

ARTICLE 3

A Comparative Study of Commercial and Government Auditing

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Received : 12 January 2026

Accepted: 22 April 2026

Abstract

The function of auditing is to provide an assurance to the owners of an entity that its financial statements and accounts give a true and fair view of the 'results' and the 'financial position'. This definition of auditing is very clear for the nature and scope of commercial auditing. The auditing is required because the owners of an enterprise delegate their powers to conduct the business to the 'management' or the 'administrators' of the entity, and therefore, there is information asymmetry between the management and the owners. The 'auditing system' for entities depends upon their 'objectives' and the 'accountability mechanism'. The 'objectives' and the 'accountability mechanism' of commercial enterprises and government are different. Therefore, the scope and types of audits for both entities are different. The 'accounting', 'auditing' and 'performance evaluation' help in ensuring 'accountability' of both the entities. The responsibilities of auditors of commercial enterprises and the government are different. The methodology adopted for different types of audits and the type of assurances given by auditors of both entities are different. This paper explores these differences in the audit of commercial enterprises and the government. In this process, it explores the basis of, and the need for the development of a theory, academic discipline and a profession for government auditing as distinct from those of commercial auditing.

Keywords

Commercial Auditing, Government Auditing, Profit, Market Mechanism, Legislative Control, Financial Audit, Compliance Audit and Performance Audit.

3.1 Introduction

Auditing is a function that helps ensure the accountability of 'management' to the authority responsible for 'control and supervision' of the entity, and ultimately to investors and the people (Bovens, 2007). Auditing is the collection of sufficient, appropriate evidence to prove assertions about economic actions and events, assess them with respect to the audit criteria, and report the audit findings to users (AAA, 1973). The auditor assures the readers of the 'financial statements' of an entity that all the assertions which arise on reading the financial statements are true and fair, both in form and spirit, and all the information that is material in inferring any financial assertion about the entity has been truly and fairly disclosed in the financial statements. This is an essential function of auditing for a commercial entity. However, the nature and function of auditing depend upon the objectives and the nature of the entity. Therefore, the nature and function of government auditing depend upon the objectives and the nature of the modern democratic government.

3.2 Need for Audit and Accountability Mechanism

With the development of corporate form of business organisation, there has been separation of 'ownership' and 'management' of enterprises. The ownership belongs to the investors or shareholders. The management belongs to the professional managers.

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The investors, to keep their funds invested in the organisation, should know the profitability, financial stability and liquidity management status. To know these factors for a corporate entity, the accounting profession has developed three instruments of General Purpose Financial Statements (GPFS) viz., Profit and Loss Statement, Statement of Financial Position or Balance Sheet and Cash Flow Statement.

To know about the efficient and effective performance and management of a commercial organisation, the single most important factor to be examined by the investors is the 'profitability' of the company during the year and over the years. The profitability of the company, along with its 'long term viability' and 'short term liquidity', can be examined by the analysis of its General Purpose Financial Statements if they are prepared truly and fairly. Auditing has been developed to give assurance to the investors in the capital market that the GPFS give a true and fair view of profit, financial position and liquidity of the enterprise (Hayes et al., 2005; Messier et al., 2008; GOI, 2013; Arens et al., 2017).

In the case of the modern state and government, with the transition from monarchy to democracy, there has been a separation of powers and responsibilities. The 'ownership' of the state in a democracy belongs to the 'people'. The management or 'administration' belongs to the 'executive government' elected by the citizens. The power and responsibility of 'supervision and control' over the executive government belongs to the elected 'legislative assembly'. To help the legislature and its committees, the responsibility of audit of financial and economic affairs of the state has been given to the Supreme Audit Institution, that is, the government auditors, by the Constitution of the State (INTOSAI, 1977; Pollitt et al., 2011; Mautz et al., 1961; Behn et al., 2001; Pollitt et al., 1997).

3.3 Objectives of the Study

The objectives of the study are to explore and examine (1) whether the skill sets required by the government auditors are wider and more varied than that required by the commercial auditor and, (2) whether there are sufficient justifications for development of a separate government auditing discipline to be taught in colleges and universities and a separate profession for (i) government auditors under SAIs, and (ii) other auditors doing audit of Local Government Institutions, Autonomous Public Bodies and Authorities, just like there is a separate academic discipline of commercial auditing being taught in colleges and universities and a separate, independent profession of Chartered Accountants under the Institute of Chartered Accountants of India (ICAI) for professional training, certification and management of professional conduct of commercial auditors in India.

3.4 Review of Literature

3.4.1 Commercial Auditing

American Accounting Association (1973) defined auditing as a systematic process of evidence collection and evaluation. It established auditing as an evidence-based assurance function focused on verifying assertions against criteria, forming the conceptual foundation for both commercial and government auditing.

Arens A. A. et al., (2017) explained the principles and practices of financial statement auditing. It established that commercial auditing is primarily concerned with assuring the truth and fairness of financial statements for investors.

Companies Act, Government of India (2013), regulates corporate governance and auditing. It defines a statutory audit framework for commercial enterprises in India.

Hayes R. et al., (2005) examined international auditing standards and assurance services. It demonstrated the standardisation of commercial auditing globally and its emphasis on financial reporting reliability.

Jensen M. C. et al., (1976) analysed agency theory in firms. It established that auditing mitigates agency problems arising from the separation of ownership and management.

The Mautz R. K. et al., (1961) developed a philosophical and theoretical framework for auditing. It identified auditing as an independent verification function rooted in accountability, emphasizing its role in bridging information asymmetry.

Messier W. C. Jr. et al., (2008) analysed audit risk, evidence, and audit methodology. It highlighted risk-based auditing as central to commercial audit, focusing on material misstatements and internal control evaluation.

3.4.2 Government Auditing

Behn R. D. (2001) explored performance measurement in government. It identified multiple dimensions of accountability and the complex nature of audit evaluation in the public sector. Bovens M. (2007), conceptualised public accountability in democratic governance. It defined accountability as a relationship involving information, discussion, and consequences, highlighting the complexity of government accountability compared to market-based accountability. Bozeman B. (2007) studied public values and governance. It emphasised that public sector performance must incorporate societal values beyond efficiency. Comptroller and Auditor General of India (various Reports) reports on the government finances and programs. Their reports demonstrate the extensive scope of government auditing in India, including performance and compliance audits. Funnell J. (1998) analysed the evolution of public sector auditing. It highlighted the shift from financial compliance to performance auditing in response to governance demands. Glynn J. (1991) studied accountability in public sector financial reporting. It emphasised that government auditing must address broader accountability beyond financial accuracy.

