Research Paper

on

Relation between quality of Risk assessment for audit planning and money value of resultant audit products

Regional Training Institute, Allahabad

PREFACE

Regional Training Institute, Allahabad has brought out this Research paper on "Relation between quality of risk assessment for audit planning and money value of resultant audit products".

To get the attention of our Auditors, the contents have been kept to minimum but alongside we have tried to compile issues like understanding risk, risk assessment/ identification/ evaluation, risk based audit approach during audit planning etc. We would like to place on record the valuable contribution made by office of Accountant General (G&SSA), Madhya Pradesh-Gwalior, Principal Accountant General (G&SSA), Uttar Pradesh-Allahabad, Principal Director of Audit (Central), Uttar Pradesh, Lucknow, Accountant General (E&RSA), Uttar Pradesh- Lucknow and Accountant General (E&RSA), Madhya Pradesh-Bhopal in providing us with empirical data and suggestions for this research work which have been suitably incorporated.

Empirical data received from the various Audit offices have been analysed to assess relation between quality of risk assessment for audit planning and money value of resultant audit products. For this Research Paper, the Audit Reports include material which pertain to the relevant year but also includes instances from previous years but not reported as well as observations related to subsequent year (Disclaimer in Audit Reports). Printed Audit Reports only have been taken as resultant audit product for the purpose of this study and does not include the Inspection Reports of the concerned offices. The research has also been restricted to the offices mentioned above and does not cover other sectors like defence, railways etc.

I hope that the readers would benefit from this and suggestions, if any, are welcome for helping us in future.

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Relation between quality of Risk assessment for audit planning and money value of resultant audit products

Understanding Risk

What is risk? Risk can be defined in various ways, depending on the context. Generally, risk is considered as the possibility of loss or injury, a threat of something going wrong with the activities of organisation or the entity or persons concerned.

Risks may vary in nature and concern any level of the organisation. Risks to sound financial management, i.e. risks to achieving economy, efficiency and effectiveness, can be inherent in nature (inherent risk) and arise from weaknesses in internal control (control risk).

The auditor deals mostly with organisations and programmes which have policy objectives. Risk is thus defined as the occurrence of a particular set of circumstances that, if they occur, could adversely affect the organisation, such as exposure to financial loss, loss of reputation or failure to deliver a policy or programme economically, efficiently and effectively.

Risk Assessment

A risk assessment is the identification and analysis of relevant risks to achieve the objectives and forming a basis for determining how the risks should be managed.

In order to decide how to handle risk, it is essential not only to identify in principle that a certain type of risk exists, but to evaluate its significance and assess the likelihood of the risk events occurring. The methodology for analysing risks can vary, largely because many risks are difficult to quantify (e.g. risk to reputation and image) while others lend themselves to quantification (particularly financial risks). As such, risk evaluation especially for the former is a subjective exercise.

Audit Risk (AR) has three components i.e. Inherent Risk, Control Risk and Detection Risk.

> ***"Inherent Risk" (IR)*** is the susceptibility of an account balance or class of transactions to misstatement that could be material, individually or when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls.
>
> ***"Control Risk" (CR)*** is the risk that a misstatement, that could occur in an account balance or class of transactions and that could be material individually or when aggregated with misstatements in other balances or classes, will not

be prevented or detected and corrected on a timely basis by the accounting and internal control systems.

"Detection Risk" (DR) is the risk that an auditor's substantive procedures will not detect a misstatement that exists in an account balance or class of transactions that could be material, individually or when aggregated with misstatements in other balances or classes.

The risk that audit procedures fail to detect material error (DR) is therefore influenced by the amount of inherent risk (IR) and control risk (CR). Lower the risk of material error occurring in the first place (IR) and of internal controls (CR), the less audit work in relation to the detection risk (DR). In other words, the more assurance Audit is able to take from assessments of IR and CR, the less assurance Audit needs from substantive testing and thus the smaller the sample Audit requires to reasonably examine.

The risk model can be expressed by the equation: ***AR = IR x CR x DR***

Use of the overall audit risk model enables the auditor to assess risk in order to plan and perform the audit to reduce overall audit risk to an acceptably low level. Moreover, risk is generally assessed as 'high', 'medium' or 'low'. Audit is concerned with material error and inherent risk assessment may be applied to an account area or to the account as a whole.

The auditor should determine a level (high, medium or low) of occurrence (likelihood) and seriousness (impact) for each risk using the risk matrix. The overall evaluation is the result of the combination of both elements (i.e. Risk = likelihood of occurrence x impact of the event).

RISK MATRIX

		Impact		
		Low	Medium	High
Likelihood	Low			
	Medium			
	High			

OVERALL RISK EVALUATION

Low	**Medium**	**High**
Risk can be ignored	Judgement based on characteristic of defined risk	Risk must be followed up by audit

In very broad terms, audit risk is the risk of a material misstatement of a financial statement item that is included in the audited financial statement of an entity. In theory, audit risk ranges anywhere from zero (0.0), where there is complete certainty of no material misstatement, to one (1.0), where there is complete certainty of material misstatement. In practice, however, audit risk is always greater than zero. There is always some risk of material misstatement as it is not possible, (except for the audit of the simplest of financial statement), due to the limitations inherent in both accounting and auditing, to be absolutely certain that a material misstatement will not exist.

Risk based audit approach

A properly timed and performed risk assessment and response process by the experienced auditor provides the foundation for the entire audit – it focuses the auditor's attention on identifying, analysing and responding to those risks that have the potential to materially affect the financial report.

It is the policy of CAG of India to adopt a risk based approach that focuses audit efforts on areas of greatest risk to the proper presentation of financial statements of government entities, while respecting all areas of his audit mandate. Risk in auditing means that audit accepts some level of uncertainty in performing the audit. In other words, Audit accepts the risk that the audit conclusion may be wrong and that audit may have allowed material error to remain undetected in the account. Only a small degree of audit risk would be acceptable as otherwise the audit process may lose its purpose. Hence, a very high level of assurance (or confidence) is required when expressing the audit opinion. This is one of the most important steps in the planning phase in ensuring that the auditor will gather competent, relevant and reasonable audit evidence at minimum cost. Normally, a level of 95 per cent assurance is considered appropriate in which the audit risk would be five percent.

Audit Planning

Adequate planning of the audit helps in ensuring that all significant entities and programmes, which are vulnerable to risks, are covered, available resources are optimally utilised for conducting the audits and the work is completed expeditiously. Operational planning of the individual audit is most critical process for securing a high standard of audit. A good audit plan will ensure a focused fieldwork by the audit team and also facilitate monitoring and review of the progress of audit by senior audit functionaries.

While the primary objective of financial audit is an expression of an opinion on the financial statements involving examination of and evaluation of financial records, compliance audit or transaction audit is primarily concerned with compliance with laws and regulations and with the probity and propriety of administrative decision taken within the audited entity. In performance auditing, on the other hand, objectives are usually expressed in terms of questions about performance i.e. achievement of economy, efficiency and effectiveness of an entity/programme/activity under audit.

INTOSAI Auditing standards states 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. The *SAI* should give priority to any audit task, which must be undertaken by law and assess priorities for discretionary areas within the *SAI'*s mandate.

Risk analysis is an important tool for audit planning. A risk analysis should be carried out with reference to the following various parameters of the entities, programme or the subject after a careful study of all relevant documents. –

i) Environment in which the audited entity operates
ii) accountability relationship
iii) considering the form, contents and users of audit opinion, conclusion and reports
iv) audit objective and tests necessary to meet them
v) identification of key management systems and controls and preliminary assessment to identify both their strength and weakness
vi) determination of materiality[1] of matters
vii) review of internal audit of auditee and its work programme
viii) assessment of extent of reliance that might be placed on internal auditors
ix) determination of most efficient and effective audit approach and
x) Appropriate documentation of the audit plan and for the proposed fieldwork

A good risk perception of the programme or entity's performance will facilitate determining the audit thrust areas, audit objectives and setting the most appropriate audit

[1] *The relevance of information is affected by its materiality. Information is material if its misstatement (i.e., omission of erroneous statement) could influence the economic decisions of users taken on the basis of the financial information. Materiality depends on the size and nature of the item or error, judged in the particular circumstances of its misstatement. Materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which the information must have if it is to be useful.*

criteria. It will also assist in selection of appropriate sampling techniques for the units to be audited and for the selection of vouchers/information/data. The risk factors can be attributed to the different forms of inputs, processes, information system, transparency, criteria or means adopted for monitoring and review etc.

The performance audits should normally commence only after a pilot study or at least a thorough desk review. Depending upon the nature of subject being taken up for performance audit, sometimes a desk review alone may be sufficient rather that a full-fledged pilot study. A judicious decision about the time to be allowed for this preparatory work would necessarily depend upon familiarity with the subject matter and the extent of clarity about audit issues to be examined. Normally, the desk reviews and pilot studies on topics included in the Annual Audit Plan of a particular year should be completed before the commencement of that year.

Compliance Audit

Risk assessment is an essential part of performing a *compliance audit*. During the planning process, information is gathered about the entity in order to assess risk and establish materiality levels for designing audit procedures. As such compliance audit not only includes examination of rules, regulations, orders, instructions but also every matter which, in the judgement of auditor, appears to involve significant unnecessary, excessive, extravagant or wasteful expenditure of public money and resources despite compliance with the rules, regulations and orders. It also includes audit of sanctions to expenditure, which is guided by the principles of legality, propriety, competence of the sanctioning authority, adherence to criteria for sanction, availability of funds, determination of physical targets, objects of expenditure and the accounting procedure. Thus, besides verifying compliance by the auditable entities to the applicable regulatory framework, compliance audit is also expected to examine the regulatory framework for consistency and raise questions on grounds of propriety also. Issues like fraud, intentional unlawful acts or non-compliance, incorrect or incomplete information to executive, the auditor or to the legislature (concealment), intentional disregard to the executive, authoritative bodies or auditor and events and transactions made despite knowledge of the lack of legal basis to carry out the particular event or transaction may be considered material even if the monetary value is not significant. Due to the inherent limitations of an audit, a compliance audit does not provide a guarantee or absolute assurance that all instances of non-compliance will be detected. Inherent limitations in a compliance audit includes judgement applied by the executive in interpreting law and regulation, human errors, improper designing or ineffective functioning of system, circumvented controls and concealment or withholding of evidence.

Similarly, in compliance audit of receipts (both revenue and capital) of the Government of India and of Governments of each State and of each Union Territory having a legislative assembly, auditor has to draw assurance that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue. Revenue is manifested in money terms only. Therefore, compliance audit in Revenue/Receipt sector for both tax and non-tax area includes examination of rules, regulation, orders, instruction etc., which involves inherent limitations of judgement being used in interpreting law, rules and regulations leading to the risk of evasion/avoidance consequently resulting in revenue loss. Therefore, risk assessment during audit planning process in revenue audit intrinsically accords higher weightage to those areas which are prone to intentional evasion leading to monetary loss to government.

From the above deliberation on risk assessment, its relevance in audit planning, risk based audit approach etc. the main learning which emerges is that quality of risk assessment in audit planning is of great importance in garnering acceptable level of audit assurance while reducing the audit risk. But beyond this bottom-line, the question which arises is:

Quality of risk assessment for audit planning impacts the quality and quantity of resultant audit product in positive / negative way.

To arrive at a conclusion about the above hypothesis, requirement of empirical data was imperative. Therefore, to assess and explore the relation between quality of risk assessment for audit planning and money value of resultant audit products, efforts to collect empirical data from the offices of the Accountant General (G&SSA), Madhya Pradesh-Gwalior, Principal Accountant General (G&SSA), Uttar Pradesh-Allahabad, Principal Director of Audit (Central), Uttar Pradesh, Lucknow, Accountant General (E&RSA), Madhya Pradesh-Bhopal and Accountant General (E&RSA), Uttar Pradesh- Lucknow were made.

Empirical data and suggestions received from the above offices have been analysed and suitably incorporated. For this Research Paper, the Audit Reports include material which pertain to the relevant year but also includes instances from previous years but not reported as well as observations related to subsequent year. Printed Audit Reports only have been taken as resultant audit product for the purpose of this study and does not include the Inspection Reports of the concerned offices. The research has also been restricted to the offices mentioned above and does not cover other sectors like defence, railways etc..

The existing provisions/guidelines in the department regarding risk assessment in audit planning and inputs received from the individual offices are discussed in the following paragraphs.

BACKGROUND

Para 2.1.25 of CAG's Manual of Standing Orders (Audit) (***Annexure-I***), envisage that all Audit Offices are required to prepare a biennial audit plan. A single plan will integrate and include Central audit of vouchers and other records, routine inspections (phase audit), financial audits (certification audits) and value for money audit and will comprise a detailed plan for the first year and the broad framework for the second year. This will be an annual exercise when the audit plan for the current year will be updated and modified keeping in view the availability of manpower resources and the priorities of audit during the year, while adding thereto a broad framework for the next year. Thus, the audit plan will be an active *rolling plan*. The main objectives of the biennial audit plan will be to:

(i) provide assurance that all deserving and significant auditable entities have been considered while determining priorities;

(ii) provide a framework for identifying the departments, programmes, functions, etc., which are significant and are vulnerable to risks and serious financial irregularities;

(iii) optimise the use of available resources for achieving the short term and long term audit objectives; and

(iv) Minimise redundant audits.

Further in Para 2.1.26 and 2.1.27 of manual ibid (Annexure-I), it has been stated that for effective implementation of the audit planning methodology, the overall audit objectives should be set out as clearly as possible at the outset. In order to achieve the objectives, as many auditee units as feasible should be covered having regard to the availability of resources i.e. human as well as financial. While identifying departments, institutions, programmes, issues etc. for inclusion in the biennial audit plan, the 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. Other units that are not considered to be vulnerable or sensitive and have not been audited for prolonged periods should be considered for coverage in the biennial plan in such a way that these are also subjected to audit, preferably in a cycle of six to seven years. The periodicity and duration of audit should also be reviewed from time to time so as to ensure optimum coverage with the available resources. All offices must have an Audit Planning Group (APG) headed by the Director General/Principal Director/Principal Accountant General (Audit)/Accountant General (Audit), as the case may be. The APG will be responsible for preparation of the biennial audit plan for the office and will include all the Group Officers of the Audit Office and such other officers as the Head of the Office may decide.

Headquarters in May 2005 ***(Annexure-II***), described that one of the objectives of the Perspective Plan of Department for 2003-08 plan was sample selection for audit through 'risk analysis and statistical sampling'. And for this purpose, there was a need to prescribe parameters/weights for risk analysis and sampling techniques.

Accordingly, matrices were prepared and circulated by Headquarters with various Principal parameters/risk indicators, i.e. i) Expenditure (Annual expenditure of second preceding years), ii) Previous Audit Observations (Total amount involved during last three years),iii) Internal Control and Internal Audit System (whether functioning satisfactorily) and iv) Performance Report (evaluation of performance by internal and external agencies), to categorise and classify the auditee units particularly for transaction audit in Civil and Works Departments. The Expenditure, Previous Audit Observations, Internal Control and Internal Audit System and Performance Report parameter/risk indicator were further sub-divided into four, two, three and one sub parameters/risk indicators respectively. The method so explained for categorisation of unit as High risk (H), Medium risk (M) and Low risk (L) was on the basis of dividing total score derived by total number of sub parameters/risk indicators, where score of six was for High risk, four for Medium risk and two for Low risk. When score obtained is less than or equals to six and more than five the unit categorisation fell under High risk unit. Similarly, when score was less than five and more than four and less than four and more than two, the unit categorisation fell under Medium risk unit and Low risk unit, respectively.

Further, it was decided that in the initial years the parameters pertaining to internal control and internal audit system would be decided on subjective basis and subsequently it was insisted that the inspection reports of auditee units should capture in the title sheet, the system of internal control in existence in terms of evaluation as per the parameters laid down in the matrix for evaluation of auditee units under these parameters.

In April 2013 ***(Annexure-III)***, Headquarters circulated the methodology/formulae of risk assessment adopted by the office of PAG (Audit), Rajasthan and asked for suggestions, or the practice adopted in respective offices, as it was more important to identify the high risk entities covering all the Sectors of the Government in view of the re-organisation of the Audit Offices.

The methodology/formulae of risk assessment, adopted by the office of PAG (Audit), Rajasthan was as under:

(a) Criteria for Department Risk analysis

Departments in the erstwhile Civil Audit Office were analysed and categorised on the basis of following Criteria:

Sr. No	Particulars	Risk Weight	Factor Weight	Risk Factor
1	Total Budget of the department	Note 1	0.15	
2	Non-plan Budget as a ratio of Total Budget	Note 2	0.15	
3	Audit Paras published in previous Audit Reports	Note 3	0.10	
4	Pendency of IR Paras	Note 4	0.20	
5	Embezzlement, loss and theft cases reported	Note 5	0.10	
6	Index sheet points	Note 6	0.15	
7	Risk perception	Note 7	0.15	

Note 1: If total budget of the department is:

More than Rs. 1000 crore, Risk Weight was 3
Rs 500 - 1000 crore, Risk Weight 2
Less than Rs. 500 crore, Risk Weight 1

Note 2: If Non-plan budgeted expenditure as a ratio of Total Budget Expenditure was:

More than 75%, Risk Weight 1
50% - 75%, Risk Weight 2
Less than 50%, Risk Weight 3

Note 3: If number of Audit Paras Published in Reports of previous 5 years period were:

More than 5, Risk Weight 3
2- 5, Risk Weight 2
1- 2, Risk Weight 1

Note 4: For column 4 to 7, the Risk weight (1 to 3) were decided by the wing through analysis of the concerned parameter for each department.

