulating compliance auditing guidelines.

iii. M.S.O (Audit)[1], clearly states that while identifying departments, institutions, programmes, issues etc., for inclusion in the audit plan, quantum of expenditure/revenues, socio-economic significance, vulnerability to serious financial irregularities, political and managerial sensitivity of their activities and auditability of units will be taken into account. *The current transaction audit plan is DDO based, which means that most of the expenditure*

[1] Para 2.1.26

incurring audit entities is covered by the audit plan; the quantum of expenditure still remains the deciding factor for selection of audit units. DDOs are the primary unit of audit and since all DDOs cannot be covered in audit every year due to resource constraints, they are categorized as A, B, C units to decide the periodicity of audit. Considering DDOs as the audit units across sectors has certain disadvantages like; too many audit units, non expenditure units might remain outside audit net even when those may be significant from policy implementation view and scattered view of the sector as holistic picture may not emerge from DDO audits.

iv. *CA, or Transaction audit, as it is practiced in our department, does not seek to provide any kind of assurance to the department as to whether the audit observation is refection of a systemic malfunction or is merely an isolated case of non-compliance*. Further, we do not seek to provide the management any assurance whether the cases of non-compliance are pervasive or not, and also regarding its frequency of occurrence. As such, audit does not act as an aid to management. We also do not rank the transaction audit observations in terms of its significance to the organisation. As a matter of fact, we do not have a complete picture of the compliance or other transaction audit issues relating to any particular Department or Sector.

v. *Resources put into transaction audits do not yield commensurate results as only few observations get developed into audit paragraphs*. The rest of the observations linger in our Inspection Reports and get dropped/ settled over a period of time. No effort is made to highlight the issues in our IRs which not only leads to wastage of audit resources spent in obtaining those observations but also leads to poor motivation of staff as the IR cannot be linked to any action taken by the department. It might also introduce a lack of internal accountability of audit staff as only audit observations which lead to 'draft paragraphs' get attention of the senior management and targets are also fixed to ensure this aspect only.

vi. *There is also no uniformity in documentation, evidence and reporting standards that are followed during CA*. Most of the paragraphs in our Inspection Reports, which do not get converted into draft paragraphs, may not follow standard reporting practice of linking criteria, condition, cause and effect. As a result, the audit findings read more like general observations.

vii. Lacunae in the Acts and Rules and absence of provisions in the Acts & Rules are seen only in Reviews. Same goes for other basic aspects like maintenance of records, submission of reports and returns, lack of monitoring and supervision by the Executive (i.e. Internal Control Mechanism) etc. *In compliance audit, these aspects usually remain untouched. As review of a department is taken up after a certain period of time (normally four to five years), these issues remain unattended in audit for a long period*.

viii. *Fraud and defalcation find a mention in our audit reports but the objectionable practices in the audited unit i.e. delay in remittances of revenue of the Government Account, which may ultimately result in defalcation and fraud, does not get due importance and place in the Audit Report*.

ix. *There is sometimes a blurring of lines between Performance Audit and Compliance Audit issues in a report.* In theory, Performance audit and CA issues are distinct from each other but in practice, purely compliance issues are also reported as a part of Performance audit without these being linked to effectiveness of operation of the audited organisation but are termed Performance Audit Reports. This situation is unavoidable, as the performance audits are very comprehensive in nature, and would necessarily touch upon compliance issues.

x. *In the present system, individual IRs are issued to the Head of the audited unit, very significant issues of these IRS would come to the knowledge of the Senior Management through the process of preparing 'draft paragraphs'. But most of the other audit findings, which may be significant enough for bringing about improvement in functioning of the Department, do not reach the appropriate authority.* External accountability is also weakened as the higher management of the audited Department is not aware of the complete compliance status of its constituting units. As such, the reporting structure of compliance audit findings could be strengthened if the compliance issues of audited units of a Department are consolidated, classified in a systemic fashion, and are brought to the notice of Senior Management of the Department through a separate audit report (SAR) or management letter.