International Organisation of Supreme Audit Institutions (1977, Lima Declaration) defines principles of public sector auditing. It established the independence of Supreme Audit Institutions (SAIs) and expanded audit scope to include financial, compliance, and performance auditing. The National Institute of Public Finance and Policy (various studies) studies public finance and fiscal policy. They emphasise the importance of audit in improving public expenditure efficiency. Pollitt C. et al., (2011) examined performance auditing in modern governments. It found that government auditing plays a key role in evaluating efficiency, effectiveness, and governance outcomes. Power M. (1997) analysed the expansion of auditing in modern societies. It argued that auditing has evolved beyond financial verification into a broader governance mechanism, especially in the public sector. Reserve Bank of India (State Finance Reports) analyses the fiscal performance of states. They highlight the need for strong audit systems to ensure fiscal discipline. Schick A. (2003) analysed public expenditure management systems. It demonstrated the importance of audit in ensuring fiscal discipline and accountability in government budgeting. The Second Administrative Reforms Commission (2009) improved public administration systems. It recommended strengthening audit systems for better governance and accountability. Stiglitz J. (1999) examined the role of government in correcting market failures. It highlighted that government performance must be evaluated using welfare and equity metrics, not profit.

3.5 Synthesis of Literature and Research Gap

The literature review reveals two major insights viz., (i) Fundamental difference in objectives are that the commercial auditing focuses on profit-based accountability and government auditing focuses on multi-dimensional accountability; and (ii) The public sector auditing extend beyond financial verification and includes compliance and performance audit, policy evaluation and review of governance.

However, this reveals that the studies on commercial and government auditing have been mainly done separately. Comparative studies on two types of auditing together have not been done extensively. This study is an effort to fill this gap in the literature.

3.6 Methodology for the Study

To examine the objectives of the study, a comparative study of nature and scope of commercial and government auditing has been done along the following dimensions.

(a) Differences in their auditees, that is, a firm, and a government of State, are examined along the dimensions viz., (i) their objectives, (ii) the indicators of their performance and, (iii) their accountability institutions.

(b) The impact of differences in auditee profile for commercial and government audit on auditing profession and accountability framework has been examined along the following dimensions viz., (i) the separation of duties of three professions of accounting, auditing and financial analysis for commercial enterprises, (ii) the scope of roles of commercial auditor and government auditor, and their appointment, remuneration and independence, (iii) the methodology of audit risk assessment, (iv) the scope of audit reporting, (v) the accountability mechanism, (vi) the auditor's liability, and (vii) the skill sets required by commercial auditor and government auditor.

The research approach adopted for the study includes the following:

(i) Conceptual and Theoretical Analysis: To compare the nature and scope of commercial and government auditing, conceptual and theoretical analysis have been done based upon the concepts and theories delineated from the review of literature and case studies.

(ii) Institutional Analysis: To assess the professional and governance structure for commercial and government auditing, institutional analysis of their respective auditees and their own institutions have been done through review of institutional reports, standards, guidelines and pronouncements.

(iii) As empirical examples for comparative conceptual and theoretical analysis, a review of leading cases has been done.

3.7 Limitations of the Study

The present study does not do any empirical quantitative analysis based upon the sample reports of commercial and government audits to test the differences in skill requirements of both types of audits and to assess their respective audit impact. The present study provides a conceptual and theoretical framework of the differences between two types of audits.

3.8 Future Research Directions

Some of the areas for further research in this subject are viz., (i) Quantitative analysis of impact of both type of audits based upon samples of these reports; (ii) Skill diversity analysis or index development based upon samples of reports of both types; (iii) Comparative analysis of SAIs and Professional Audit Bodies across countries; and (iv) Study on role of artificial intelligence, big data analytics, blockchain technology in respective areas of auditing.

There is need for research in these areas with special emphasis on Indian context.

3.9 Review of Case Studies

3.9.1 Commercial Auditing

Case Study 1: Enron Scandal (USA, 2001)

The collapse of Enron Corporation represents one of the most significant failures in corporate auditing history. The company was engaged in complex accounting manipulations using Special Purpose Entities (SPEs) to hide debt.

The external auditor failed to detect off-balance sheet liabilities and aggressive revenue recognition (mark-to-market accounting). There was conflict of interest of the auditor due to consulting revenues from the same company. The key issues were that the auditor's independence was compromised; there were weak internal controls and the failure of the oversight of the board. The outcomes were the bankruptcy of Enron, the dissolution of firm of auditors and the introduction of the Sarbanes–Oxley Act (2002).

The audit lessons were the utmost importance of auditor's independence, the need for strong internal control evaluation and enhanced regulatory oversight. (U.S. Securities and Exchange Commission, 2003; Healy & Palepu, 2003; U.S. Congress, 2002).

Case Study 2: Satyam Computer Services Scam (India, 2009)

The Satyam scandal involved systematic financial statement manipulation by its chairman. The audit failures were that (i) the auditors failed to verify cash balances and fictitious revenues and assets, and (ii) the weak audit evidence procedures, especially the balance confirmations were not followed. The key issues were the collusion between management and auditors, the failure of corporate governance mechanisms and the inadequate audit scepticism. The outcomes were that there was collapse of investor confidence, the strengthening of corporate governance norms in India and the establishment of stricter oversight (e.g., NFRA). The audit lessons were the importance of substantive audit procedures (balance confirmation), the role of professional scepticism and the strengthening of audit regulation in emerging markets. (Securities and Exchange Board of India, 2009; ICAI, 2009; NFRA, MCA, 2018).

Case Study 3: IL&FS Crisis (India, 2018)

The Infrastructure Leasing & Financial Services (IL&FS) defaulted on debt obligations, triggering a financial crisis. The audit issues were the misclassification of stressed assets, delayed recognition of NPAs and the failure of auditors to flag liquidity risks. The key issues were that the rating agencies and auditors failed simultaneously and the complex corporate structure obscured financial reality. The outcomes were government intervention, reforms in Non-Banking Financial Companies (NBFC) regulation and auditing standards. The audit lessons were importance of risk-based auditing and the need for consolidated financial scrutiny. (MCA, 2019; RBI, 2019).