(b) Criteria for categorisation of departments:

Sl. No.	Score range	Risk category
1	Where risk factor was more than 2	High risk (A)
2	Where risk factor was more than 1.5 and up to 2	Medium risk (B)
3	Where risk factor was upto 1.5	Low risk (C)

CRITERIA FOR RISK ANALYSIS OF DDOs

A seven point Criteria is used for Risk Categorisation of DDOs consisting of Budget, units having heavy expenditure, paras appeared in previous inspection reports of units, losses, theft, defalcation cases appeared in units, press clippings and views of experienced staff members.

Sl. No.	Criteria	Code	number
1	Budget allotted to department and there under with expenditure incurred by the department and their units (2009-10)	01	
(i)	Units having more than 1 crore expenditure excluding establishment expenditure		3
(ii)	Units having expenditure between rupees 25 lakh to rupees 1 crore		2
(iii)	Units having expenditure less than 25 lakh		1
2	Establishment expenditure incurred in the units of department and percentage of establishment with respect to the total expenditure	02	2
3	Paras appeared/pending in previous inspections reports of units	03	2
4	Nature of work/ Activities of the department and there units	04	2
5	Losses theft, defalcation cases appeared in units 1	05	1
6	Press clippings	06	1
7	View of experienced staff members	07	1

The units categorised at S. No. 1 i), ii) and iii) will be given Nos. 3, 2 or 1 (Code-01). If establishment expenditure of a unit is 70 to 100 per cent, 2 Nos will be given otherwise '0'number will be provided (Code-02)

Now the overall categorisation will be as under:

>7 (7 and more) 'A' category

>4 to 6 (4 to 6) 'B' Category

<4 (less than 4) 'C' Category

It was found that methodology of risk assessment for audit plan as explained in May 2005, was more specific and detailed than that of already existing provisions elucidated in Para 2.1.25 to 2.1.27 of CAG's Manual of Standing Orders (Audit). Methodology of risk assessment for audit plan as explained in May 2005 described sample selection for audit through 'risk analysis and statistical sampling'. And for this purpose, there was a need to prescribe parameters/weights for risk analysis and sampling techniques. Whereas, provisions of Para 2.1.25 to 2.1.27 of CAG's Manual of Standing Orders (Audit) envisaged that all Audit Offices were required to prepare a biennial audit plan, a single plan would integrate and include Central audit of vouchers and other records, routine inspections (phase audit), financial audits (certification audits) and value for money audit and would comprise a detailed plan for the first year and the broad framework for the second year. This would be an annual exercise when the audit plan for the current year would be updated and modified keeping in view the availability of manpower resources and the priorities of audit during the year, while adding thereto a broad framework for the next year. Thus, the audit plan would be an active rolling plan. The methodology of risk assessment for audit plan was further broadened by Headquarters in April 2013. This model was even more wide ranged and detailed than that of previous provisions due to categorisation both on departmental and DDO wise risk analysis being done on the score/grading basis.

Accountant General (G&SSA), Madhya Pradesh-Gwalior

For the Office of Accountant General (G&SSA), Madhya Pradesh-Gwalior, during the years 2013-14 and 2014-15, the risk analysis was based on the instructions issued in May 2005, which was on the basis of various parameters of auditee units. However, for the year 2015-16, the office analysed on the methodology explained by Headquarters in April 2013. The information provided by the office on risk assessment for audit planning and monetary value of resultant Audit products, which appeared in the Audit Reports provide the following insight:

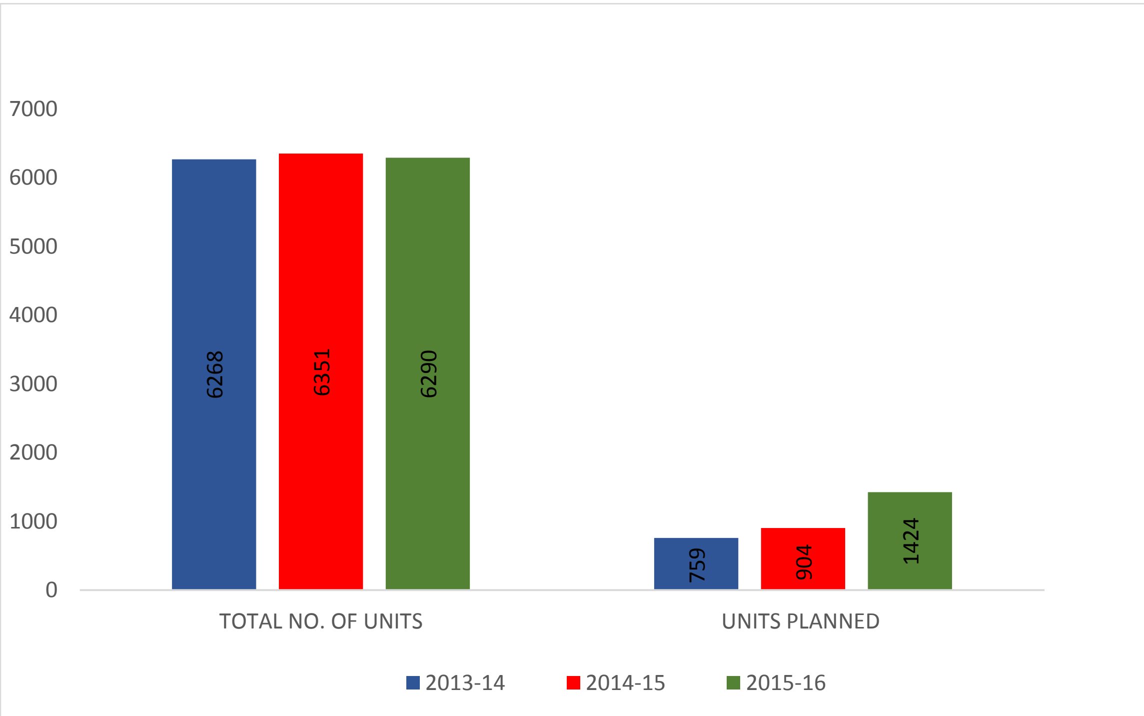
AUDIT PLANNING

Annual Audit Plan of the above office was prepared after conducting the risk analysis of the departments and the Drawing and Disbursing Officers. In the years 2013-14 and 2014-15, risk analysis was based on the DDO wise expenditure figures obtained from the VLC section of office of AG (A&E), request for audit and complaints/paper cuttings received from various sources. For the year 2015-16, the risk analysis for auditee departments and their subordinate units has been conducted in compliance of the instructions received from Headquarters in April 2013, considering Plan, Non-Plan budget of the department, DDO wise expenditure incurred, Paras appeared in Audit Report/ Inspection Report, Nature of work/activity/schemes of the department, press clippings and complaints received, loss/theft/defalcation cases appeared etc.. Overall points of all the individual departments and units on the risk factors was calculated, and based on that, units were categorized into High Risk (A), Medium Risk (B) and Low Risk (C).

The Documents consulted by the office of Accountant General (G&SSA), Madhya Pradesh-Gwalior for conducting Risk Analysis and preparing Audit Plan were as under: -

- Annual Plan of State Planning Commission.
- Budget Allotted to the department
- Plan/Non-Plan expenditure of department.
- DDO wise expenditure.
- Nature of work/ Activities/schemes of the department and its units
- Embezzlement/Losses/Defalcation/Theft cases appeared in units.
- Paras printed in the report for last five years
- Paras in the previous Inspection Reports.
- Complaint / Paper cuttings received from various sources
- Request for Audit

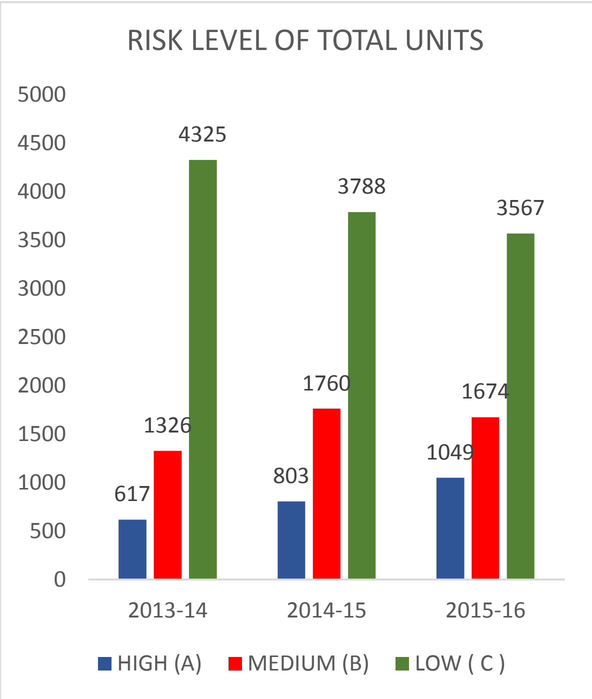
***Chart 1: Auditable and planned units** (AG (G&SSA), MP Gwalior)*

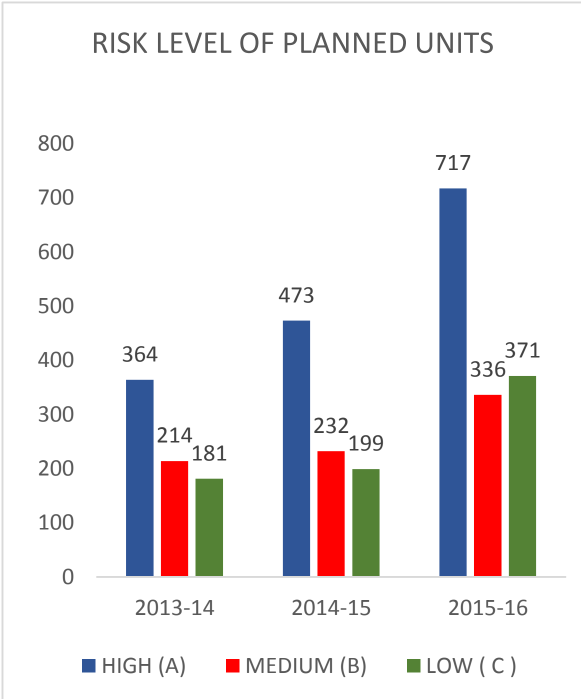


In the years 2013-14 and 2014-15, the total number of units were 6268 and 6351. Out of the total units, 759 (12.1 *per cent*) and 904 (14.2 *per cent*) units were planned for audit in the years 2013-14 and 2014-15 respectively. The methodology adopted for categorisation of risk level of the units in these years was based on Headquarters instructions of May 2005. Further, in the year 2015-16, there were 6290 units, out of which 1424 (22.6 *per cent*) units were planned for audit. For this year, the methodology adopted for categorisation of risk level was based on the instructions issued in April 2013 by Headquarters. Application of more comprehensive and rigorous system of risk assessment led to about one and half times increase in the audit coverage during the year 2015-16 in terms of units covered under audit as compared to previous year *(Chart 1)*.

RISK PROFILING

Chart 2: Risk profiling of units





The data regarding risk profile of various units during the years 2013-14 to 2015-16 is illustrated in Bar Chart (*Chart-2*). In the year 2013-14, the total number of High (A), Medium (B) and Low (C) risk level units were 617, 1326 and 4325. Out of the total units 364 high risk units, 214 Medium risk level units and 181 Low risk level units were planned for audit. In the year 2014-15, the total number of High (A), Medium(B) and Low (C) risk level units were 803, 1760 and 3788, out of which 473 high risk units, 232 Medium risk level units and 199 Low risk level units were planned for audit. As already mentioned above, the methodology adopted for categorisation of risk level of the units for these two years were based on Headquarters instructions of May 2005.

Further, in the year 2015-16, there were 1049 units of high risk level units, out of which 717 units were planned for audit. Whereas, the number of Medium and Low risk level units planned were 336 and 371 as against the total number of 1674 (Medium risk level units) and 3567 (Low risk level units) respectively. For this year, the methodology adopted for risk assessment for categorisation of units was based on the instructions issued in April 2013 by Headquarters.

Table 1: Risk Profile of units

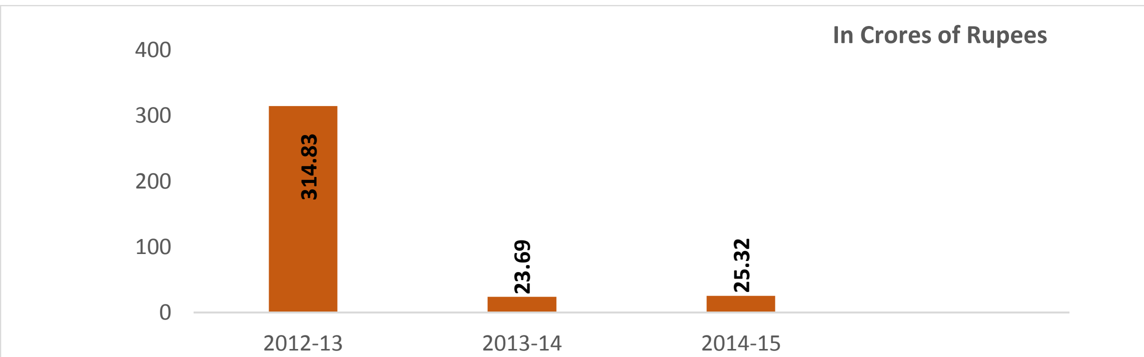
YEAR		TOTAL NO. OF UNITS				NO. OF UNITS PLANNED				VALUE (IN CRORE)	OUTPUT PER UNIT
AUDIT REPORT	AUDIT PLAN	HIGH	MEDIUM	LOW	TOTAL	HIGH	MEDIUM	LOW	TOTAL		
2012-13	**2013-14**	617	1326	4325	*6268*	364	214	181	*759*	12.15	.016
2013-14	**2014-15**	803	1760	3788	*6351*	473	232	199	*904*	23.96	.026
2014-15	**2015-16**	1049	1674	3567	*6290*	717	336	371	*1424*	25.32	.017

From the above data, it is evident that by adopting more detailed and rigorous system of risk assessment the profile of auditee units underwent change with increase in high risk units. Resultantly, the office also increased audit coverage from 12 *per cent* to 23 *per cent* in the three years.

AUDIT PRODUCT

The resultant audit product having money value of ₹314.83 crore and ₹23.69 crore appeared in Audit Reports for the years 2012-13 (Audit Plan 2013-14) and 2013-14 (Audit Plan 2014-15) respectively.

Chart 3: Money value of Audit Report (AG (G&SSA) MP Gwalior)



Analysis of data indicates that during the years 2013-14 and 2014-15, out of 617 and 803 High risk units, 364 and 473 numbers of units were planned for audits. However, the money value appeared in the report of 2012-13 (Audit Plan 2013-14) and 2013-14 (Audit Plan 2014-15) for compliance audit was ₹314.83 and ₹23.69 crore respectively. The money value of ₹314.83 crore appeared in the report of 2012-13 (Audit Plan 2013-14) for compliance audit was inclusive of ₹106.12 crore on account of 'non-recovery of loans (Housing and Environment Department)' which covered the period from 1959 to 2000 ***(Annexure-IV)*** and ₹196.56 crore on account of 'avoidable payment of VAT on nutritious food supplied under ICDS project (Women and Child Development Department)', covering the period from April 2010 to March 2013 ***(Annexure-V).*** Both these high value paras can be considered an aberration, rather than usual compliance audit product.

In the year 2014-15 (Audit plan 2015-16), out of 1049 high risk units, 717 units were planned for Audit on the basis of more exhaustive methodology circulated by Headquarters in April 2013 for risk assessment in audit planning. The amount appeared in the Audit report of 2014-15 (Audit Plan 2015-16) was ₹25.32 crore on account of compliance audit. Audit coverage over the years was increased and quality of risk assessment were enhanced due to more rigorous system of risk analysis for audit planning. The profile of auditee units also underwent change with increase in high risk units. Resultantly, the office also increased audit coverage of high risk units as well as medium and low risk units, as the units planned for audit in the years 2013-14, 2014-15 and 2015-16, was 759 (12.1 *per cent*), 904 (14.2 *per cent*) and 1424 (22.6 *per cent*), out of 6268, 6351 and 6290 units, respectively.

ANALYSIS

From the analysis of method of risk assessment for audit planning for the period 2013-14 to 2015-16 and monetary value of resultant audit product for the corresponding period of Audit Reports i.e. 2012-13 to 2014-15, it can be concluded that the methodology of risk assessment for audit plan as explained in May 2005, was more meticulous than that of already existing provisions elucidated in Para 2.1.25 to 2.1.27 of CAG's Manual of Standing Orders (Audit). Further, methodology of risk assessment for audit plan as explained by Headquarters in April 2013, was even more methodical than that of previous provisions due to categorisation both on departmental and DDO wise risk analysis being done on the score/grading basis. For the Office of Accountant General (G&SSA), Madhya Pradesh-Gwalior, during the years 2013-14 and 2014-15, the risk analysis was based on the instructions issued in May 2005 which was on the basis of various parameters of auditee units. However, for the year 2015-16, the office implemented the methodology explained by Headquarters in April 2013.