Towards a new approach

13. Keeping in mind the perceptible need for change as well as the fact that CA guidelines are being developed, the following approach towards CA is suggested:

14. Planning for Audit:

Auditing principles state that the auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner. 'Audit Risk' is the risk that an auditor may give an inappropriate audit opinion that is materially misstated. *To reduce the audit risk to acceptably low level means the auditor should plan and perform the audit to reduce the audit risk to an acceptably low level that is consistent with audit objectives*. Hence, for the sake of effective audit planning, assessment of audit risk is essential. While the audit plans for PA and Financial Attest audit (wherever carried out) are already being drawn up separately, *the transaction audit plan for an office, as it is drawn up today needs to be recast to carry out CA in a more focussed manner.* This would encompass the following steps:

(a) Audit Plan

All departments/ sectors would be audited annually for compliance, as is being done at present; however, to make the process of CA more focussed, we suggest that the entire department not be selected in its entirety as is done currently but risk analysis be done to select areas for audit within each department. While selecting areas/themes to focus for audit in a particular Department, its functions or aspects should be identified. The area or theme could be, for example, procurement policies, financial management, inventory control, or the implementation of a particular programme or scheme. This selection of area/theme would be dependent upon the risk assessment carried out for the Department and might change from year to year. The theme selection would yield significant benefits in form of optimum utilization of audit resources, clarity of audit objectives, defining the audit scope and informing the audited entity about our audit coverage. Department of Rural

Development in a State Government may implement programmes like Sampurna Gramin Rozgar Yojna, Mahatma Gandhi National Rural Employment Guarantee Act, Indira Awaas Yojana, MPLAD, Border Areas Development Programme etc. This Department would be delivering its services with the support of various systems like procurement, financial management, inventory management etc. A risk assessment of the various services delivered/programmes undertaken by the Department could be carried on the basis of identified risk parameters to select a particular area/theme for audit in a particular year.

In the present governance scenario of direct transfer of Central funds to implementing bodies, especially in case of Flagship Programmes, the risk parameters should include the comprehensive activities of the audited units, not restricting to the budget allocated. An indicative list of risk parameters for general and social sector audit is given below:

1. Financial Materiality	Budget allocation Funds allocated for specific projects, in addition to budget allocation
	Expenditure, trends in expenditure
2. Service orientation	Delivery of services (education, health services, employment etc)
	Payment of benefits (pension, PDS, unemployment benefits etc)
3. Creation of Infrastructure related activity	Procurement of services and goods
	PPP arrangements
	Resource allocation activities (like land, mines, spectrum)
	Time bound execution of projects
4. Existence of internal controls	IT projects implemented
	Financial delegation of powers
	Financial controls exercised
	Cases of misappropriation/fraud/corruption
5. Complexity of operations	Organisation governed by more than one law/rules/regulation like environment laws as well as labour laws
	Clear guidelines governing functioning of the department/project
	Organisation subject to clearances from more than one department
	Inter department coordination required for achieving goals of unit
	Power of inspection and monitoring
	Power to levy penalties
6.Previous audit experience	Violation to environment laws
	Violation of labour laws
	Violation of financial laws

	Violation of other laws related to field of operation
	Status of settlement of paragraphs
	Assessments by third part agencies (CAG, academicians)
7. Reports in media/ Parliamentary questions	

This risk assessment could be updated every year so as to stay current with new programmes/schemes introduced by the department as well as increase in financial outlay or incidence of mal-practices appearing in media among other relevant factors. The audit plan of the office prepared presently on the basis of periodicity and classification of A, B, C units may be discontinued and audit plan for the office may be made according to the kind of audit: PA, CA and Financial Attest (wherever done). The present audit (transaction audit) plan should be converted/ recast to take care of Compliance Audit. The next step would be redefining our audit units.

(b) Re-defining Audit Units

Audit universe is quite well defined in all the field offices. It covers all the sectors/departments of the concerned State Governments/Central Government wherever public funds are spent. It covers all aspects of legislative requirements as mandated on the CAG by the constitution. Financial audits, Performance audits and Compliance Audits are the methodologies of providing the assurance to the Legislature on all aspects of public expenditure.