3.9.2 Government Auditing

Case Study 4: 2G Spectrum Allocation (India, 2010)

The allocation of telecom spectrum licenses was done at below-market prices. The Comptroller and Auditor General (CAG) of India identified non-transparent allocation process and calculated presumptive loss to exchequer. The key issues were policy vs. audit boundary debate and the valuation methodology controversies. The outcomes were cancellation of licenses by the Supreme Court and policy reforms in spectrum auctions. The audit lessons were that the government audit includes performance and policy evaluation and has significant role in public accountability and transparency. (CAG, 2010, Supreme Court of India, 2012).

Case Study 5: Coal Block Allocation (India, 2012)

The allocation of coal blocks was done without competitive bidding. The audit findings were lack of transparency and undue benefits to private entities. The key issues were discretionary allocation vs. auction-based allocation and regulatory concerns. The outcomes were that the Supreme Court cancelled allocations and the shift to auction-based allocation. The audit lessons were importance of resource governance auditing and audit as a tool for policy correction. (CAG, 2012; Supreme Court of India, 2014).

Case Study 6: Telangana Singareni Collieries Audit (India, 2026)

The audit of a state-owned coal company revealed systemic inefficiencies. The audit findings were the flawed contract design, excess expenditure due to poor planning and weak enforcement of contractual provisions.

The key issues were inefficient resource utilisation and environmental non-compliance. The outcomes were audit recommendations for improved contract governance and emphasis on cost efficiency and sustainability. The audit lessons were the continued government audit focus on efficiency (performance audit), compliance and public value creation. (CAG State Reports, 2025-26).

Case Study 7: Compliance Audit – Department of Atomic Energy (India)

The audit revealed avoidable expenditure in government projects. The audit findings were non-adherence to financial rules, weak procurement practices and avoidable expenditure of public funds. The key issues were a lack of financial discipline and weak internal controls in the public sector. The outcome was audit recommendations for better financial management. The audit lessons emphasised the importance of compliance audits and a focus on economy and efficiency in public spending (CAG Compliance Audit Reports, 2018, Scientific Departments, GOI).

Case Study 8: Local Bodies Audit – Urban Construction Violations

There was an audit of municipal construction and regulatory compliance. The audit findings were illegal construction approvals and weak enforcement of civic regulations. The key issues were governance failures at the local level and environmental and safety risks. The audit lessons were on the importance of grassroots-level auditing and its role in urban governance and sustainability. (CAG Urban Local Bodies Reports; various years).

3.10 Comparative Insights from Case Studies

(i) Nature of Audit Failure: The primary failure of the commercial audit was failure to detect and report on fraud committed by the management; the root cause for failure was auditor-client collaboration and the auditor's conflict of interest. The failures detected by the government audit were governance and compliance gaps arising from administrative inefficiency and negligence.

(ii) Accountability Mechanisms: Commercial auditing deals with market-driven accountability towards shareholders and regulators. There is legal liability for auditors. Government auditing deals with Parliamentary accountability towards PAC and the legislature. There is moral and political accountability.

(iii) Institutional Differences and Limitations: Commercial audits are constrained by client relationships, and government audits are constrained by bureaucratic complexity and political economy.

(iv) Impact of Audit Outcomes: Commercial audit failures lead to market collapse and investor loss. Government audit findings lead to policy reforms and institutional restructuring.

(v) Conclusion from Case Studies: These case studies demonstrate that the commercial audit failures (Enron, Satyam) arise primarily from conflicts of interest, weak professional scepticism and incentive misalignment. Government audit findings (2G, Coal, SCCL) highlight systemic inefficiencies, policy distortions and governance failures. The fundamental distinction lies in the fact that commercial auditing leads to assurance to investors, whereas government auditing leads to accountability to citizens.

3.11 The Nature of Commercial Enterprise and Government

There are significant differences in the objectives, indicators of performance and the accountability institutions of commercial enterprise and the government which have significant bearing on nature and scope of audit profession and framework for two entities.

3.11.1 The 'objectives' of the Auditees

The objective of a commercial enterprise is to earn 'profit' on a consistent basis through the production and delivery of goods or services to its customers. By earning profit, it aims to increase the valuation of the enterprise in general and the shareholders' equity in particular (Samuelson et al., 2009; Arens et al., 2017).

The government's objective in running the financial and economic affairs of the state is not to earn profit out of running the administration and implementation of schemes, plans and programs. The purposes of the government are viz., (i) to provide efficient, economic and effective 'administration' to all the citizens of the state, (ii) to implement 'development' schemes, plans, programs and projects effectively to achieve the objectives set by itself and approved by the legislature, and (iii) to prepare and implement plans, programs and schemes to provide 'welfare and development' of the underprivileged and needy sections of society (Pollitt et al., 2011; INTOSAI, 1977). These are shown in Table-3.1.

Table 3.1: Objectives of Auditees			
Sl. No.	Dimension	Commercial Enterprise	Government of the States
1	Primary Objective	Profit maximisation and shareholder's value enhancement	Efficient and effective general administration, public welfare and socio-economic development
2	Nature of Output	Goods/services sold in markets	Pure Public goods and services (non-marketable) and Merit Private Goods & Services (Marketable)

The above-mentioned differences in the objectives of auditee entities determine the nature and scope of audit of commercial enterprises and government (Mautz et al., 1961; Arens et al., 2017; AAA, 1973).