Methodology adopted to assess the level of risk (High, Medium and Low) for audit planning by the office and monetary value of resultant Audit products which appeared in Audit Reports revealed that even if, the quality of risk assessment has increased in terms of increase in numbers of units, as well as numbers of high risk units, planned for audit, thereby increasing the level of audit assurance and reducing audit risk, the monetary value of resultant audit product barring the two high value one time paras in the year 2012-13 showed a very marginal increase. When comparing the per unit output , it increased in the second year (0.26). However, in the 3rd year when risk assessment was based on 2013 instructions, it reduced (0.17).

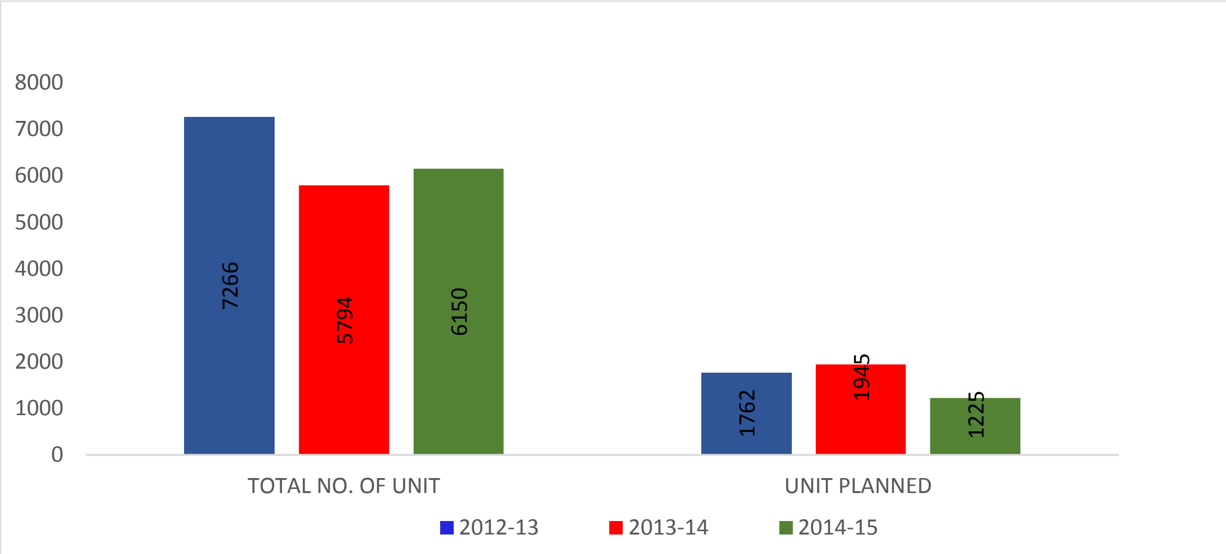
Principal Accountant General (G&SSA), Uttar Pradesh-Allahabad

The risk analysis was based on the instructions issued in May 2005 for the Office of Principal Accountant General (G&SSA), Uttar Pradesh-Allahabad, during the years 2012-13 to 2014-15, , which was on the basis of various parameters of auditee units. The information provided by the office on risk assessment for audit planning and monetary value of resultant Audit products, which appeared in the Audit Reports provide the following insight:

AUDIT PLANNING

Audit Plan of the above office, for the years 2012-13 to 2014-15 was prepared in terms of paragraphs 2.1.25 to 2.1.27 of MSO (Audit) read with Headquarters' guidelines received vide letter no. 1127-Rep(S)/130-2002 dated 04.10.2002 and in consonance with the IA&AD's Strategic Audit Plan 2012-17, Perspective Plan 2010-15 and Strategic Plan 2020 after receiving inputs from Central and Local Audit including various Performance Audits. Significant high risk and sensitive areas of audit of high spending and high receipts departments of the State Government had been examined. The auditee units were categorized into High, Medium and Low risk categories on the basis of parameters/weights of risk analysis as circulated vide Headquarters letter no. 565/Rep (S)/259-2004 dated 16.05.2005 and letter no. 864-SRA/3(vi) /2011 dated 8/11/2011. Headquarters' instructions conveyed vide letter no. III.M/PPG/9-2011 dated 01.05.2012 regarding issues relating to flagship programmes were also considered for risk assessment. The Comptroller and Auditor General's instruction during his visit to this office on 15th December 2008 regarding audit coverage of at least overall 30 per cent units and 65 per cent of High category, 20 per cent of Medium category and 15 per cent of Low category units was also adhered to for the period up to 2013-14.

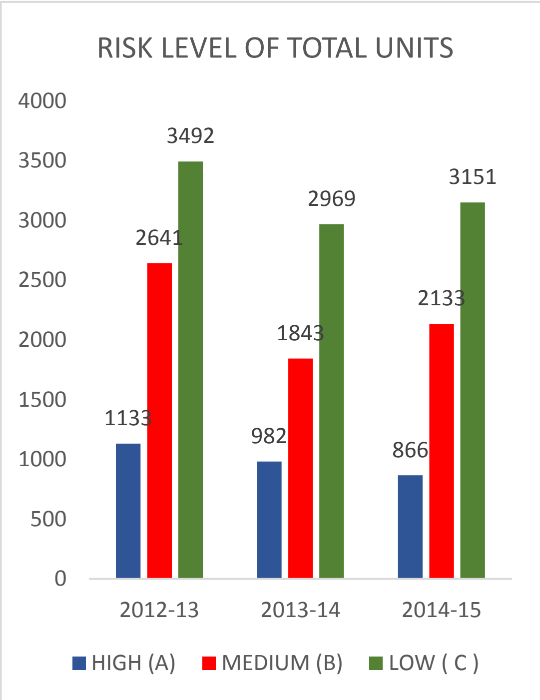
Chart 4: Auditable and planned units** **(PAG (G&SSA), UP Allahabad)

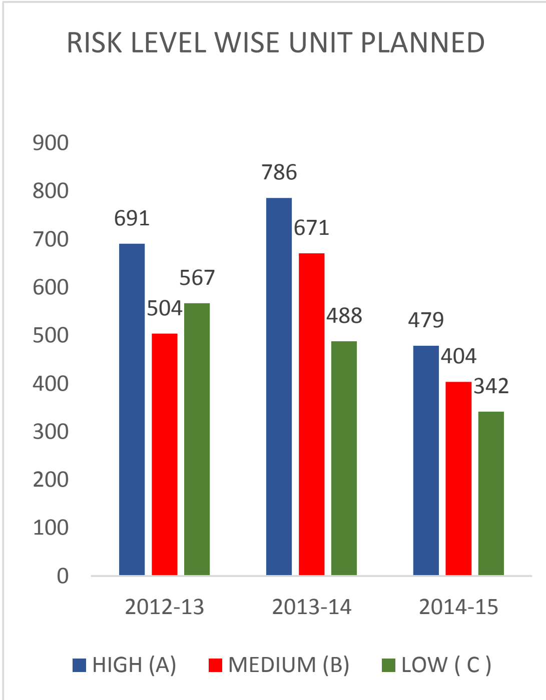


During the years 2012-13 to 2014-15, the total number of units decreased from 7266 to 6150. The Audit Plan for the year 2012-13 was revised due to Officers/officials were engaged in conducting the Section Officers Grade Examination, performance audit on MNREGS, MTS recruitment. Besides, displacement of staff due to restructuring of office was also the reason for revision of Audit Plan for the year 2012-13. The audit coverage planned for these years decreased from 1762 units in 2012-13 to 1225 in 2014-15 with increase to 1945 units in 2013-14. During the confirmation of facts and figures, the office stated that units planned for Audit Plan 2014-15 were less than the units planned for Audit Plan 2013-14 because of General Elections leading to engagement of large number of manpower of State Government officers/officials as well as our office personnel in election duty. The methodology adopted for categorisation of risk level of the units in these years was based on Headquarters instructions of May 2005. The Comptroller and Auditor General's instruction during his visit to this office on 15th December 2008 to cover at least overall 30 per cent units and 65 per cent of High category, 20 per cent of Medium category and 15 per cent of Low category units was adhered to upto the year 2013-14. This resulted in increase in the audit coverage during the years 2012-13 and 2013-14 in terms of units covered under audit as compared to 2014-15 *(Chart 4)*.

RISK PROFILING

Chart 5: Risk Profile of units





The data regarding risk profile of various units during the years 2012-13 to 2014-15 is illustrated in *Chart 5*. The impact of adherence to CAG's instructions is evident in risk profiling as well. The high risk units in 2012-13 was 1133, decreasing to 982 in 2013-14 and 866 in 2014-15. Consequently, the audit coverage of high risk units also decreased from 691 in 2012-13 to 479 in 2014-15 with slight increase to 786 in 2013-14.

Table 2: Risk Profile of units

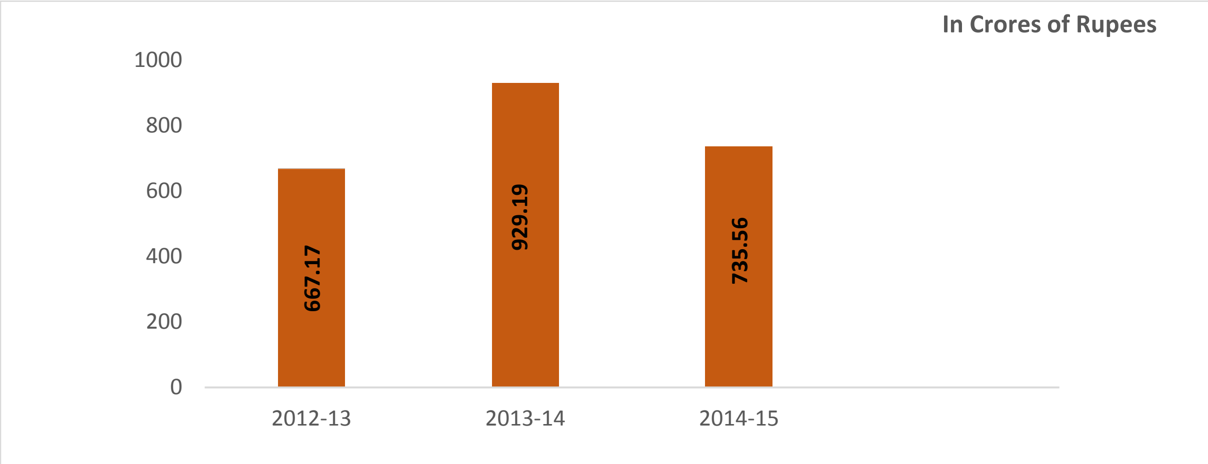
YEAR	TOTAL NO. OF UNIT				NO. OF UNIT PLANNED				VALUR (IN CRORE)	OUTPUT PER UNIT (IN CRORE)
	HIGH	MEDIUM	LOW	TOTAL	HIGH	MEDIUM	LOW	TOTAL		
2012-13	1133	2641	3492	7266	691	504	567	1762	667.17	0.37
2013-14	982	1843	2969	5794	786	671	488	1945	929.19	0.47
2014-15	866	2133	3151	6150	479	404	342	1225	735.56	0.60

From the above data, it is evident that during the year 2012-13, the audit coverage was 24.25 percent of total units, falling to 19.92 percent in 2014-15. During the year 2013-14, the audit coverage increased to 33.57 percent of total units.

AUDIT PRODUCT

The resultant audit product having money value of ₹667.17crore, 929.19 crore and ₹735.56 crore, on account of compliance audit, appeared in Audit Reports for the years 2012-13, 2013-14 and 2014-15 respectively.

Chart 6: Money value of Audit Report (PAG (G&SSA) UP Allahabad)



Analysis of data regarding money value of Audit Report during the years 2012-13 to 2014-15 has been illustrated in Chart 6. While audit coverage of total units as well as high risk units for the year 2014-15 was lowest as discussed above, the monetary value of the Audit Report 2014-15 was more than that of monetary value of Audit Report of 2012-13.

ANALYSIS

From the analysis of method of risk assessment for audit planning for the period 2012-13 to 2014-15 and monetary value of resultant audit product for the corresponding period of Audit Reports, it can be concluded that during the years 2012-13 and 2013-14, the risk analysis was based on the instructions issued in May 2005, which was on the basis of various parameters of auditee units, and also the Comptroller and Auditor General's instruction during his visit to this office on 15th December 2008. During the year 2014-15 the risk analysis was based on the instructions issued in May 2005.

Methodology adopted to assess the level of risk (High, Medium and Low) for audit planning by the office and monetary value of resultant Audit products which appeared in Audit Reports revealed that, the total audit coverage, audit coverage of high risk units and money value of the Audit Report was highest in 2013-14. However, total units and high risk units planned for audit during the year 2012-13 was higher than those planned during the year 2014-15, but the resultant audit product was higher in 2014-15 than that of year 2012-13. However, when the audit output per unit is compared, it showed an increasing trend from ₹0.37 crore per unit in 2012-13 to ₹0.60 crore per unit in 2014-15.

PRINCIPAL DIRECTOR OF AUDIT (CENTRAL), LUCKNOW

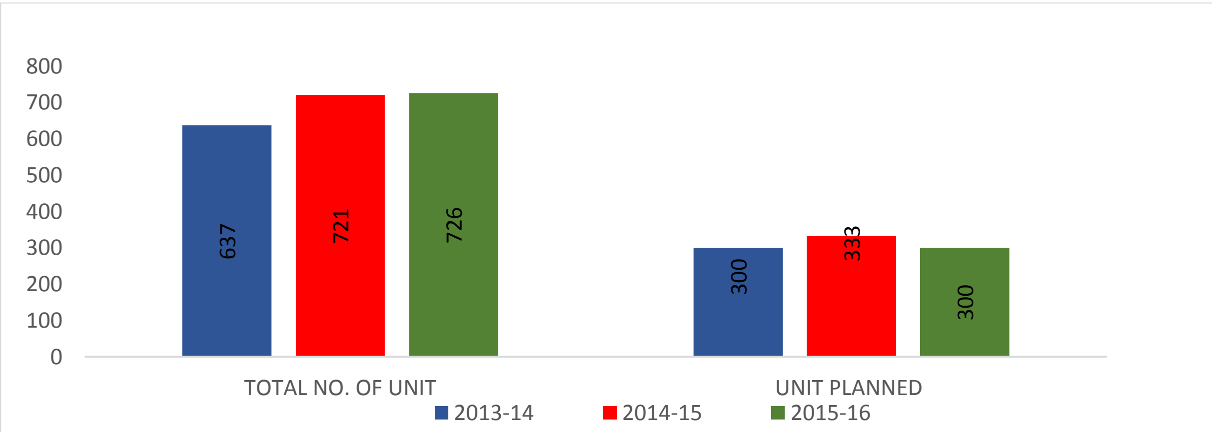
CENTRAL EXPENDITURE

Audit jurisdiction of Central Expenditure wing at Branch Allahabad of the office of Principal Director of Audit (Central), Lucknow covers the financial and transaction audit of Central Autonomous Bodies (CAB) and transaction audit of Central Government Offices (CGO). Financial audit entails certification of annual accounts of CABs whereas transaction audit encompasses compliance, thematic audit and performance audit of CABs and CGOs within Uttar Pradesh and Uttarakhand.

AUDIT PLANNING

The categorisation of units under 'H' (High Risk), 'M'(Medium Risk) and 'L'(Low Risk for the Office of Principal Director of Audit (Central), Lucknow, Branch Office-Allahabad dealing with Central Expenditure Audit, during the year 2014-15 , was on the basis of annual expenditure and risk factors involved. The units were proposed in the Audit Plan on the basis of audit findings in previous Inspection Reports, financial materiality (expenditure figure), socio-economic importance, vulnerability to financial irregularities and Headquarters' thrust areas.

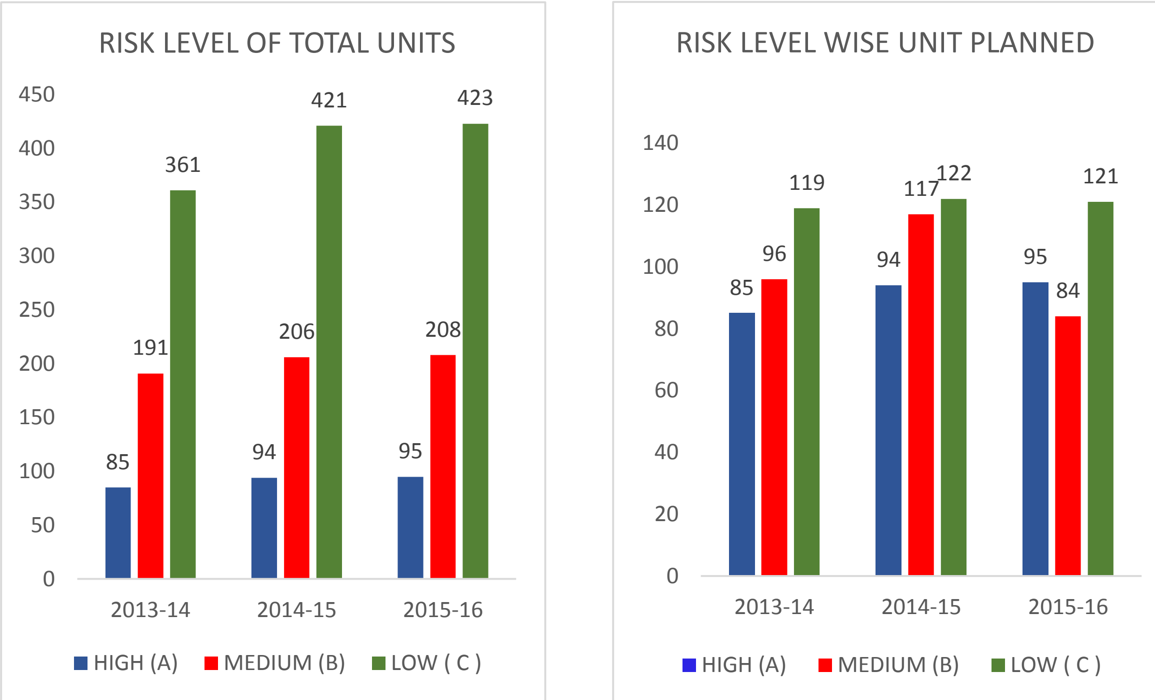
***Chart 7: Auditable and planned units** (PDA (Central) Lucknow)*



During the years 2013-14 to 2015-16, the total number of units increased from 637 to 726, while the audit coverage was almost same ranging from 300 to 333 units.