However, audit units under each of the departments and sectors are currently being defined by taking DDOs as the basic audit unit. This approach to audit planning has led to a very large number of audit units for each audit office. For ensuring compliance audit in a focussed manner, the audit unit need to be redefined. A top-down approach for identification of audit units in the pre-defined audit universe can be adopted, beginning with the top management and fanning out to operational units at the field level. This approach would ensure that the Reporting Entity, i.e., the administrative authority for allocation of funds and delegation of financial and administrative powers is at the centre point of the compliance audit. This approach is already being used in most of the performance audits. An appropriate level at operational field where a considerable audit risk is perceived due to financial expenditure/revenue, delegation of financial and/or administrative authority or the criticality of that unit for implementation of the objectives of the department could be decided. This level could be at one level higher than the DDOs in a large number of Departments.

A case in example is the Primary Health Centres (PHC) in the Health Department. As of today, PHCs and most of levels above the PHCs would be the audit units, whereas the risk perception of PHCs would not be high as financial and administrative delegation is extremely limited. The audit unit in this case may be redefined at the next higher level to PHCs. This approach would bring a change in the audit units as being considered in the present transaction audit plan and hopefully would reduce the total number of audit units. The lower level formations below the redefined audit units (like PHCs) would be audited on a sample basis. The sampling would be done on the basis of financial outlay or statistical sampling. The primary idea behind this approach is to give a holistic idea of the working of different departments, from the compliance perspective. *The end result of this exercise* *would be to give a snapshot of the levels of compliance in the department, rather than a scattered bunch of paragraphs we provide now to the department, through our Inspection Reports.*

(c) Selection of sub-audit units

With re-defining of audit units at a level higher than DDOs, it would become important that a selection of sub- audit units is made to provide the audit assurance and to reduce the audit risk to an acceptable low level. *Lower field level organizations of the department below the audit units (DDOs as well as other operational units) should be included in the audit plan on the basis of risk assessment as defined in the earlier paragraph.*

A tentative plan for two departments may look like this:

	Department of Forests	Department of Women and Child Development (WCD)
HQ (audit units)	• Principal Chief Conservator of Forests • Chief Conservator of Forests	• Office of Secretary (WCD) and Commissioner (Women Empowerment) • Director, ICDS • Executive Director, Women's Self Help Group
Field formations (audit units)	• Wildlife divisions/sub-divisions • Forest divisions/sub-divisions	• Deputy Director, WCD (District level)
Sub Audit Units	• Sampling of Project Managers of National Parks and sanctuaries	• Sampling of DDOs at various levels (Project officers for ICDS and SHGs)

A typical audit plan would require risk assessment of audit units under the HQs and field formations (as in the tentative plan above), and grading them into high risk, medium and low risk categories. Next step would be to select a right mix of high, medium and low risk units, looking at the audit resources available, audit cycle requirement and audit objectives. Sub audit units would be selected on a sample basis from the identified audit units. *The advantage of this approach would be that the total number of audit units to be covered in a year by a field audit office should be substantially lower than the present, giving more time for substantial audit. Compliance audit results would have a department focus and would be able to give us a snapshot of the working of that particular department from the compliance point of view.* Another advantage of this approach is that it would also help us move gradually towards providing an assurance based reporting mechanism.

15. Audit execution

(a) Entry Conference

The CA of any department should start with an entry conference with the top management of the department and the entire audit team so as to provide the top management an opportunity to convey their concerns to the audit team. The audit plan for the department as well as the audit programme including dates of units to be visited along with the names of the audit personnel can be also shared with the top management at this stage. The scope and objectives of audit should also be discussed during this meeting.

(b) Audit Team Formation

Audit execution would be the same as carried out currently; the only change being the same audit team or group of teams would be auditing a whole department, right from the HQs to the field formations. The composition of the team needs deliberation, keeping in mind the shortages that exist right now. However, the idea is that audit at the top level should feed into the audits at the lower levels. Also, there would be a commonality of approach and most importantly, compliance issues found in one level/unit can be checked at other levels too which would give an idea whether the compliance issue is systemic or isolated.