3.12. The Indicators of performance of the Auditees

For a commercial enterprise, 'profit' is the single most important indicator of its performance which is reflected in its profit and loss statement and commented upon by statutory auditor and analysed by financial analysts and management experts which affects the value of their equity in capital markets (Samuelson et al., 2009; Arens et al., 2017). For government, profit from a scheme is not an objective, hence it is not an indicator of government's performance. Efficiency, economy and effectiveness in implementation of a scheme, plan, programme are indicators of government's performance (Boynton et al., 2006; INTOSAI, 1977). In addition, the government schemes and programs are also evaluated for their outcomes and impact for society, equity and inclusiveness, legality, propriety, transparency, accountability, responsiveness, service quality, integrity and control of corruption, capacity development and sustainability (Pollitt et al., 2011; Stiglitz, 1999; Bovens, 2007, Denhardt et al., 2000; Behn, 2001). However, these are not as easy to measure in financial and quantitative terms as the profit as an indicator of performance of commercial enterprise (Boyne et al., 2006). Thus, lack of clear, transparent and simple measure of performance of government presents major challenges before the government auditor to find a touchstone to review the financial, quantitative and qualitative performance of the government. This makes the function of government auditor complex and difficult (Grossi et al., 2023; Abdulgader et al., n.d., Pollitt et al., 2011). These are shown in Table-3.2.

Table 3.2: Indicators of performance and their characteristics

Sl. No.	Dimension of Indicators	Commercial Enterprise	Government
1	Primary Performance Indicator	Profit (net income, EPS)	3Es: Economy, Efficiency, Effectiveness
2	Secondary Indicators	Liquidity, solvency, growth, market value	Outcomes, impact, equity, inclusiveness
3	Nature of Indicators	Quantitative, financial, standardised	Mixed: quantitative + qualitative, multi-dimensional
4	Measurement Simplicity of Indicators	High (monetary and numerical terms)	Low (often non-monetary, proxy-based)
5	Time Horizon	Short–medium term (quarterly/annual)	Medium–long term (program life cycle)
6	Benchmarking of Indicators	Industry ratios, market comparables	Targets, norms, SDGs, policy objectives

3.13. The Accountability Ecosystems of Auditees

There are major differences in the institutions and their mechanism for ensuring accountability of commercial enterprise and the government.

3.13.1. Market Mechanism for allocation of resources to, and survival and growth of, a commercial enterprise

The effectiveness and performance of a commercial enterprise is judged by the ‘market’ itself. Markets are mainly of two types (i) goods and services market for evaluation of the quality of their produce and deciding their market share and, (ii) capital market for evaluation of equity of the commercial enterprise (Kotler et al., 2016).

The market does this by evaluating mainly the profits and profit earning prospects of an enterprise (Friedman, 1962). The investors invest money in commercial enterprises if they are earning profits as per their expectations. The investors withdraw money from an enterprise if it is not earning profit as per their expectations. Thus, the market itself evaluates the performance of a commercial enterprise and allocates financial, physical, human and natural resources to them depending upon their performance. Thus, the ‘market mechanism’ in economy decides the allocation of investment in an enterprise depending upon their profit earnings and growth potential. If it is incurring losses, the market will force the winding up of a commercial enterprise in medium and long run (Samuelson et al., 2009; Jensen et al., 1976).

However, for a government, there is no indicator like 'profit' from a scheme or program to evaluate its performance and no 'market mechanism' to allocate resources to a government for its plans, programs and schemes. If a commercial enterprise is not performing well, the market will force it to wind up. However, if the government of a state is not performing well, there is no mechanism like market to wind up the state and its government. The state is a perpetual entity. It cannot be wound up.

3.13.2 Budgetary Mechanism and Competitive Democracy

Annual budgets are presented by the government for raising tax and non-tax revenue and allocation of funds for expenditure on administration, schemes, programs and projects in the legislature. After the passing of the budget by the legislature, resources are allocated to the government (Musgrave, 1959; Wildavsky, 1964; Schick, 2003).

In a modern state, it is mostly a competitive democracy where the citizens cast their votes to elect their representatives in the legislature. The elected representatives or the citizens elect a government for a certain period to run the executive functions in a state. If that elected government is not performing well, the citizens will defeat this government after their tenure is over, elect their opposite party, and the opposition will form a new government which will implement their schemes, plans and programs (Pierre et al, 2020; Dahl, 1989). However, there is a system of periodic legislative control, supervision and accountability of executive government by the elected citizens' representatives for evaluating the performance of a democratic government (Mill, 1861/1991; Bagehot, 1876/1963; Hirschman, 1970).

3.13.3 Monopoly of Government and Near Perfect Competition in Market for Commercial Enterprise

In a competitive democracy, the executive government is elected by the people of the state for a fixed tenure (5 years in India). During this tenure, the performance of the government and its departments is regularly reviewed by financial and departmental committees of the legislature. However, once elected for a fixed tenure, the government is a monopoly institution to implement the policy, plans, programmes and schemes of the state. It is highly unlikely to recall the government before its fixed tenure is over. This is unlike the case of a corporate commercial enterprise, when its profit is less than the expectation of the investors, considering its competitors, its share prices will go down, and investors will withdraw money from this company. Hence, the existence of competitors in the market is an institutional mechanism which ensures the achievement of accountability of commercial enterprise. The function of a statutory auditor of a commercial enterprise is limited to that extent (Samuelson et al., 2009; Arens et al., 2017; Jensen et al., 1976). There is a risk of misstatement by omission or commission in financial statements and the impact of fraud by management on these statements. However, the monopoly status of government makes the duties and responsibilities of government auditors very demanding, complex, and extensive (Pollitt et al., 2011; INTOSAI, 1977; Pollitt et al., 1997; Funnell, 1998; Glynn, 1991). These are shown in Table-3.3.

Table-3.3: Accountability Ecosystem and its characteristics

Sl. No.	Dimension of Accountability	Commercial Enterprise	Government
1	Core Accountability Mechanism	Market mechanism	Democratic(elections) + budgetary mechanism
2	Resource Allocation	Through capital markets based on profitability	Through legislative budget approval
3	Disciplining Force	Investor exit, competition, bankruptcy, winding up	Elections, legislative oversight
4	Survival Mechanism	Market survival: inefficient firms exit	Perpetual existence; no exit mechanism
5	Competition	Near perfect/oligopolistic competition	Monopoly in governance during tenure
6	Feedback Loop for performance	Continuous (stock prices, demand of goods/services)	Periodic (elections, parliamentary review)
7	Accountability Institutions	Shareholders, Board, Regulators	Legislature, Judiciary, Citizens, SAIs
8	Consequences of Failure	Bankruptcy, takeover, liquidation	Electoral defeat, policy change
9	Information System for evaluation	GPFS + market signals	Budgets, accounts, audit reports, performance reports
10	Time Horizon of Accountability	Continuous, real-time	Periodic (annual budget, elections after tenure)
11	Complexity of Accountability	Relatively simple and financial	Highly complex and multi-layered

3.14 Impact of Above Differences on respective Auditing Profession and Framework

The above differences have following significant impact on the auditing profession and framework for commercial enterprises and the government.