RISK PROFILING

Chart 8: Risk Profile of units



The data regarding risk profile of various units during the years 2013-14 to 2015-16 is illustrated in *Chart-8*. During the years 2013-14 to 2015-16, the total number of High (A) risk units increased from 85 to 95 and the audit coverage during these years for high risk units were cent per cent.

Table-3: Risk Profile of units

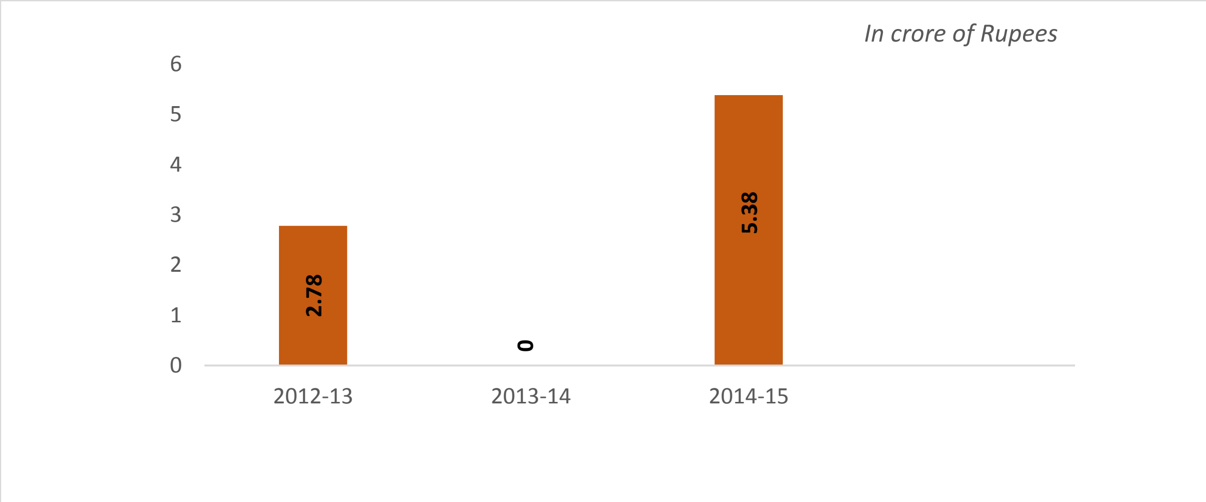
YEAR		TOTAL NO. OF UNIT				NO. OF UNIT PLANNED				VALUE (IN CRORE)	OUTPUT PER UNIT (IN CRORE)
AUDIT REPORT	AUDIT PLAN	HIGH	MEDIUM	LOW	TOTAL	HIGH	MEDIUM	LOW	TOTAL		
2012-13	2013-14	85	191	361	637	85	96	119	300	2.78	0.009
2013-14	2014-15	94	206	421	721	94	117	122	333	0.00	0
2014-15	2015-16	95	208	423	726	95	84	121	300	5.38	0.017

From the above data, it is evident that during the years 2013-14 to 2015-16, a considerably high per cent of units ranging from 41 to 47.1 per cent were planned for audit, which includes cent per cent planning for audit of High Risk level units.

AUDIT PRODUCT

The resultant audit product having money value of ₹2.78 crore and ₹5.38 crore, appeared in Audit Reports for the years 2012-13 (Audit Plan 2013-14) and 2014-15 (Audit Plan 2015-16) respectively, against the paras involving money value of ₹14.19 crore and ₹20.44 crore sent to Headquarters for inclusion in the Audit Report, on account of compliance audit.

Chart 9: Money value of Audit Report (PDA/CENTRAL/CENTRAL EXPENDITURE)



Analysis of data indicates that during the years 2013-14 to 2015-16, all the High risk units were planned for audit. During the years 2013-14 to 2015-16, number of auditable entities gradually increased. However, during the years 2013-14 to 2015-16, audit coverage was almost consistent with slight increase in 2014-15.

The money value appeared in the report of 2012-13 (Audit Plan 2013-14) and 2014-15 (Audit plan 2015-16) for compliance audit was ₹2.78 crore and ₹5.38 crore respectively. The money value of resultant audit product for the year 2013-14 (Audit Plan 2014-15) was nil as no para was included in the report from this office.

ANALYSIS

The number of units planned for audit was almost same over the years, however the money value appeared in the Audit report for the year 2012-13 (Audit Plan 2013-14) and year 2014-15 (Audit Plan 2015-16) was much higher than that of 2013-14 (Audit plan 2014-15) where the money value was nil. As the report is centrally prepared on All India level, the selection of paras for inclusion in Audit Report is decided by Headquarters.

Therefore, although the number of units were almost constant for audit in the three years, the monetary value of resultant audit product changed from 2.78 crore in 2012-13 to 5.38 crore in 2014-15. Headquarters did not approve any Para for the year 2013-14, thereby giving nil contribution from the office for 2013-14. The per unit audit output was 0.009 in first year and 0.017 in last year.

DIRECT AND INDIRECT TAXES AUDIT

BACKGROUND

Headquarters vide their letter No. 802/RADT/78-2011 dated 21/12/2011, issued Guidelines on Departmental Centric Approach (DCA), wherein it stipulated adoption of top down approach from Commissionerate to Division and the Ranges in order to assess the risk and thereafter select a small sample from those units to verify the risk observed. The various unit-wise Risk Analysis of all the units in each Commissionerate having both assessment and non-assessment charges had to be drawn up as per Risk Parameters, which were as under :

(A). Inherent Risk Factors---Type of Unit, Income Assessed Refunds and Demand in Arrears, and

(B). Control Risk Factors---No. of Statement of Facts issued (SOFs) issued, Internal Audit conducted or not, and Extent of non-production of records in previous audit).

INDIRECT TAXES

Principal Director of Audit (Central), Indirect Taxes, Lucknow covers the audit of Customs, Central Excise and Service Taxes.

AUDIT PLANNING

Against the back ground of Departmental Centric Approach (DCA) introduced in 2011, the office adopted top down approach as detailed above. Data base of assessee units, as per Headquarters instruction i.e. Internal Control, higher revenue etc., was the basis for selection of assesse units.

Risk areas identified by the office were:

1. **Internal Audit**: Periodicity and procedure of internal audit.
2. **Adjudication** : Demands are adjudicated by the Range, Asstt. Commissioner/ Dy. Commissioner etc. according to the monetary value. Delays in adjudication constitute a risk area
3. **Refund/Rebate** : Examination of processing of refund as per provisions
4. **Tax accounting & reconciliation**: Figures reported by the Pay and Accounts Officer (PAO) are reconcile with the figures reported by the range.

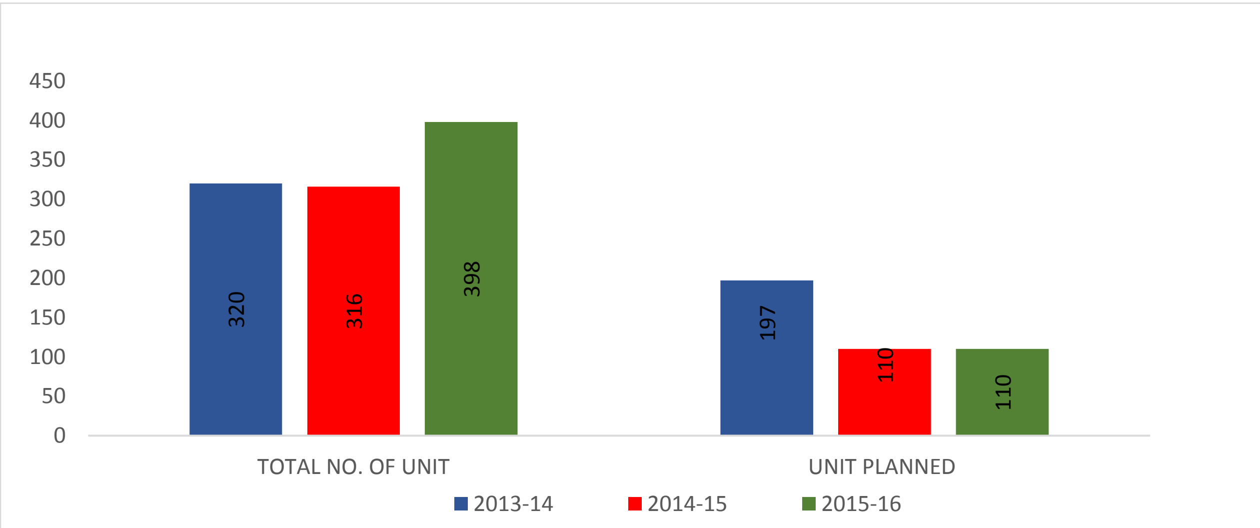
Besides, the major risks identified in Central Excise and Service Tax were:

- Non-compliance with prescribe rules, regulations and notifications,
- Non conduct of preliminary and detailed scrutiny
- Under valuation of marketable goods (assessable value)
- Mis-interpretation of exemption under notifications
- Non availment of CENVAT Credit
- Deficiencies of internal control mechanism such as non-scrutiny of return, audit of mandatory units and non-review of call book cases

Followings were the major risks identified in ***Customs****:*

- Non-compliance with prescribe rules, regulations and notifications,
- Undervaluation of imported goods,
- Mis-declaration of imported goods,
- Irregular sanction of duty drawback and other export incentives,
- Non fulfilment of export obligation against duty free import
- Mis-utilisation of cent per cent Export Oriented and Special Economic Zone scheme
- Deficiencies in internal control systems such as incomplete in Annual Performance Reports (APRs), on review of APRs, non-monitoring of realisation of foreign exchange reserve etc..

Chart 10: Auditable and planned units** **(PDA (Central)/Indirect Taxes Lucknow)



During the years 2013-14 to 2015-16, the total number of units increased from 320 to 398, with slight decrease in 2014-15, when it was 316. The audit coverage decreased from 61.6 *per cent to* 27.6 *per cent*, during these years.

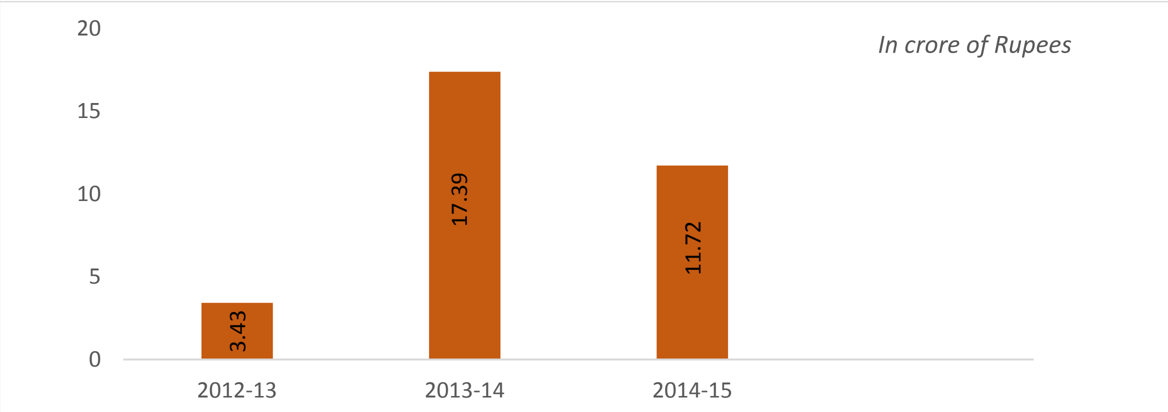
RISK PROFILING

‘A’, ‘B’ and ‘C’ categorisation of units in Annual Audit Plan started from last year only i.e. 2016-17. Such categorisation is not available in office records. In this view all units so far are categorised under “A’’ because the Apex Units under audit universe of this office is Commissionerate and accordingly as per Departmental Centric Approach, this office go downward to examine/audit records of the units (as per units revenue collection).

AUDIT PRODUCT

The resultant audit product having money value of ₹3.43 crore, 17.39 crore and ₹11.72 crore, on account of compliance audit, appeared in Audit Reports for the years 2012-13 (Audit Plan 2013-14), 2013-14 (Audit Plan 2014-15) and 2014-15 (Audit Plan 2015-16) respectively.

Chart 11: Money value of Audit Report (PDA/CENTRAL/INDIRECT TAXES)



Analysis of data indicates that during the year 2013-14, though the audit coverage was considerably on higher side i.e. 61.6 per cent, as compared to 2014-15 and 2015-16, where the per cent of planned units were 34.8 per cent and 27.6 per cent respectively, the money value of resultant audit product was significantly lower than the following years.

AUDIT OUTPUT PER UNIT

YEAR AUDIT REPORT	TOTAL NO. OF UNIT	NO. OF UNIT PLANNED	AUDIT REPORT VALUE (IN CRORE)	OUTPUT PER UNIT
2012-13	320	197	3.43	0.01
2013-14	316	110	17.39	0.15
2014-15	398	110	11.72	0.10

ANALYSIS

Analysis revealed that, even if, the number of units increased (197) for audit during the audit planning based on risk assessment during the year 2013-14, the monetary value of resultant audit product was lowest in the three years. In the next two years, audit coverage remained same, but per unit money value varied with ₹0.15 crore in 2013-14 and ₹0.10 crore in 2014-15.

DIRECT TAXES

Principal Director of Audit (Central), Direct Taxes, Lucknow, Branch Office-Allahabad covers the audit of all the DCsIT/ACsIT/ITOs in each Commissionerate within Uttar Pradesh and Uttarakhand.

AUDIT PLANNING

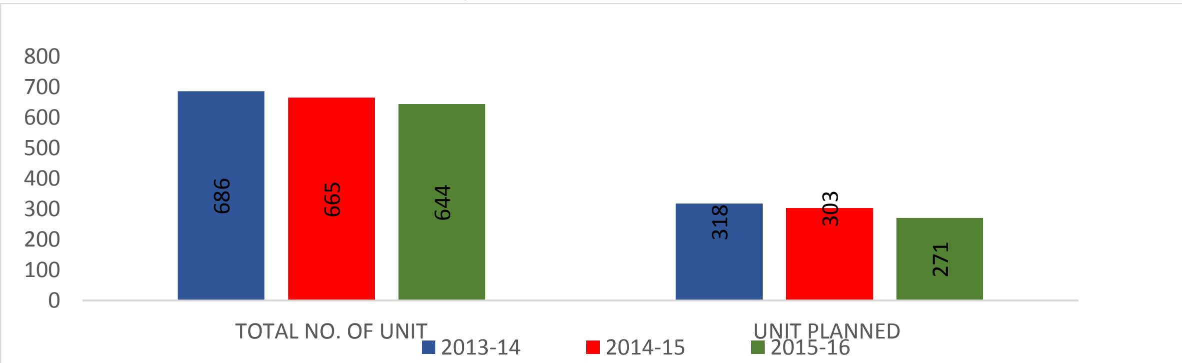
Detailed unit-wise Risk Analysis of all the DCsIT/ACsIT/ITOs in each Commissionerate having both assessment and non-assessment charges were drawn up as per Risk Parameters.

(A). Inherent Risk Factors---Type of Unit, Income Assessed Refunds and Demand in Arrears, and

(B). Control Risk Factors---No. of SOFs issued, Internal Audit conducted or not, and Extent of non-production of records in previous audits).

The categorisation of units was done on the basis of units classified for Annual, Biennial, Triennial and Pentennial audit.