(c) Audit objectives

Audit objectives need to be defined in terms of compliance requirements of that particular department/sector and could be general or specific. A particular aspect of the functioning of the Department could be picked for special emphasis. For example, while auditing Ministry of Environment and Forests, the compliance of Land Acquisition Rules could be picked for special emphasis. Audit objectives could be different for each department depending upon the character of the audited entity.

(d) Audit criteria

The audit criteria for assessing compliance of the unit sampled for audit will remain the same as is done now. Audit criteria applicable to the department can be collected and consolidated by the audit party before the audit begins. A guard file for each department can then be prepared, especially if rules governing them are different from the normal GFRs and DFPRs.

(e) Addressing fraud issues

Any fraud issue found in any of the units sampled for audit should be red-flagged and a broader investigation initiated among all the sampled units. This will give an indication of the randomness/systemic failure of the issue. The fraud issue should also be instantly reported to audit manager. Examples of areas and situations that may typically give rise to fraud risks are Grants and benefits made available to third parties under different schemes, Procurement, exercise of government officials' discretionary powers, Privatization of government entities, Public-private partnership that have taken place in the department, disposal of government properties, etc.

(f) Feedback loop and use of checklists

After audit in the first year, using this approach, a list of commonly found audit observations could be attempted to guide audit in subsequent years. Also, we could then attempt to make an audit checklist according to department which would provide guidance to audit parties in the future. These would also need to be updated every year so that the list of objections and audit issues are current and would provide a kind of feedback loop to the audit process. Main themes of the audit checklist could also be used to draft the IR. The standards of audit criteria, audit evidence and other field level audit would remain the same.

(g) Exit conference

This can be done after the management letter is prepared for each department audited. Since the Management letter will be a consolidation of audit observations as well as reporting on common themes/observations occurring across the department, this will give the top management a bird's eye view of the functioning of the department.

16. Documentation

Audit evidence gathered during the course of audit must be adequately documented. *Documentation in regard to CAs includes documenting matters that are significant in providing evidence to support the conclusions drawn and the report issued.* The audit documentation should be relevant, complete and detailed enough to enable an experienced auditor, having no previous connection with the audit, to understand what work was performed in support of the conclusions. Documentation should take place throughout the entire audit process including records of the criteria used, the work done, evidence obtained, judgements made and review performed.

17. Audit reporting

Currently audit reporting takes place at 2 levels, through Compliance Audit Report and through Inspection Reports. As pointed out above, while discussing need for change, there is scope for improving reporting structure for a more effective Compliance audit. Some of the changes proposed are:

(a) Reporting through CA report

All our current reports are called Compliance Audit reports (other than PA Reports), but these Reports contain material which may or may not be Compliance Audit related. In the restructured CA plan, Audit report on CA could be either part of Audit report of a state or a separate CA report; depending on the preference of the state Accountant General as well as the results of the CA done through the year. *The audit report can be organised according to departments, with all the paragraphs of one department being put into a chapter*. Paragraphs can also be organised thematically, especially if there are common observations across various units of the department. This would also help in identifying major concerns, if any identified, during CA. At some stage, we could also provide some kind of assurance to the department, based on compliance audit findings, regarding level of compliance in all the units audited in that department.

(b) Reporting through IRs

Those paragraphs, which do not have defined materiality will, as is the practice now, feature in our Inspection Reports (IRs) which will be issued to the unit audited. *Better drafting of the paragraphs in the IRs could be attempted by means of ensuring that every paragraph has criteria, condition, cause and effect.* It might be prudent to change the format of the IRs with the IIA and IIB classification being done away with. IRs also need to be standardised to improve their impact and their quality of reporting.