3.14.1 Separation of Duties of Three Professions for Commercial Enterprises

For a commercial enterprise, 'profit' and 'profitability' are the most important factors to assess its performance. Therefore, the (i) commercial accounting, (ii) auditing, and (iii) financial and market analysts' professions aim for true and fair reporting of profits and profitability of an enterprise. The financial and market analysts report upon the profitability achieved and its prospects for the commercial enterprise in comparison to its competitors in the market (Arens et al., 2017; Tricker, 2015; Hayes et al., 2005; Jensen et al., 1976).

Financial analysts require reliable and comprehensive financial and quantitative data to do a realistic financial evaluation of the company.

(i) The discipline and profession of 'accounting' has been developed to report through the General Purpose Financial Statements, the true and fair picture of the state of affairs of a corporate entity.

(ii) The profession of 'auditing' has been developed to give assurance that the GPFS and other annual reports of the company are prepared in such a way that they truly and fairly reflect the profitability, financial position and liquidity of the company. Thus, the purpose of an auditor of a commercial enterprise is to report upon the quality and adequacy of disclosure made in the GPFS of the organisation. The auditor, through its audit report, gives an assurance of the truthfulness and fairness of the profit, financial position and cash flows of the company as disclosed in its GPFS.

(iii) The financial evaluation of the company is to be done by the financial and market analysts using the accountants' financial statements and auditors' audit report thereon.

The auditors' assurance on the truthfulness and fairness of the Financial Statements, independent of the financial evaluation of the enterprise, is very important for owners (shareholders) of the commercial enterprise, as these statements are prepared by their management.

In the case of the government, there are no three separate professionals to perform the functions, viz. (i) to prepare the accounts of the government, (ii) to audit and report upon their financial statements, and (iii) to analyse and report upon their financial and managerial performance. Hence, the Supreme Audit Institution (SAI) and the government auditors thereunder perform all three functions for the government (Bovens, 2007; Glynn, 1991; Shand et al., 1996; Power et al., 1997; Guthrie, 1999). These are shown in Table-3.4.

Table 3.4: Separation of Professional Functions and its implications

SL. No.	Dimension of functions	For Commercial Enterprises	For Government
1	Accounting Function	Performed by professional accountants	Performed by government accounting system (within executive or with SAI)
2	Auditing Function	Independent Statutory Auditors	Supreme Audit Institution (SAI)
3	Financial Analysis Function	Separate profession (analysts, rating agencies)	Largely embedded within audit institutions
4	Institutional Separation	Clear separation of roles	Partial or no separation
5	Primary Output of Professionals	GPFS (P&L, Balance Sheet, Cash Flow), Audit Report, Financial Analysis, Credit Rating	Finance Accounts, Appropriation Accounts, Audit Report, Performance Audit reports
6	Information Flow for Professionals	Accounting → Auditing → Financial Analysis	Accounting → Audit + Analysis combined
7	Specialisation Level of Professionals	High specialisation across professions	High integration and interdisciplinary roles
8	Professional Bodies	1. Institute of Chartered Accountants of India 2. ICMAI	Comptroller and Auditor General of India and SAIs

3.14.2 The Scope of Roles of Auditor of Commercial Entity and the Government

The scope of roles of commercial and government auditors is different in a major way.

3.14.2.1 Role of Auditor of Commercial Entity

(a) Financial Statement Attest Audit

The duties and functions of auditors of a commercial entity are limited to financial statement attest audit only. He has to express an opinion and provide an assurance on the truthfulness and fairness of the GPFS of a company by doing the procedural and substantive tests upon the transactions selected by sampling techniques adopted by him according to the Generally Accepted Auditing Standards (GAAS) and the Accounting and Auditing pronouncements issued by the Institute of Chartered Accountants of that country (Arens et al., 2017; Hayes et al., 2005; Messier et al., 2008, Tricker, 2015; Power, 1997; Lonsdale et al., 2011). The statutory auditor of a commercial entity does not prepare the accounts of the entity under audit. Another professional is responsible for preparing the accounts, and the Chief Finance Officer of the company authenticates them.

(b) Compliance Attestation

The statutory auditor can be called upon by the company to make some compliance attestations if permitted by specific Acts and Rules. Thus, a statutory auditor of a company in India is called upon to do compliance attestation for the company under the Income Tax Act and Rules, the Companies (Auditors Report) Order under the Companies Act and the SEBI Act and Rules. The report under these compliance attestations is submitted in the prescribed format covering specific points to report upon as mentioned in the Acts and Rules (GOI, 2013; MCA, 2011; GOI, 1961; SEBI, 2015; GOI, 2017).

The compliance function under the Companies Act and Rules is also being done by practising Company Secretaries as per specific statutory requirements (MCA, 2014). Under Cost Accounting Records and Rules, the practising Cost Auditor is called upon to do a compliance audit of cost accounts and records as prescribed under the said Rules and report thereon (MCA, 2011).

(c) No Performance Evaluation, Performance or Management Audit by the Statutory Auditor

The statutory auditor of a company is not called upon to do the performance, operations or management audit and evaluation of the company. If he does so, this may lead to conflict of interest and hamper independence of the statutory auditor. Thus, the audit report of auditors of a company gives an assurance to the shareholders of the company and the market that GPFS provides true and fair status subject to the exception mentioned in the audit report or does not give such an assurance.

3.14.2.2 Roles of the Government Auditor

The Government Auditor of the central and provincial governments in a country is usually its Supreme Audit Institution and the officers working under it. The government auditor usually does all three types of audits for a government, viz., (i) financial audit, (ii) compliance audit and (iii) performance audit (Broadbent et al., 1992; INTOSAI, 1977; Pollitt et al., 1977; Shand et al., 1996).