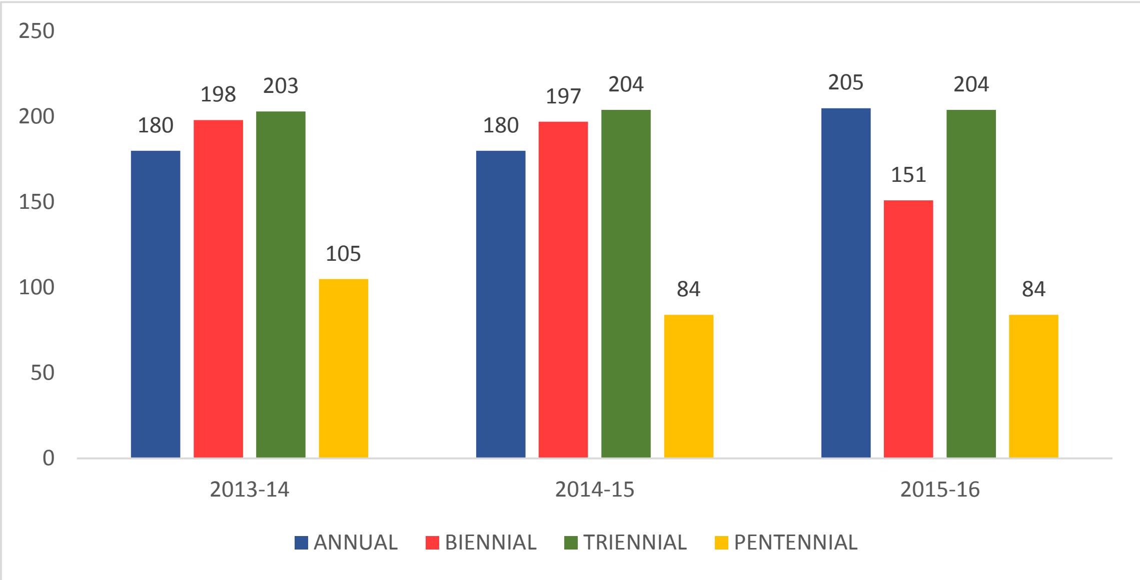
***Chart 12: Auditable and planned units** (PDA (Central)/Direct Taxes Lucknow)*



During the years 2013-14 to 2015-16, the total number of units decreased from 686, to 644. Similarly, the audit coverage also decreased from 318 units to 271 units during these years.

RISK PROFILING

Chart 13: Risk Profile of units



The data regarding risk profile of various units during the years 2013-14 to 2015-16 is illustrated in *Chart-13*. The units were classified in Annual, Biennial, Triennial and Pentennial units wherein Annual units were considered as high risk. During the years 2013-14 to 2015-16 the total number of units decreased from 686 to 644, but audit coverage of high risk units increased from 180 to 205 units during the three years.

Table 4: Risk Profile of units

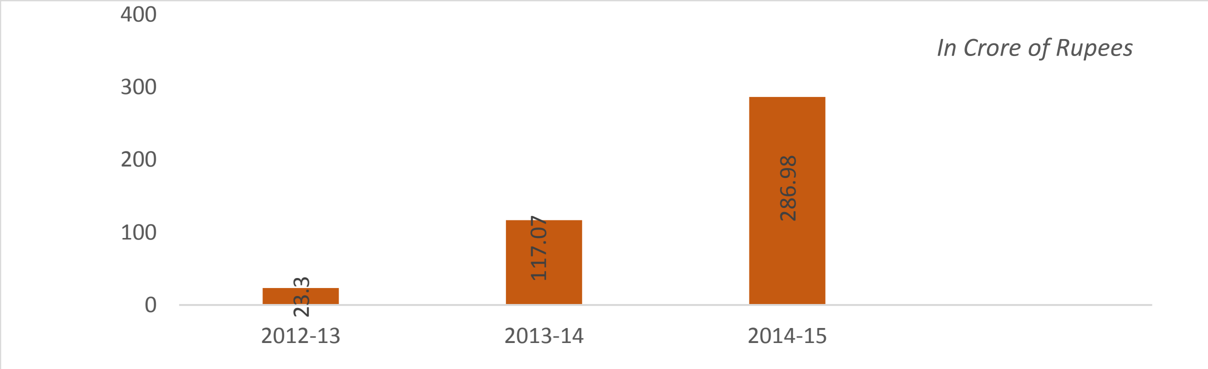
YEAR		TOTAL NO. OF UNIT					NO. OF UNIT PLANNED	VALUE (IN CRORE)	OUTPUR PER UNIT (IN CRORE)
AUDIT REPORT	AUDIT PLAN	ANNUAL	BIENNIAL	TRIENNIAL	PENTENNIAL	TOTAL	TOTAL		
2012-13	2013-14	180	198	203	105	686	318	23.33	0.07
2013-14	2014-15	180	197	204	84	665	303	117.07	0.38
2014-15	2015-16	205	151	204	84	644	271	286.98	1.05

From the above data, it is evident that during the years 2013-14 to 2015-16, a considerably high per cent of over 42.1 to 46.4 per cent of units were planned for audit.

AUDIT PRODUCT

The money value appeared in the report of 2012-13 (Audit Plan 2013-14), 2013-14 (Audit Plan 2014-15) and 2014-15 (Audit plan 2015-16) for compliance audit was ₹23.30, ₹117.07 and ₹286.98 crore respectively. The money value of resultant audit product during the years 2012-13 to 2014-15 progressively increased.

Chart 14: Money value of Audit Report (PDA/CENTRAL/DIRECT TAXES)



ANALYSIS

The number of units planned for audit decreased only marginally over the years, whereas, the monetary value in the Audit reports for these years had a quantum jump from ₹22.3 crore in 2012-13 to ₹286.9 crore in 2014-15. So as the per unit output increased from ₹0.07 crore in first year to ₹1.05 crore in the third year.

ACCOUNTANT GENERAL (E&RSA), UTTAR PRADESH-LUCKNOW

Accountant General (E&RSA), Uttar Pradesh-Lucknow covers the audit of all the Public Sector Undertakings under Economic Sectors Audit and commercial Tax, taxes collected by Transport, State Excise, Stamp & registration, Geology & Mining and Entertainment Department under Revenue Section Audit.

AUDIT PLANNING

The selections of units for compliance audit were identified on the basis of risk assessment of the entities under audit jurisdiction, with the following steps:

1. Inputs for Risk Assessment

   1.1 Data base and Auditee profile

   Availability of adequate information/data is a vital prerequisite factor for proper risk assessment. A comprehensive data bank and documentation covering different parameters of risk are collected from different sources. A database of units is maintained by each wing which contains basic data of the company, financials, major activity area, programmes and last audit done etc.

1.2 Data collection for data base

Documents of the entity: The data of the auditee units were obtained from the PSUs/Department concerned. Earlier, the data was collected from the Headquarters of PSUs and Departments at time of preparation of audit plan. Retaining this practice, a new initiative was also adopted in which field parties were also directed to compile data of auditee

units (physical and financial) at the time of local audit. The data is presented by field parties along with IRs.

Past audit reports: past financial and performance audits of the entity provided a major source of information and understanding. Follow-up requirements, perceived non-compliance to recommendations and increased risk and materiality, etc. may provide significant inputs; and hence, the data base of auditee profile contains major observation and significant risk area collected from IRs, Audit report.

Media coverage: Newspaper clippings are monitored by the respective wing and have a significant impact on deciding auditable unit.

External data of the Economy, State Budget, State Plan, major policies etc. are considered at once at the time of preparation of Annual Audit Plan by the Co-coordinating/Compiling section

2. Process of Risk assessment

2.1 Risk Indicators:

There may be several risk indicators for each auditee unit. However, at planning stage this office generally used following as the risk indicators:

- Expenditure and revenue trends.
- Large purchases.
- Leakage of revenue.
- Lack of attention to serious audit observations,
- Weaknesses in internal control mechanisms.

2.2 Assessment of risk and materiality of the risks

After identification of the risk factors that operate in the entity/programme, it is important to assess their materiality judged on the intensity of risks and their possible impact. Assessing the intensity can be done on a scale consisting of high, medium and low risks. The effect of these risks are considered in tandem, while prioritising audit focus.

2.3 Auditee Categorization

Under each sector, PSUs/Departments are categorized in three category: A (high risk), B (medium risk) and C (low risk) in following manner:

2.3.1 Economic Sector (PSU)

PSU have been categorized on the basis of Capital Employed (CE) in terms of Hqrs. Circular as per criteria given below:

Categorisation criteria for PSUs:

'A' category: Company CE equal to or greater than 5 percent of total CE of all the PSUs

'B' category: Company CE equal to or greater than 1 percent of total CE but less than 5 percent of total CE.

'C' category: Company CE less than 1 percent of total CE of all the PSUs

Generally, PSUs are categorized as per above criteria, however, in case of power sector, PSUs (where capital employed is insignificant in comparison to their revenues) have been categorized as 'A' on the basis of risk assessment as they have revenue intensive units with high risk factors. Similarly, few PSUs despite having high CE are categorized under 'C' category on the basis of their low risk profile.

After categorization on PSUs, further categorization of PSU units (auditable units) is made in the following ratio:

	Unit 'A'	Unit 'B'	Unit 'C'
Category A PSU	30% of total units of A category PSUs	30% of total units of A category PSUs	40% of total units of A category PSUs
Category B PSU	20% of total units of B category PSUs	30% of total units of B category PSUs	50% of total units of B category PSUs
Category C PSU	Hqrs of PSUs (1 unit per PSU of C category PSUs)	30% of total units of C category PSUs excluding Hqrs	70% of total units of C category PSUs excluding Hqrs

Categorization criteria for Non-PSU units Non PSU units (Govt. Departments, Development Authorities and DICs) have been categorized as 'A', 'B' and 'C' on the basis of range of expenditure and risk profile.

A: expenditure of the Non PSU Unit is equal to or greater than 5 percent of total expenditure of all the non PSU Unit is equal to or greater than 5 percent of total expenditure of all the non PSU Units;

B: expenditure of the Non PSU Unit is equal to or greater than 1 percent of total expenditure of all the Non PSU units but less than 5 percent of total expenditure and,

C: expenditure of the Non PSU Unit is less than 1 percent of total expenditure of all the Non PSU Units.

2.3.2 Revenue Sector

Units of the Revenue Sector have been categorized on the basis of revenue realized and risk analysis as given below:

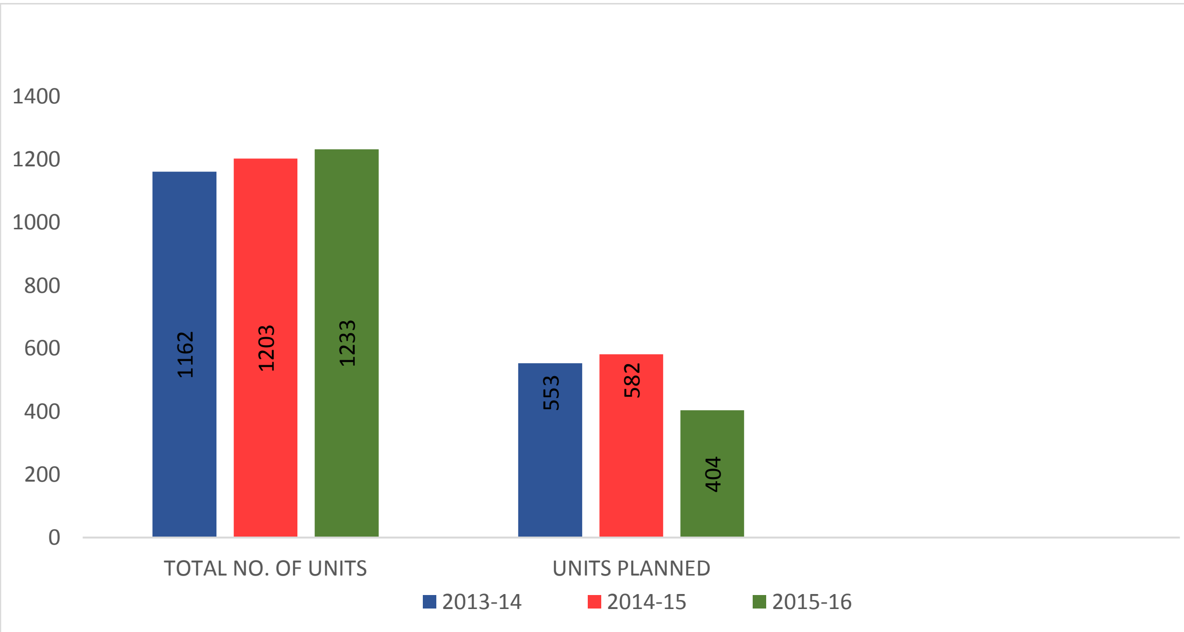
Name of department	'A' category	'B' category	'C' category
Commercial Tax	More than 15 crore	5 to 15 crore	Less than 5 crore
Transport, State Excise, Stamp & Registration, Geology & Mining and Entertainment	More than 10 crore	5 to 10 crore	Less than 5 crore

Identification of Auditee units/Programmes

3. Units planned for compliance audit are identified on the basis of their risk assessment, trend of expenditure, media reports, past coverage and other input reports. Besides, those units are also planned for audit which have not been audited in past three years.

ECONOMIC SECTOR (PSU)

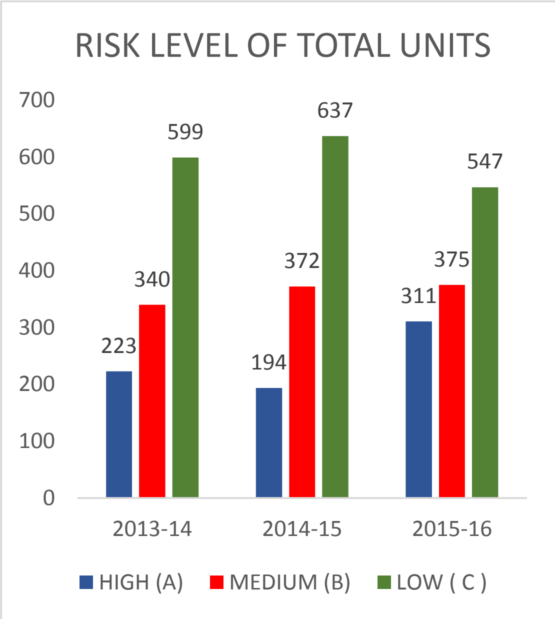
Chart 15: Auditable and planned units** **(AG (E&RSA) Lucknow/PSU)

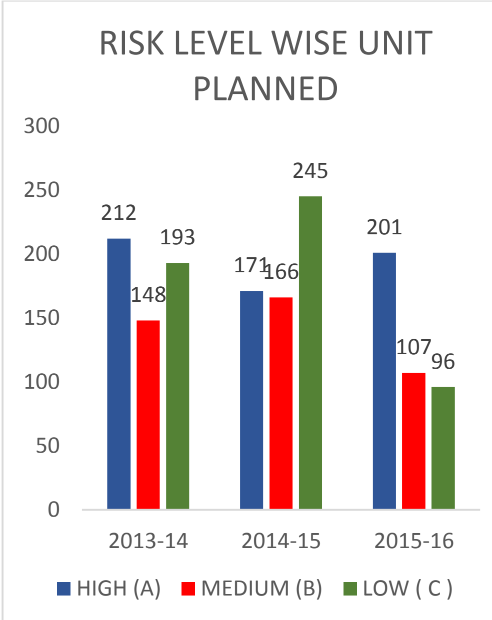


During the years 2013-14 to 2015-16, the total numbers of units were 1162, 1203 and 1233. Out of these, 553, 582 and 404 units were planned for audit in the years 2013-14, 2014-15 and 2015-16 respectively. The audit coverage during 2015-16 was about one third lesser than the units planned during 2013-14.

RISK PROFILE

Chart 16: Risk Profile of units** **(AG (E&RSA) Lucknow/PSU)





The data regarding risk profile of various units during the years 2013-14 to 2015-16 is illustrated in *Chart-16*. During the years 2013-14 to 2015-16, the total number of units increased from 1162 to 1233, however, the audit coverage decreased from 553 to 404 during these years. It is interesting to note that the number of high risk units assessed during 2015-16 rose considerably from 194 in 2014-15 to 311 in 2015-16, but it is not reflected in the commensurate increase in number of high risk units planned for audit which increased only marginally from 171 in 2014-15 to 201 in 2015-16. It is also relevant that the total audit coverage also decreased to the lowest in 2015-16 in the three years under study as mentioned above.