(c) Reporting through Management Letter

All the audit observations, pertaining to a department can be consolidated and analysed to see if there are any common themes/observations occurring across the department. These can then be conveyed to the top management (Reporting Entity) through a Management Letter. The management letter will only list the common observations or any unique findings with link to IR number and paragraphs. This will act as an aid to management in strengthening compliance, especially if certain kinds of non-compliance are found to be pervasive across the department. No follow-up mechanism is required for issues reported in the Management Letter as these have already been reported in the IRs and the Management Letter is only a consolidation of existing observations.

18. Follow-up procedures:

Follow up through Audit Reports in any case is monitored by the respective committee of the Legislature/Parliament. We may look at means of strengthening this mechanism through dialogue with the Committees. Further, follow up of individual audit observations can be left to the department, with the Principal Audit Officer asking for a status report on settlement of paragraphs from the top management.

Issues to be addressed

Some issues need to be considered relating to CA, if we want to upscale activities under CA as suggested in this paper. Some of the issues which need to be addressed are:

19. Compliance audit as an independent audit stream- Redesigning Audit Plan

The first step in implementation would be to accept Compliance Audit as an independent audit stream, with required changes in the way we function. The effort involved is to convert the existing transaction audit plans to compliance audit plans. A greater focus on what to audit – both in the terms of audit units and the areas or themes of audit, clearly spelling out audit objectives, and a logical way of reporting significant audit findings to the higher management of the reporting entity would be the essential components for this change. Audit objectives need to be clearly worked out and expectations from the CA to be spelt out. Redefining the audit units and recasting audit plans are the first building blocks for creating a CA structure and getting the optimum results from the audit resources deployed on the current transaction audits.

20. Compliance audit guidelines for SAI India

ISSAI 4100 (Compliance audit guidelines for audits performed separately from the audit of financial statements) provides a comprehensive methodology for planning, conducting and reporting CAs. It has been decided to prepare detailed compliance auditing guidelines as applicable to IA&AD based on ISSAIs. Based on the decisions taken on the proposed structure for CA, an action plan would be prepared for implementation.

21. Capacity building

Auditors should have the necessary knowledge and skills to apply audit principles, procedures and techniques when undertaking compliance audits. As was done between 2005 and 2008 after introducing PA, a structured training module (STM) should be developed and this module cutting across all the wings of audit must address various issues that confront the auditors from the point of knowledge/skill gaps, besides addressing the attitudinal issues. Efforts must be made to run this program at NAAA/iCISA/RTIs in a time bound manner so as to train as many officers as possible. Before introducing this program at RTIs, a pool of trainers must be trained at NAAA/iCISA and these officers should act as resource persons.

22. Moving towards assurance based auditing

The Fundamental Auditing Principles related to compliance state that the audit should be designed to provide reasonable assurance of detecting errors, irregularities and illegal acts that may significantly affect the audit objectives[2]. Reasonable assurance is high, but not absolute assurance. Due to the inherent limitations of an audit, an audit does not normally provide 100 per cent assurance. *In general, reasonable assurance audits are designed to result in a positive form of expressing a conclusion, such as 'in our opinion the subject matter is / is not in compliance, in all material respects, with the stated criteria…' We as a department, also need to move towards expressing some kind of assurance and the assurance assertion could be framed for each audit and be reflected in our Audit Reports and IRs.* Steps could be taken to frame and standardize an assurance assertion and use it in our Audit reports and our IRs.

23. Fraud and Corruption issues

CAs are oftentimes the only way fraud and corruption issues can be discovered during audit. Hence, measures should be taken to strengthen audit efforts in discovering and reporting on fraud and corruption issues. One suggested course of action could be to prepare department wise, a list of red-flags which could be indicative of fraud and corruption issues. These would probably be similar across states and thus, can be prepared and shared across audit offices. This will enable auditors to watch out for and detect fraud and corruption issues. Some kind of practice advisories can be prepared and shared with audit offices across the country.

Conclusion

24. Like any other profession, public sector auditing is also a dynamic process. There is a wide spread perception that there are huge possibilities of improving the audit results in the area of Compliance Audit, considering the substantial investment of resources and efforts in this area. It may be the approach to achieve the desired results with the limited resources available to us.

[2] ISSAI 300, 3.4.1