(i) Financial Audit

Based upon the functions performed by the SAI of India, the financial audit can be classified into the following three types: -

a. Financial Statement Attest Audit of PSUs and Government

SAI is the sole or supplementary auditor of Public Sector Corporate Undertakings (PSUs). Hence, government auditors do the corporate sector financial attest audit of their GPFSs, just like the commercial auditor does this audit for private corporate entities.

Finance Accounts and Appropriation Accounts are prepared for central and provincial governments. An audit is done of these accounts. These accounts are mainly prepared on a cash basis. Hence, instead of giving an opinion on true and fair disclosure of profit, financial position and cash management of the government, the audit certificates on these accounts by the government auditor give an opinion on truthful disclosure of receipts and disbursements, revenue surplus or deficit, fiscal deficit and sources of financing of fiscal deficit. An opinion on the truthful disclosure of the financial position of the government can also be expressed. The audit certificate on these accounts also makes mention of the auditor's comments in the State/Union Finance Audit Report, its Compliance and Performance Audit Reports (INTOSAI, 1977; Funnell, 1998).

b. Financial Compliance and Appropriation Audit

The comments on quality and adequacy of disclosure in Finance and Appropriation Accounts are also made in their finance audit reports for the Union and the States. In addition, comments on 'budget management' and 'appropriation and utilisation of funds given to government in Appropriation Act are also made by government auditor in this report (INTOSAI, 1998).

c. Financial Evaluation and Financial Performance Audit

State or Union Finance Audit Report also consists of comments on the financial performance of government in respect of (i) raising of tax and non-tax revenue, (ii) incurring of capital and revenue expenditure and, (iii) debt sustainability and management of the government. As there are no separate financial analysts like commercial organisations to review the financial performance of a government, the comments on review of financial performance of governments and incurring expenditure are also made by the government auditor in its finance audit report.

Thus, in the Finance Audit Report, comments on both performance evaluation and compliance issues in management of finances by the government are made by the government auditor.

(ii) Compliance Audit of Transactions

This is a major part of the audit duties of a government auditor. Audit of transactions or a class of transactions like procurement, implementation of a project, audit of an organisation or unit, subject-specific compliance audit or thematic compliance audit are covered in this category of audit.

In a compliance audit, compliance with Acts, Rules, Standards, Guidelines and procedures prescribed by the legislature, executive, judiciary, regulatory and standard-setting bodies is examined by government auditors in the review of receipt and expenditure of the government. Receipt Audit is mainly a compliance audit as these are done to see the compliance of tax and non-tax Acts, Rules and guidelines. Audit of expenditure, which is mainly done to see the compliance with Acts, Rules, guidelines, etc., is also a compliance audit (Bovens, 2007; Pollitt, et al., 1997).

(iii) Performance Audit of Schemes, Plans and Programs and Appointment, Remuneration and Independence of Auditors

In the case of commercial enterprises, there are separate professionals called 'financial analysts' who do the quantitative and financial performance review of these enterprises and bring their analysis into the public domain. If financial and organisational performance evaluation and review are done by the statutory auditor, this will lead to a conflict of interest with the duties of financial attestation and compliance certification. For a commercial enterprise, the appointment and determination of fees of statutory auditors are done by the owners on the recommendation of the management. Hence, the financial and managerial performance review by statutory auditors will compromise their independence.

The appointments of SAI and government auditors are made under the Constitution, and their fees and budget are approved by the Legislature. Therefore, the independence of government auditors is not affected by the performance review and audit they conduct. In the case of the government, there are no separate analysts to review the performance of government policies, plans, programs, schemes and projects. Therefore, the government auditor also does the quantitative, qualitative and financial performance review of the government's policies, plans, programs and schemes mainly in areas of development and welfare administration and delivery of public goods and services.

Performance Audit is done to review the implementation of policies, plans, programs and schemes to assess the achievement of (i) their objectives and (ii) the quantitative, qualitative and financial targets envisaged in the schemes as mentioned in the performance and outcome budget of the government as placed in the legislature and in the scheme guidelines (Power, 1997; Lonsdale et al., 2011; Glynn, 1991; Funnell, 1998, Shand et al., 1996). These are shown in Table-3.5.

Table-3.5: Scope of Roles of Auditors and its implications

Sl. No.	Dimension of Roles	Commercial Auditor	Government Auditor
1	Primary Role	Financial statement attestation	Multi-dimensional audit (financial, compliance, performance)
2	Nature of Financial Audit	Opinion on “true and fair view” of GPFS	Opinion on receipts, expenditure, revenue, fiscal deficit & disclosures
3	Extent of Compliance Audit	Limited, under specific statutory requirements	Extensive compliance to laws, rules, procedures, scheme guidelines
4	Performance Audit	Not performed (to preserve independence)	Core function (3Es: economy, efficiency, effectiveness of programs)
5	Audit of Budget/Appropriation	Not applicable	Central role (Appropriation Audit)
6	Financial Evaluation	Done by external analysts	Done by auditors themselves e.g. Finance Audit Report
7	Audit Scope	Narrow and financial	Broad and multidisciplinary
8	Independence Risk	High, if scope expands beyond attestation	Protected Constitutionally; broader scope permissible
9	Appointment & Remuneration	By shareholders (via management recommendation)	Constitutional/statutory; funded by legislature
10	Extent of Audit Output	Audit opinion only	Audit reports + evaluation + recommendations

3.14.3 The Methodology of Audit Risk Assessment

To assess the risk involved in the audit of financial statements and compliance audit, the auditors review the internal control system of the auditee. This is done in both the commercial and the government audit while performing the financial attest audit and the compliance audit (Arens et al., 2017; Messier et al., 2019).

While assessing the risks involved in doing the performance audit, the government auditor also has to do the review of the administrative capacity and capability of the state machinery involved in planning, financial management, monitoring and control for the implementation of these policies, plans, programs and schemes of which the performance audit is being done. Many times, the schemes are taken up hastily by the government under public pressure; however, sufficient administrative machinery for their planning, management, monitoring and control is not created by the government, which has bearing upon the capacity and capability to implement those schemes effectively (Power, 1997; Bovens, 2007). These are shown in Table-3.6.