***Table-5: Risk Profile of units** (AG (E&RSA)Lucknow/PSU)*

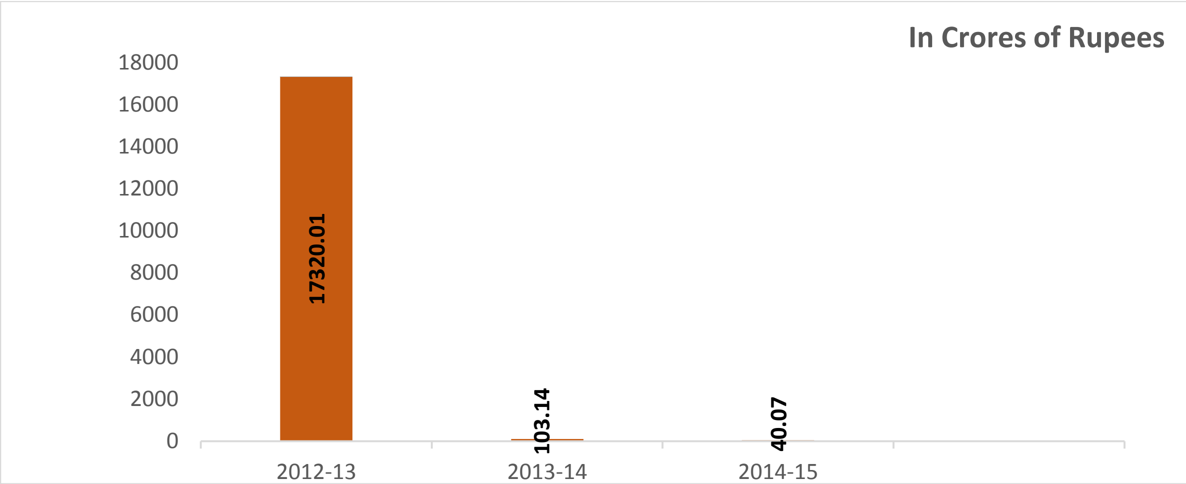
YEAR		TOTAL NO. OF UNIT				NO. OF UNIT PLANNED				VALUR (IN CRORE)	OUTPUR PER UNIT (IN CRORE)
AUDIT REPORT	AUDIT PLAN	HIGH	MEDIUM	LOW	TOTAL	HIGH	MEDIUM	LOW	TOTAL		
2012-13	2013-14	223	340	599	*1162*	212	148	193	*553*	*325.0*	*0.58*
2013-14	2014-15	194	372	637	*1203*	171	166	245	*582*	*103.14*	*0.17*
2014-15	2015-16	311	375	547	*1233*	201	107	96	*404*	*40.07*	*0.09*

From the above data, it is evident that during the year 2015-16 there was sharp decline in audit coverage as compared to 2014-15 from 47.6 per cent to 32.8 percent. The decrease in audit coverage was also reflected in the decline in number of high risk units planned for audit during the years 2015-16, vis-à-vis total number of high risk units assessed for that year.

AUDIT PRODUCT

The resultant audit product having money value of ₹17,320.01 crore, ₹103.14 crore and ₹40.07 crore, on account of compliance audit, appeared in Audit Reports for the years 2012-13 (Audit Plan 2013-14), 2013-14 (Audit Plan 2014-15) and 2014-15 (Audit Plan 2015-16) respectively.

***Chart 17: Money value of Audit Report** (AG (E&RSA)Lucknow /PSU)*



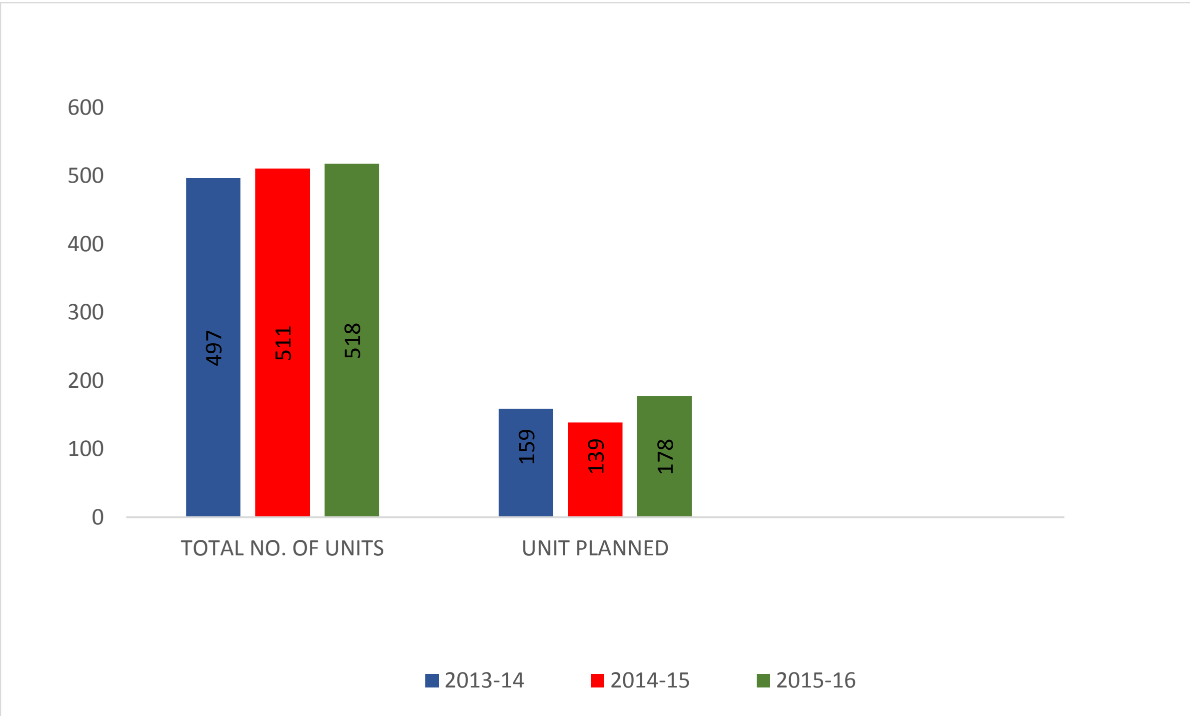
Analysis of data indicates that the money value appeared in the report of 2012-13 (Audit Plan 2013-14), 2013-14 (Audit Plan 2014-15) and 2014-15 (Audit plan 2015-16) for compliance audit was ₹17,320.01 crore, ₹103.14 crore and ₹40.07 crore respectively. The money value of resultant audit product for the year 2012-13 was atypically higher i.e. ₹17,320.01 crore, in comparison to the subsequent years (i.e. 2013-14 and 2014-15) when only ₹103.14 crore and ₹40.07 crore appeared in Audit Reports for the 2013-14 and 2014-15. The money value of ₹17,320.01 crore appeared in the report of 2012-13 (Audit Plan 2013-14) for compliance audit was inclusive of ₹6516 crore on account of 'Role of Uttar Pradesh Power Corporation Limited as Fund Manager or Power Distribution Companies and Fund Management in Purvanchal Vidyut Vitran Nigam Limited' which covered the period from 2008-09 to 2012-13 ***(Annexure-VI)*** and ₹10,479 crore on account of 'Process of finalisation of Memorandums of Understanding (MOUs), Power Purchase Agreement (PPAs) with independent Power Producers (IPPs) and fixation of power purchase price', covering the period from 2008-09 to 2012-13 ***(Annexure-VII).*** Both these high value paras can be considered an aberration, rather than usual compliance audit product.

ANALYSIS

Methodology adopted to assess the level of risk (High, Medium and Low) for audit planning by the office resulted in change in numbers of high risk units. However, this was not reflected in commensurate higher selection for audit of such high risk units. The monetary value of resultant audit product revealed that with the decline in audit coverage resultant audit product in terms of monetary value also reduced even after excluding the paras considered as an aberration. The per unit output also decreased from ₹0.58 crore in first year to ₹0.09 crore in the third year.

ECONOMIC SECTOR (NON-PSU)

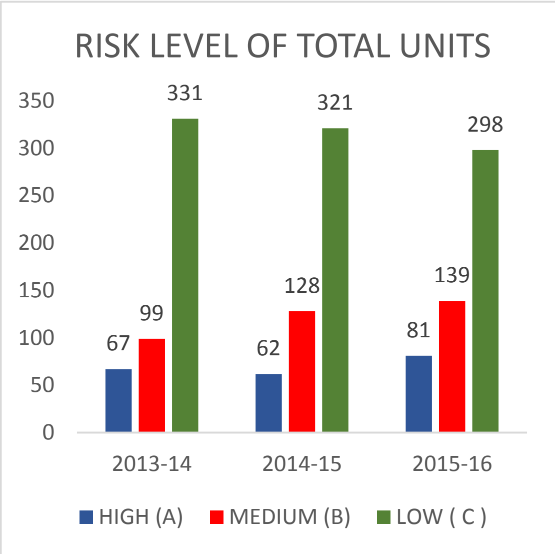
***Chart 18: Auditable and planned units** (AG (E&RSA) Lucknow /NON-PSU)*

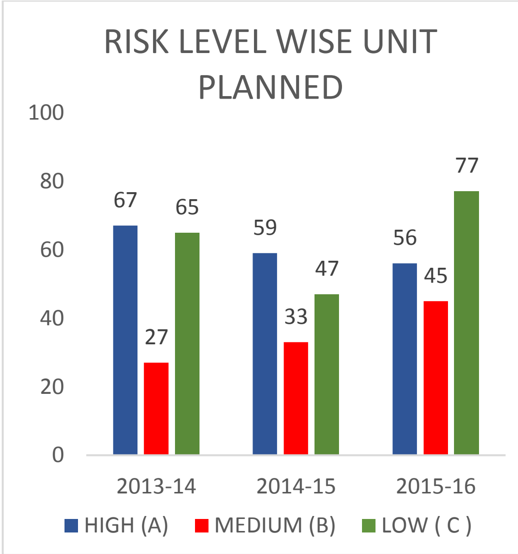


In the years 2013-14, 2014-15 and 2015-16, the total numbers of units were 497, 511 and 518 respectively. The audit coverage increased from 159 units in 2013-14 to 178 units during the year 2015-16, with slight decrease during 2014-15 to 139 units (Chart – 18)

RISK PROFILE

***Chart 19: Risk Profile of units** (AG (E&RSA) Lucknow)/NON-PSU)*





The data regarding risk profile of various units during the years 2013-14 to 2015-16 is illustrated in Chart-19. During the years 2013-14 to 2015-16, the number of high risk units planned for audit decreased from 67 to 56 even though the total number of such unit increased from 67 units in 2013-14 to 81 units in 2015-16.

Table-6: Risk Profile of units(AG (E&RSA)Lucknow /NON-PSU)

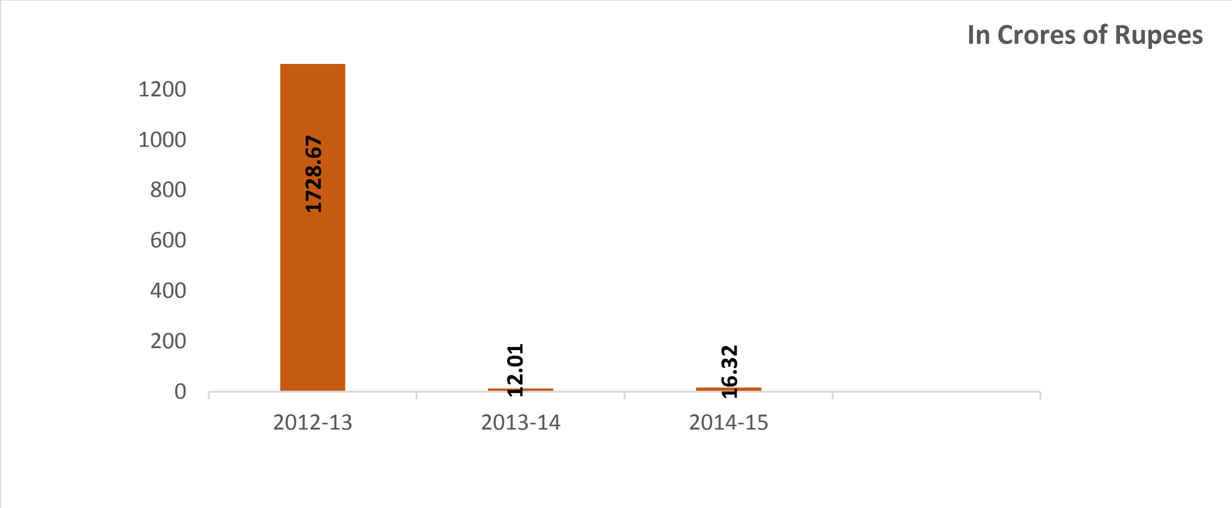
YEAR		TOTAL NO. OF UNIT				NO. OF UNIT PLANNED				VALUE (IN CRORE)	OUTPUT PER UNIT(IN CRORE)
AUDIT REPORT	AUDIT PLAN	HIGH	MEDIUM	LOW	TOTAL	HIGH	MEDIUM	LOW	TOTAL		
2012-13	2013-14	67	99	331	*497*	67	27	65	*159*	*3.98*	*0.02*
2013-14	2014-15	62	128	321	*511*	59	33	47	*139*	*12.01*	*0.08*
2014-15	2015-16	81	139	298	*518*	56	45	77	*178*	*16.32*	*0.09*

From the above data, it is evident that during the years 2013-14 to 2015-16 the total audit coverage increased from 32 per cent in 2013-14 to 34.4 per cent in 2015-16 with slight dip to 27.2 per cent during 2014-15.

AUDIT PRODUCT

The resultant audit product having money value of ₹1,728.67 crore, ₹12.01 crore and ₹16.32 crore, on account of compliance audit, appeared in Audit Reports for the years 2012-13 (Audit Plan 2013-14), 2013-14 (Audit Plan 2014-15) and 2014-15 (Audit Plan 2015-16) respectively.

Chart 20: Money value of Audit Report (AG (E&RSA) Lucknow/NON-PSU)



Analysis of data indicates that during the years 2013-14, 2014-15 and 2015-16, out of 67, 62 and 81 High risk units, 67, 59 and 56 units were planned for audits.

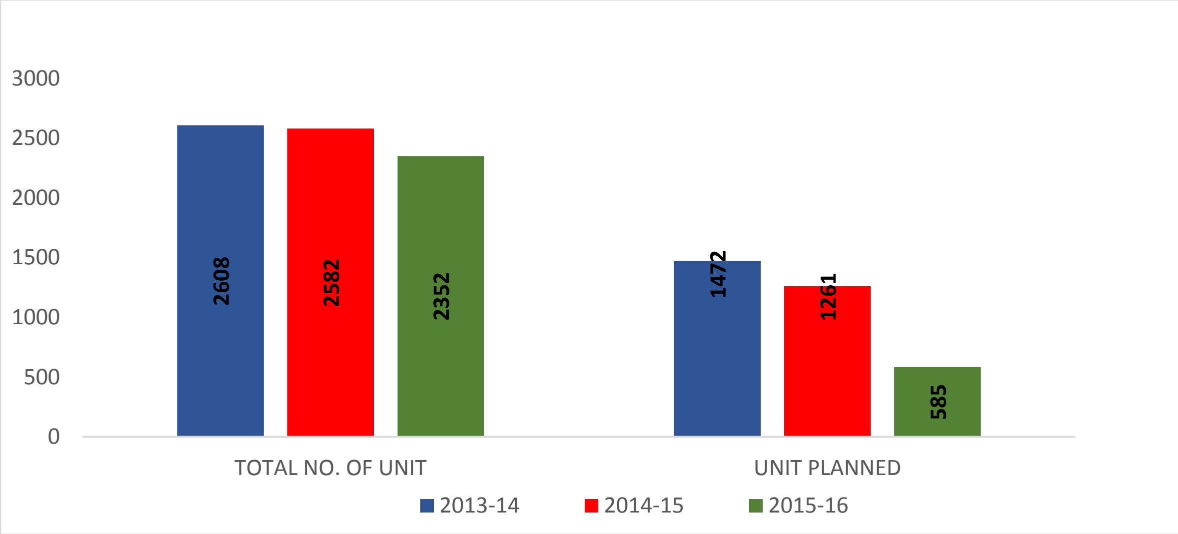
The money value of resultant audit product for the year 2012-13 was oddly higher i.e. ₹1728.67 crore, in comparison to the subsequent years (i.e. 2013-14 and 2014-15) when only ₹12.01 crore and ₹16.32 crore appeared in Audit Reports for 2013-14 and 2014-15. The money value of ₹1728 crore appeared in the report of 2012-13 (Audit Plan 2013-14) for compliance audit was inclusive of ₹639.77 crore on account of 'Short recovery of transit fee' which covered the period from April 2005 to March 2008 ***(Annexure-VIII),*** ₹1001.38 crore on account of 'construction of Yamuna Expressway' (Infrastructure and Industrial Development Department) ***(Annexure-IX),*** and ₹83.54 crore on account of 'Systemic failure to ensure compliance of Government Orders' which covered the period from 1999 to 2010 ***(Annexure-X).*** All of these high value paras can be considered an aberration or a kind of wind fall audit product.

ANALYSIS

Methodology adopted to assess the level of risk (High, Medium and Low) for audit planning by the office resulted in marginal change in numbers of high-risk units. The monetary value of resultant audit product revealed that although the audit coverage had marginally decreased in second year, the resultant audit product in terms of monetary value increased even after excluding the paras considered as an aberration. The output per unit also increased marginally from ₹0 .02 crore in the first year to ₹0.09 crore in the third year.

REVENUE SECTOR

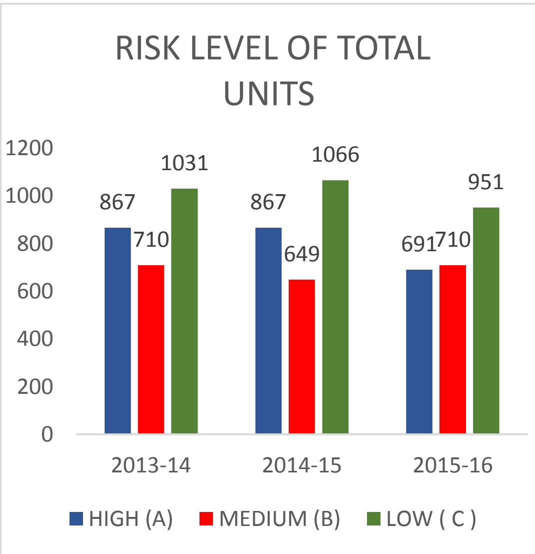
Chart 21: Auditable and planned units (AG (E&RSA) Lucknow /REVENUE)

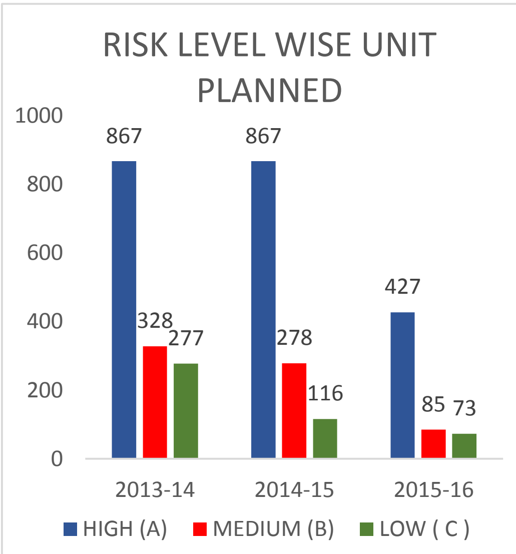


During the years 2013-14 to 2015-16, the total number of units decreased from 2608 to 2352. Out of the total units, 1472 (56.4 *per cent*), 1261 (48.8 *per cent*) and 585 (24.9 *per cent*) units were planned for audit in the years 2013-14, 2014-15 and 2015-16 respectively. The audit coverage during 2015-16 was more than fifty per cent lesser than the units planned during 2013-14 (Chart – 21).

RISK PROFILING

***Chart 22: Risk Profile of units** (AG (E&RSA) Lucknow / REVENUE)*





The data regarding risk profile of various units during the years 2013-14 to 2015-16 is illustrated in *Chart-22*. During the years 2013-14 and 2014-15 all High risk units were planned for audit. However, during 2015-16, it decreased by 38 per cent.

***Table-7: Risk Profile of units** (AG (E&RSA) Lucknow /REVENUE)*

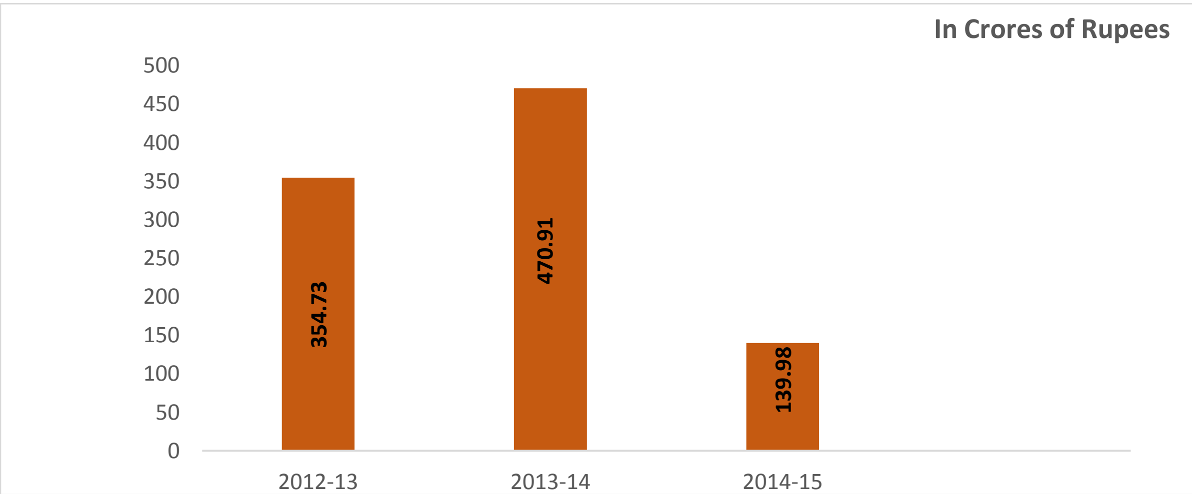
YEAR		TOTAL NO. OF UNIT				NO. OF UNIT PLANNED				VALUE (IN CRORE)	OUTPUT PER UNIT (IN CRORE)
AUDIT REPORT	AUDIT PLAN	HIGH	MEDIUM	LOW	TOTAL	HIGH	MEDIUM	LOW	TOTAL		
2012-13	2013-14	867	710	1031	*2608*	867	328	277	*1472*	*354.73*	*0.24*
2013-14	2014-15	867	649	1066	*2582*	867	278	116	*1261*	*470.91*	*0.37*
2014-15	2015-16	691	710	951	*2352*	427	85	73	*585*	*139.98*	*0.23*

From the above data, it is evident that during the years 2013-14 to 2015-16, total numbers of units decreased, and the audit coverage was also substantially reduced from 56.4 per cent to 24.9 per cent. The high risk units selection also reduced from 100 per cent to 62 per cent in 2014-15.

AUDIT PRODUCT

The resultant audit product having money value of ₹354.73 crore, ₹470.91 crore and ₹139.98 crore, on account of compliance audit, appeared in Audit Reports for the years 2012-13 (Audit Plan 2013-14), 2013-14 (Audit Plan 2014-15) and 2014-15 (Audit Plan 2015-16) respectively.

***Chart 23: Money value of Audit Report** (AG (E&RSA) Lucknow /REVENUE)*



Analysis of data indicates that during the years 2013-14, 2014-15 and 2015-16, out of 867, 867 and 691 High risk units, 867, 867 and 427 units were planned for audits. The units planned were 56.44 per cent, 48.84 per cent and 24.87 per cent, out of the total units, for the years 2013-14, 2014-15 and 2015-16 respectively.

The money value which appeared in the Audit reports of 2012-13 (Audit Plan 2013-14), 2013-14(Audit plan 2014-15) and 2014-15 (Audit plan 2015-16) for compliance audit was ₹354.73 crore, ₹470.91 crore and ₹139.98 crore, respectively.

ANALYSIS

The number of units planned for audit gradually decreased over the years. All the high risk units were covered under audit during 2013-14 and 2014-15, but total coverage reduced from 1472 units to 1261 units. Nevertheless, the money value of the Audit Reports for 2013-14 (Audit Plan 2014-15) was higher than 2012-13. There was drastic reduction in total audit coverage as well as those of high risk units in the year 2015-16 which was also reflected in the reduction in money value of resultant Audit Report (2014-15). The per unit output was also the lowest in the year 2015-16 at ₹0.23 crore.

ACCOUNTANT GENERAL (E&RSA), MADHYA PRADESH, BHOPAL

Accountant General (E&RSA), Madhya Pradesh, Bhopal covers the audit of Public Works, Water Resources, Narmada Valley Development Authority ,M. P. Rural Roads Development Authority, Animal Husbandry, Cooperative, Farmers Welfare and Agriculture, Fisheries, Forest, Rural Industries, Civil Aviation, Commerce, Industries and Employment, Energy, Horticulture and Food Processing, Tourism, under Economic Sectors Audit and Commercial Tax, Electricity Duty and Safety, Land Revenue, Transport, Mineral Resources, Stamp Duty and Registration, State Excise and Entertainment Department under Revenue Section Audit.

AUDIT PLANNING

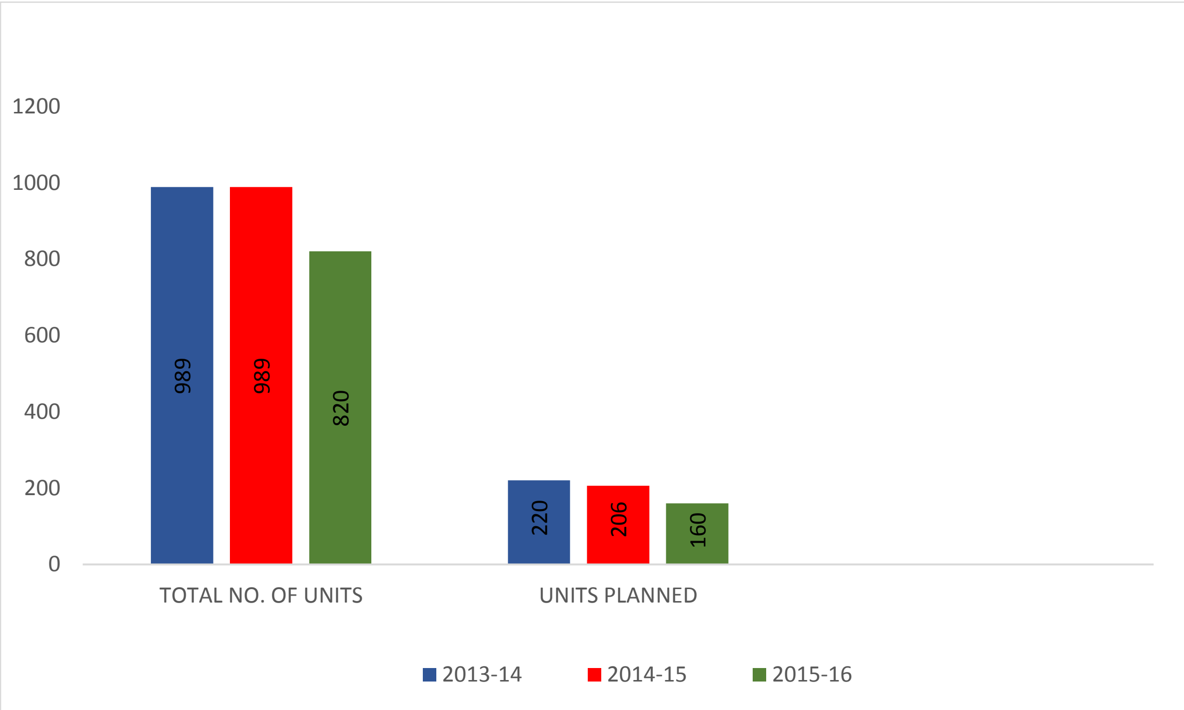
The Audit Plan for 2013-14 was theme based. The weightages were assigned to each theme based on Topicality, Budget and Expenditure, Governance, Para featured as PA/DP, outstanding paras and media coverage in compliance to headquarters letter dated 4th May 2011***(Annexure-XI)***.

For preparing annual audit plan for the year 2014-15, risk assessments was done for selecting topics for performance audit, review and units for transaction audit. Risk assessment was based on budgets and expenditure, policies of the State Government, thrust areas of the budget, five years plan and annual plan of the State, reports in the media, paragraphs in previous Inspection Reports/Audit Reports, complaints, feedbacks received from field audit parties and audited entities during entry/exit conference or otherwise***(Annexure-XII)***.

For preparing annual audit plan for the year 2015-16, risk assessments was done for selecting topics for performance audit and units for transaction audit. Risk assessment was based on budgets and expenditure, policies of the State Government, thrust areas of the budget, five years plan and annual plan of the State, reports in the media, paragraphs in previous Inspection Reports/ Audit Reports, complaints, Feedbacks received from field audit parties and audited entities during entry/ exit conference or otherwise***(Annexure-XIII)***.

ECONOMIC SECTOR (PSU)

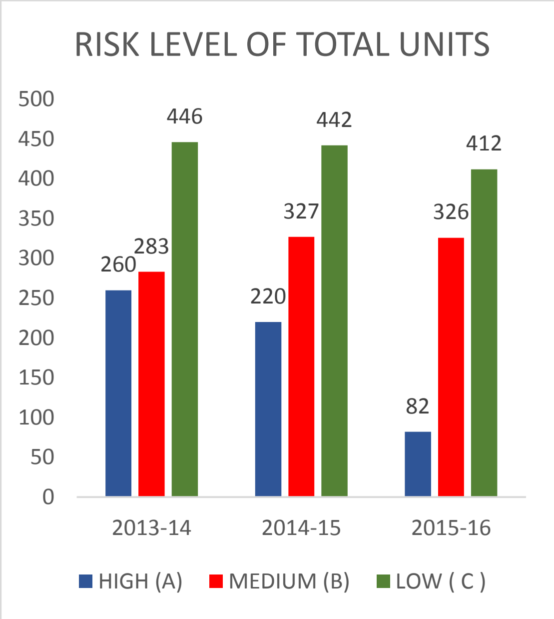
***Chart 24: Auditable and planned units** (AG (E&RSA) MP/BHOPAL/PSU)*

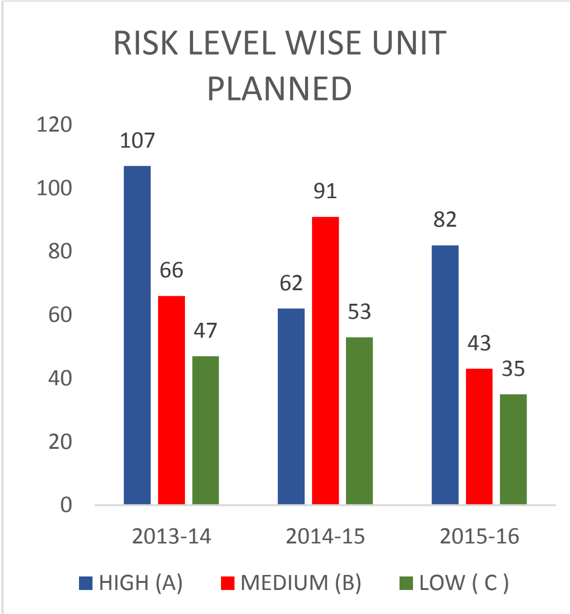


During the years 2013-14 to 2015-16, the total number of units were 989, 989 and 820. Out of these, 220, 206 and 160 units were planned for audit in the years 2013-14, 2014-15 and 2015-16 respectively.

RISK PROFILE

***Chart 25: Risk Profile of units** (AG (E&RSA) MP/BHOPAL/PSU)*





The data regarding risk profile of various units during the years 2013-14 to 2015-16 is illustrated in *Chart-25*. During the years 2013-14 to 2015-16, the total number of units decreased from 989 to 820, similarly, the audit coverage decreased from 220 units to 160 units during these years. Number of high risk units covered under audit decreased considerably from 107 in 2013-14 to 62 in 2014-15 though the total number of units were the same during these years.

***Table-8: Risk Profile of units** (AG (E&RSA) MP/BHOPAL/PSU)*

YEAR		TOTAL NO. OF UNIT				NO. OF UNIT PLANNED				VALUE (IN CRORE)	OUTPUT PER UNIT (IN CRORE)
AUDIT REPORT	AUDIT PLAN	HIGH	MEDIUM	LOW	TOTAL	HIGH	MEDIUM	LOW	TOTAL		
2012-13	2013-14	260	283	446	989	107	66	47	220	81.47	0.37
2013-14	2014-15	220	327	442	989	62	91	53	206	48.25	0.23
2014-15	2015-16	82	326	412	820	82	43	35	160	287.91	1.79

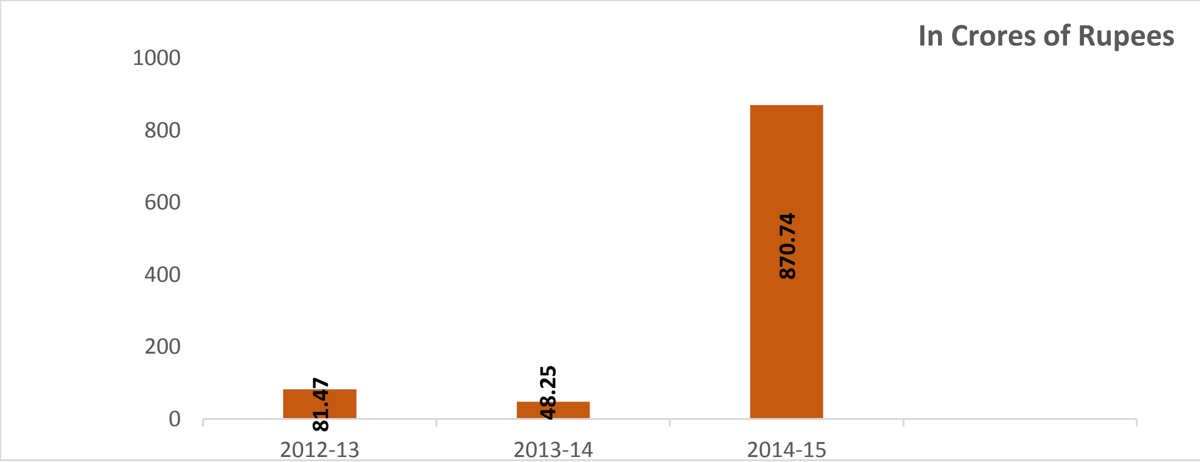
From the above data, it is evident that during the years 2013-14, 2014-15 and 2015-16, the audit coverage was 22.24 per cent, 20.82 percent and 19.51 percent respectively.

AUDIT PRODUCT

The resultant audit product having money value of ₹81.47 crore, ₹48.25 crore and ₹870.74 crore, on account of compliance audit, appeared in Audit Reports for the years 2012-

13 (Audit Plan 2013-14), 2013-14 (Audit Plan 2014-15) and 2014-15 (Audit Plan 2015-16) respectively.