Table-3.6: Methodology of Audit Risk Assessment and its characteristics

Sl. no.	Dimension of Risk	For Commercial Auditor	For Government Auditor
1	Primary Risk Focus	Risk of material misstatement (financial, omission or commission)	Risk of misstatement + compliance failure + performance failure
2	Audit Risk Model	Audit Risk = Inherent Risk × Control Risk × Detection Risk	Extended risk model including governance risk, capacity risk, and outcome risks
3	Internal Control Review	Core component (financial controls)	Core component (financial + administrative + program controls)
4	Scope of Risk Assessment	Financial transactions and disclosures	Financial, legal, administrative, and programmatic processes
5	Performance Risk Assessment	Not applicable	Central to performance audit
6	Administrative Capacity Assessment	Not assessed	Critically assessed
7	Policy Design Risk	Not examined	Often examined
8	External Environment Risk	Limited consideration	Considered (political, institutional context)
9	Complexity of Risk Assessment	Relatively structured and standardised	Multi-dimensional and complex

3.15 The Scope of Audit Reporting

Economy, efficiency and effectiveness in the achievement of the objectives of the schemes are examined and reported upon by the government auditor while doing the performance audit. These performance aspects are not examined and not reported upon by the statutory auditor of a commercial enterprise. The reporting requirement of the statutory auditor is limited to express an opinion on the truthfulness and fairness of 'disclosure' in the financial statements. These are shown in Table-3.7.

Table-3.7: Scope of Audit Reporting			
Sl. No.	Dimension of Reporting	For Commercial Auditor	For Government Auditor
1	Primary Output	Audit opinion	Multi-part audit reports
2	Focus of Reporting	Truth and fairness of financial statements	Economy, efficiency, effectiveness (3Es)
3	Nature of Reporting	Standardised (unqualified/qualified/adverse/waiver)	Narrative, analytical, evaluative
4	Performance Evaluation	Not included	Core component
5	Compliance Reporting	Limited to prescribed areas	Extensive
6	Policy Evaluation Reporting	Not included	Included
7	Recommendations in Reporting	Limited to Accounting and Internal control	Detailed and actionable on compliance and performance
8	Addressee of Report	The Shareholders/ Owners	Not Specified
9	Audience of Reports	Shareholders, investors	Legislature, public, policymakers
10	Impact of Reports	Market reaction	Policy reform, legislative scrutiny

3.16 The Accountability Mechanisms of Commercial Enterprise and Government

The Annual Accounts statements of a public limited company are prepared by the company management, audited by the company auditors and adopted in the AGM of the company (Solomon, 2017; Jensen et al., 1976). These accounts are filed in the Registrar of Companies with annual company returns, with the certificate of the Company Secretary (GOI, 2013). These annual accounts are also submitted with SEBI and stock exchanges where the listing of the securities of the company has been done (Arens et al., 2017). Annual Accounts with audit reports are also published in national newspapers and company websites.

Professional financial analysts evaluate the financial and business performance of the company and publish their reviews for the benefit of investors and the public. The investors make their assessment of the performance of the company and decide whether to invest or withdraw their money from the securities of these companies. Thus, the market mechanism ensures the survival, growth or winding up of a commercial enterprise.

The performance of the government policies, plans, programs and schemes is not evaluated by the 'profits' and through any market mechanism. Therefore, special provisions for legislative review of financial and economic performance and delivery of plans, programs and schemes have been made in the Constitution (Bovens, 2007; Musgrave, 1959; Stiglitz, 2000). Finance Accounts and Appropriation Accounts, along with the government auditor's certificate and Finance Audit Report, are presented in the Legislature, which are examined by the Public Accounts Committee (PAC) (INTOSAI, 2007). Similarly, SAI's compliance audit and performance audit reports on government plans, programs and schemes are presented in the Legislature and examined by the PAC and other committees. After examination and taking evidence from the secretaries of respective departments (Pollitt et al., 2011), the PAC makes its recommendations. The departments submit Action Taken Notes (ATNs) on the recommendations of the PAC. After reviewing the ATNs of the departments on audit paras and reports, the PAC makes its final policy recommendations and presents them to the legislature. On the final recommendations of the PAC and assurances given to it, the departments of the government take policy-related corrective actions (Bovens, 2007; Power, 1997; Glynn, 1985; Funnell, 1998). These are shown in Table-3.8.

Table-3.8: Accountability Mechanisms

Sl. no.	Dimension of Accountability	For Commercial Enterprise	For Government
1	Ownership	Shareholders/investors	Citizens (“the people”)
2	Management	Board & professional managers	Executive government
3	Primary Accountability Forum	Market + shareholders (AGM)	Legislature (Parliament/Assembly)
4	Accounts Approval	Adopted in AGM	Laid before legislature
5	Evaluation Mechanism	Market forces (share price, profitability)	Legislative scrutiny + elections
6	Feedback Loop for performance	Investment/withdrawal decisions	PAC recommendations → Action Taken Notes (ATNs)
7	Sanction Mechanism for non-performance	Market exit, takeover, bankruptcy	Political accountability (elections), administrative action
8	Transparency Channel	Stock exchanges, disclosures, media	Legislative debates, audit reports, public domain

3.17 Auditors’ Liability

There is liability under the law justiciable in courts for professional misconduct by a commercial auditor. There are liabilities of commercial auditors towards professional bodies like the Institute of Chartered Accountants of India, the National Financial Regulatory Authority, etc., under professional ethics and code of conduct.

The professional liability of the Supreme Audit Institution of India is towards the Parliament of India, like that of a judge of the Supreme Court. There are departmental liabilities, like a government servant for government auditors under SAI, for misconduct. However, there is no liability towards independent professional institutions for a government auditor, like that of a commercial auditor. These are shown in Table-3.9.

Table-3.9: Auditors' Liability			
Sl. no.	Dimension of Liability	Commercial Auditor	Government Auditor
1	Legal Liability	Civil and criminal liability under law	Limited; Institutional responsibility
2	Professional Liability	To professional bodies (disciplinary action)	Internal/departmental accountability
3	Regulatory Oversight	(i) Institute of Chartered Accountants of India (ICAI) (ii) National Financial Reporting Authority (NFRA)	Constitutional oversight (Parliament)
4	Liability to Users	Shareholders, investors, creditors	Legislature, indirectly to citizens
5	Independence Risk	Influenced by appointment/fees structure	Constitutionally protected independence
6	Removal Mechanism	Through shareholders/regulators	Constitutional safeguards (removal akin to judges for SAI)
7	Penalty for Misconduct	Fines, suspension, imprisonment	Departmental action; rarely judicial liability
8	Nature of Responsibility	Individual professional responsibility	Institutional responsibility (SAI)

Thus, differences in the nature and objectives of a commercial enterprise and government entity-Union, Provincial and Local Government, make it necessary to evolve different nature and structure of auditing and accountability mechanisms for them.

3.18 Additional skills required by a Government Auditor

3.18.1 Skills required for Audit of Public Sector Companies

There are instances of government owned public sector companies (PSUs) which perform commercial operations in competition with the private enterprises and the shares of many of these are listed in stock exchanges. In such situation, there are little difference in public sector companies and the commercial enterprises. The objectives of such PSUs are also profit making and these are also subject to market mechanism, besides the ultimate legislative control, for their survival and growth. Therefore, while doing the financial attest audit of these PSUs, the government auditor also performs similar functions and gives similar assurances as the auditor of a commercial enterprise (Arens et al., 2017; Boynton et al., 2006). While doing the financial attest audit of a commercial public sector undertaking registered under Companies Act and listed in stock exchange, the knowledge and skills required by government auditor are like that of the statutory auditor of a commercial enterprise.

3.18.2 Additional Skills required by Government Auditor

In addition to this, a government auditor also performs financial attest, compliance and performance audit of Union and Provincial governments. These are macro entities, different from companies, which are micro entities. Hence, performing a financial performance audit of the government requires additional knowledge and skills in macro-level financial analysis. In addition, the government auditor also performs compliance audits of public expenditure on government plans, programs and schemes and their performance audits, which do not have profit-making objectives nor the market mechanisms to allocate resources for them, but have legislative control and supervision. Therefore, some additional sets of knowledge and skills like public economics, public finance, public financial administration, public administration, welfare economics, development administration and public policy analysis etc. are required by the government auditors to perform these audits efficiently and effectively which are not required by the statutory auditor of a commercial enterprise (Power, 1997; Bovens, 2007; Lonsdale et al., 2011; Funnell, 1998; Glynn, 1991; Guthrie, 1999). The skill sets required by the commercial and government auditors are shown in Table-3.10.

Table-3.10: Skill Sets Required and their levels

Sl. no.	Dimension of Skills	For Commercial Auditor and audit of PSUs	Additional Skills for Government Auditor
1	Core Domain	Financial accounting & Financial auditing	Multi-disciplinary (finance + policy + governance)
2	Financial Analysis	Micro (firm-level)	Micro + macro (fiscal analysis)
3	Public Finance Knowledge	Not required	Essential
4	Public Policy Analysis	Not required	Essential
5	Administrative Systems Understanding	Limited	Critical
6	Program Evaluation	Not required	Core skill
7	Econometrics and Data Analytics	Moderate	High (impact evaluation, large datasets)
8	Legal & Regulatory Knowledge	Corporate law	Constitutional + administrative law+ sectoral laws
9	Sectoral Knowledge	Industry-specific	Multi-sector (health, education, infra, welfare)
10	Stakeholder Engagement	Limited	High (legislature, departments, citizens)
11	Field Audit Skills	Limited	Extensive
12	Communication Skills	Standard reporting format	Policy-oriented narrative reporting

3.19 Current Status of Education and Training in Government Auditing

In India, government auditing is kept as a sub-topic of study in Public Administration and Public Financial Management programmes in universities/colleges. In the Institute of Chartered Accountants of India, there is a course on government accounts and finances for its members in which government auditing is a topic of study. In the C&AG office, there is extensive teaching and training of government auditing for various levels of officers. However, there is no academic degree program in universities and a certification program in a professional Institute in government auditing in India. (Sharma, 2015; UGC, 2020, ICAI, 2023; CAG, 2022; World Bank, 2018).

In the USA, there are government audit modules in certification programs of the American Institute of Certified Public Accountants (AICPA), Certified Government Auditing Professional (CGAP) of the Institute of Internal Auditors (IIA) and Certified Government Financial Manager (CGFM) of the Association of Government Accountants. There are internal training programs in auditing by the U.S.A. Government Accountability Office. (AICPA, 2022; IIA, 2021; AGA, 2022). In the U.K., there is a government audit module in the certification program of the Chartered Institute of Public Finance and Accountancy (CIPFA) and internal training programs of the National Audit Office. (CIPFA, 2022) China is the only country with a full-fledged audit university where degree and postgraduate degree programs in government auditing are offered. However, an independent professional certification program is not available in China (Liu, 2019; ADB, 2020).

From a review of the education and teaching of government auditing, it is revealed that university-based academic programs are available only in China but not in India, the UK and the USA. An independent professional certification program is available in the USA and UK, but not in China and India. SAI-based internal training is available in all countries. Thus, in India, both academic and professional certification programs are not available. This results in a lack of research in government accounting and auditing, and skill gaps in the use of big data analytics and econometrics in the practice of government auditing in India. Therefore, in India, the GOI, ICAI and C&AG may join hands to introduce government auditing as an academic discipline in university courses and a professional institute-level certification program, in a phased manner (World Bank, 2018; INTOSAI, 2019).

3.20 Conclusion

There are major differences in the objectives and accountability mechanisms of commercial enterprises and the government. As a result, the type and scope of audits, the methodology of performance of different types of audits, the output and nature of assurance of audit of commercial enterprises and government differ significantly. The review of literature and case studies amply demonstrates that significant additional skills are required by a government auditor to perform his or her job efficiently and effectively. Hence, there is a need for the development of a separate theory, academic discipline and a profession of government auditing in India, as there are in China and the USA, so that this becomes a field of study in colleges, universities and professional certification in professional institutions just like the discipline of commercial auditing.

Data Availability

None

Ethics Statement

This document meets the ethical guidelines and legal requirements of the country.

Funding

None

Conflict of Interest

No Conflict of Interest.

Acknowledgement

I acknowledge with gratitude the general support of Shri A.V.N. Pantulu, Shri Ritesh Kumar, Shri Kamlesh Rao, Shri Niraj Kumar Jha by providing general comments, referencing and typing of this paper.

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