***Chart 26: Money value of Audit Report** (AG (E&RSA) MP/BHOPAL/PSU)*



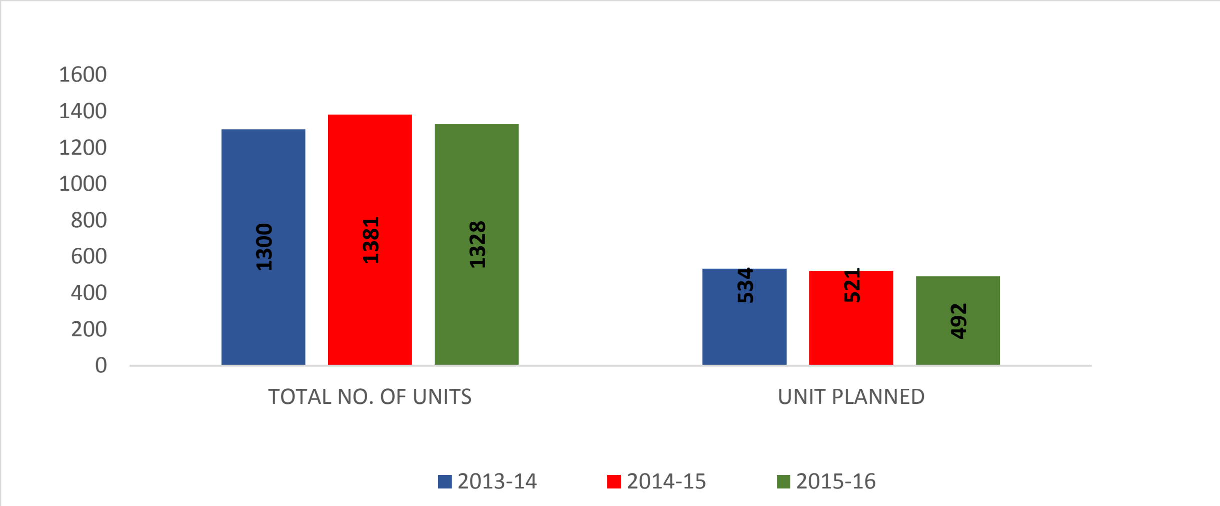
Analysis of data indicates that the money value appeared in the report of 2012-13 (Audit Plan 2013-14), 2013-14 (Audit Plan 2014-15) and 2014-15 (Audit plan 2015-16) for compliance audit was ₹81.47 crore, ₹48.25 crore and ₹870.74 crore respectively. The money value of resultant audit product for the year 2014-15 was atypically higher i.e. ₹870.74 crore, in comparison to the previous years (i.e. 2012-13 and 2014-15) when only ₹81.47 crore and ₹48.25 crore appeared in Audit Reports for the 2012-13 and 2013-14. The money value of ₹870.74 crore appeared in the report of 2014-15 (Audit Plan 2015-16) for compliance audit was inclusive of ₹582.83 crore on account of 'Implementation of financial restructuring plan of State Government in MP Poorva Kshetra Vidyut Vitran Co. Ltd.' ***(Annexure-XIV).*** This high value para can be considered an aberration, rather than usual compliance audit product.

ANALYSIS

The number of units planned for audit gradually decreased over the years. All the high risk units were covered under audit plan during 2015-16, but total coverage reduced from 206 units to 160 units as compared to previous year. As per clarification of office, decrease in total units and audit coverage was due to removal of 170 numbers of sub-units of four companies which were being shown separately prior to Audit Plan of 2015-16. The money value of the Audit Reports for 2014-15 (Audit Plan 2015-16) was much higher than that of 2012-13 (Audit Plan 2013-14) and 2013-14 (Audit Plan 2014-15). Even after taking into account these sub-units under total audit coverage, the money value of resultant Audit Report (2014-15) was much higher than previous years even after excluding the para valuing ₹582.83 crore on account of 'Implementation of financial restructuring plan of State Government in MP Poorva Kshetra Vidyut Vitran Co. Ltd.' which can be considered as an aberration. The per unit output was also highest at ₹1.79 crore in the year 2014-15.

ECONOMIC SECTOR (NON-PSU)

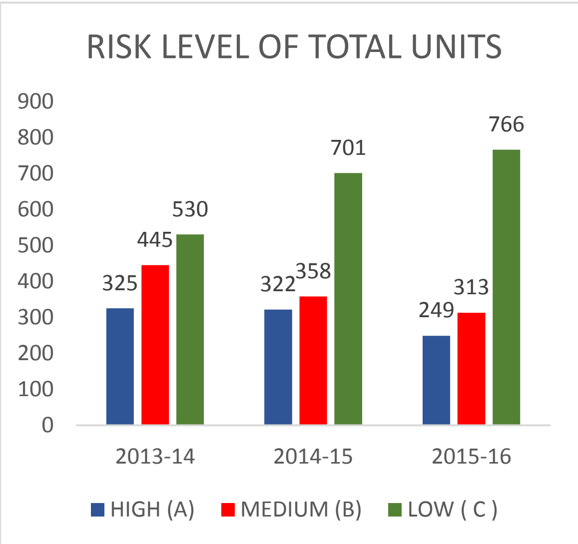
***Chart 27: Auditable and planned units** (AG (E&RSA) MP/BHOPAL/NON-PSU)*

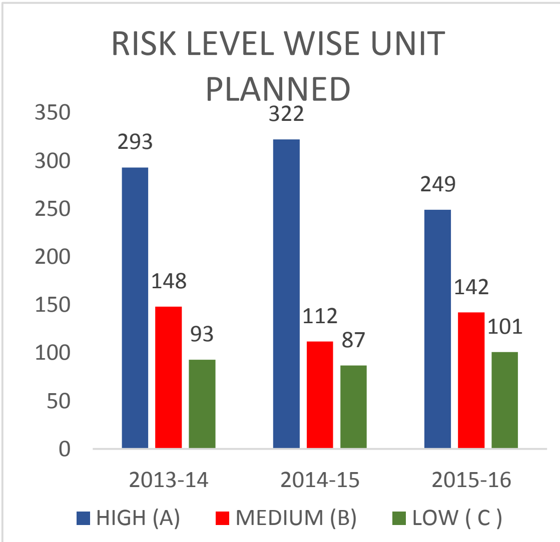


In the years 2013-14, 2014-15 and 2015-16, the total numbers of units were 1300, 1381 and 1328 respectively. The audit coverage decreased from 534 units in 2013-14 to 492 units during the year 2015-16 (Chart – 27)

RISK PROFILE

***Chart 28: Risk Profile of units** (AG (E&RSA) MP/BHOPAL/NON-PSU)*





The data regarding risk profile of various units during the years 2013-14 to 2015-16 is illustrated in *Chart-28*. During the years 2014-15 to 2015-16, cent per cent of high risk units were planned for audit, however, it was 90 per cent during the year 2013-14.

***Table-9: Risk Profile of units** (AG (E&RSA) MP/BHOPAL/NON-PSU)*

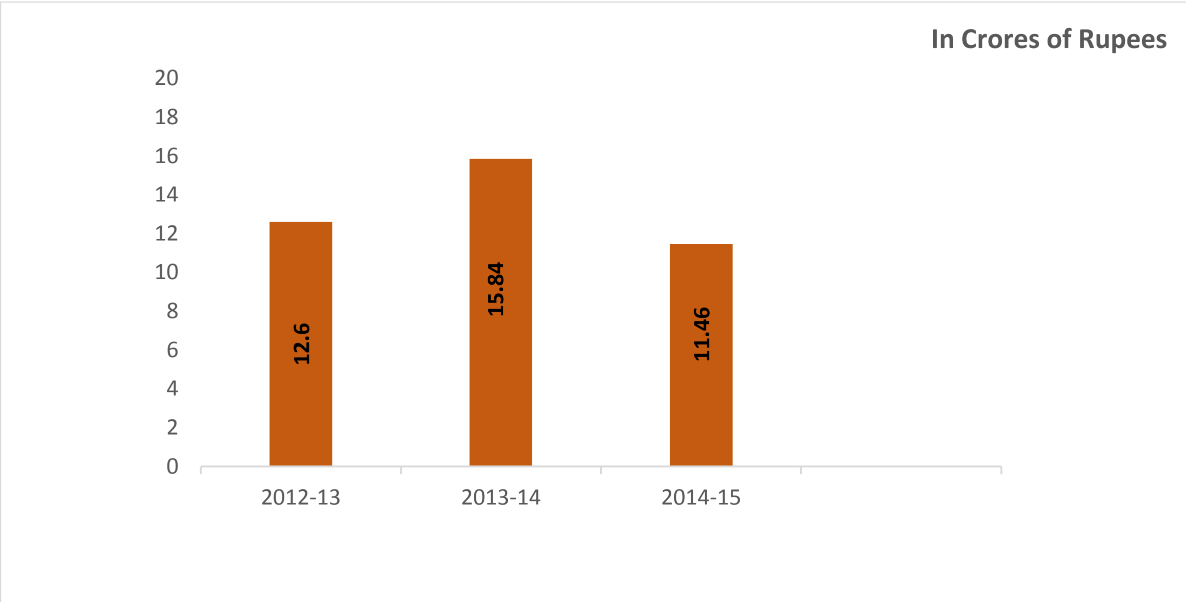
YEAR		TOTAL NO. OF UNIT				NO. OF UNIT PLANNED				VALUE (IN CRORE)	OUTPUT PER UNIT (IN CRORE)
AUDIT REPORT	AUDIT PLAN	HIGH	MEDIUM	LOW	TOTAL	HIGH	MEDIUM	LOW	TOTAL		
2012-13	2013-14	**325**	**445**	**530**	**1300**	**293**	**148**	**93**	**534**	**12.61**	**0.02**
2013-14	2014-15	**322**	**358**	**701**	**1381**	**322**	**112**	**87**	**521**	**15.84**	**0.03**
2014-15	2015-16	**249**	**313**	**766**	**1328**	**249**	**142**	**101**	**492**	**11.46**	**0.02**

From the above data, it is evident that during the years 2013-14 to 2015-16 the total audit coverage decreased from 534 units (41 per cent) in 2013-14 to 492 units (37 per cent) in 2015-16.

AUDIT PRODUCT

The resultant audit product having money value of ₹12.01 crore ₹15.84 crore, and ₹11.46 crore, on account of compliance audit, appeared in Audit Reports for the years 2012-13, 2013-14 and 2014-15 respectively.

***Chart 29: Money value of Audit Report** (AG (E&RSA) MP/BHOPAL/NON-PSU)*



Analysis of data indicates that during the years 2013-14, 90 per cent of high risk units were planned for audits and during the years 2014-15 to 2015-16, cent per cent of high risk units were planned for audit.

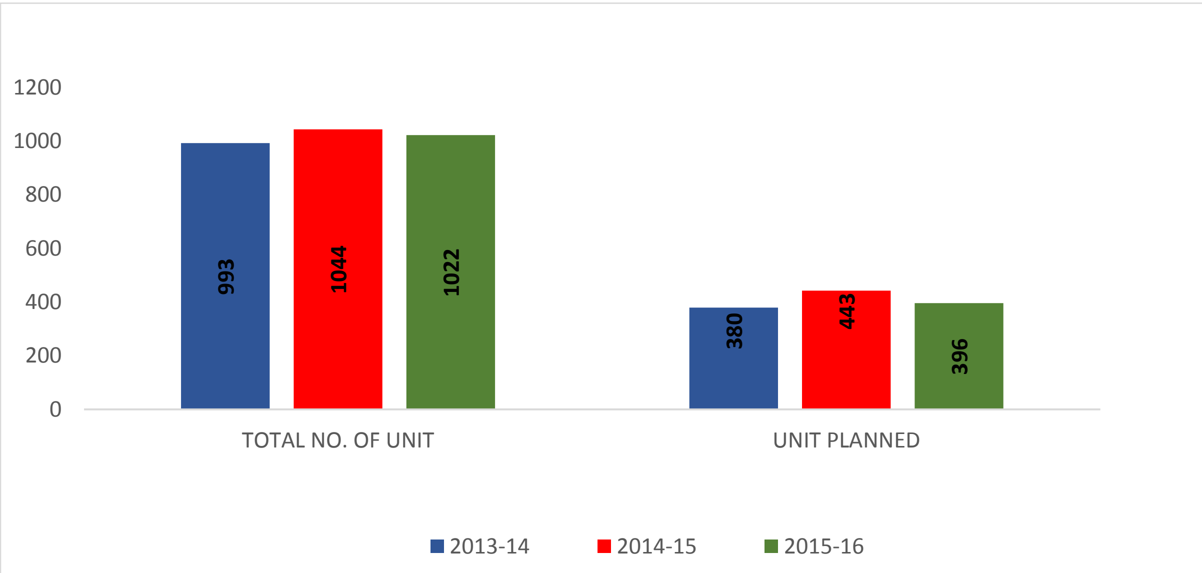
The money value of resultant audit product varied from ₹12.6 crore during the year 2012-13 which increased to ₹15.84 crore in 2013-14 but decreased to ₹11.46 crore in the year 2014-15.

ANALYSIS

Methodology adopted to assess the level of risk (High, Medium and Low) for audit planning by the office during the years 2013-14 to 2015-16 resulted in decrease in the total audit coverage from 534 units in 2013-14 to 492 units in 2015-16. As per clarification of office, decrease in total units and audit coverage in the Audit Plan of 2015-16 was due to merger of units and loss of DDO power. Though the audit coverage in 2013-14 (Audit Report 2012-13) was more than that of 2014-15(Audit Report 2013-14), but the monetary value of resultant audit product in 2013-14 (₹12.6 crore) was less than 2014-15(₹15.84 crore). On the other hand, both the audit coverage as well as monetary value of resultant audit product during the year 2015-16 was also least during the years under study. Audit coverage varied during the years 2013-14 to 2015-16, and the resultant audit product in terms of monetary value also varied with per unit output ranging between ₹0.02 and ₹0.03 crore during the three year.

REVENUE SECTOR

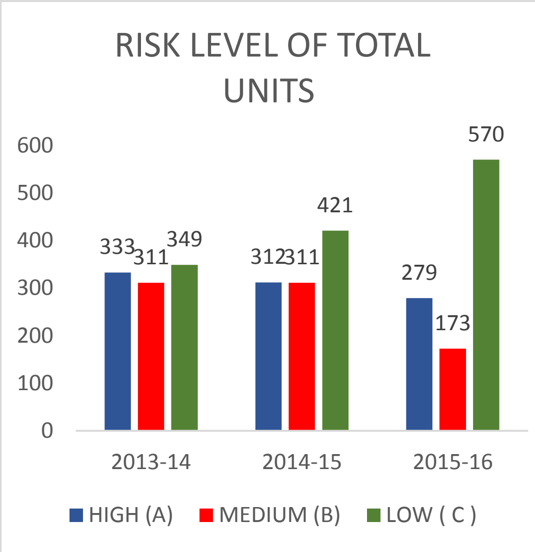
***Chart 30: Auditable and planned units** (AG (E&RSA) MP/BHOPAL/REVENUE)*

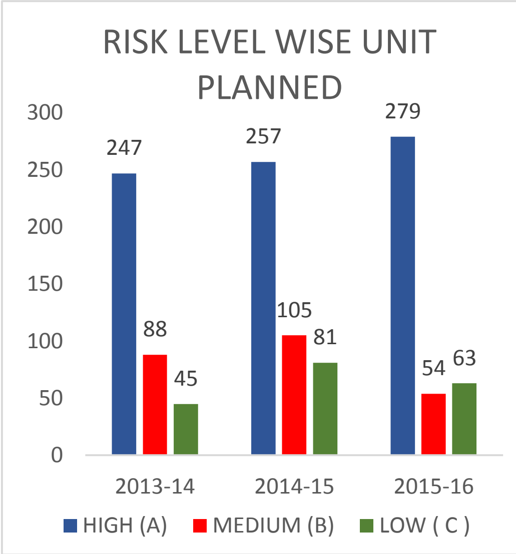


During the years 2013-14 to 2015-16, the total number of units increased from 993 to 1022. Out of the total units, 380 (38.27 *per cent*), 443 (42.43 *per cent*) and 396 (38.75 *per cent*) units were planned for audit in the years 2013-14, 2014-15 and 2015-16 respectively, resultantly, the audit coverage during 2015-16 was less than that of year 2014-15 (Chart – 30).

RISK PROFILING

Chart 31: Risk Profile of units(AG (E&RSA) MP/BHOPAL/ REVENUE)





The data regarding risk profile of various units during the years 2013-14 to 2015-16 is illustrated in *Chart-31*. During the years 2013-14 to 2014-15, number of high risk units planned for audit gradually increased from 74.17 per cent to cent per cent in 2015-16.

Table-10: Risk Profile of units (AG (E&RSA) MP/BHOPAL/REVENUE)

YEAR		TOTAL NO. OF UNIT				NO. OF UNIT PLANNED				VALUE (IN CRORE)	OUTPUT PER UNIT (IN CRORE)
AUDIT REPORT	AUDIT PLAN	HIGH	MEDIUM	LOW	TOTAL	HIGH	MEDIUM	LOW	TOTAL		
2012-13	2013-14	**333**	**311**	**349**	**993**	**247**	**88**	**45**	**380**	**207.18**	**0.54**
2013-14	2014-15	**312**	**311**	**421**	**1044**	**257**	**105**	**81**	**443**	**210.52**	**0.47**
2014-15	2015-16	**279**	**173**	**570**	**1022**	**279**	**54**	**63**	**396**	**106.46**	**0.26**

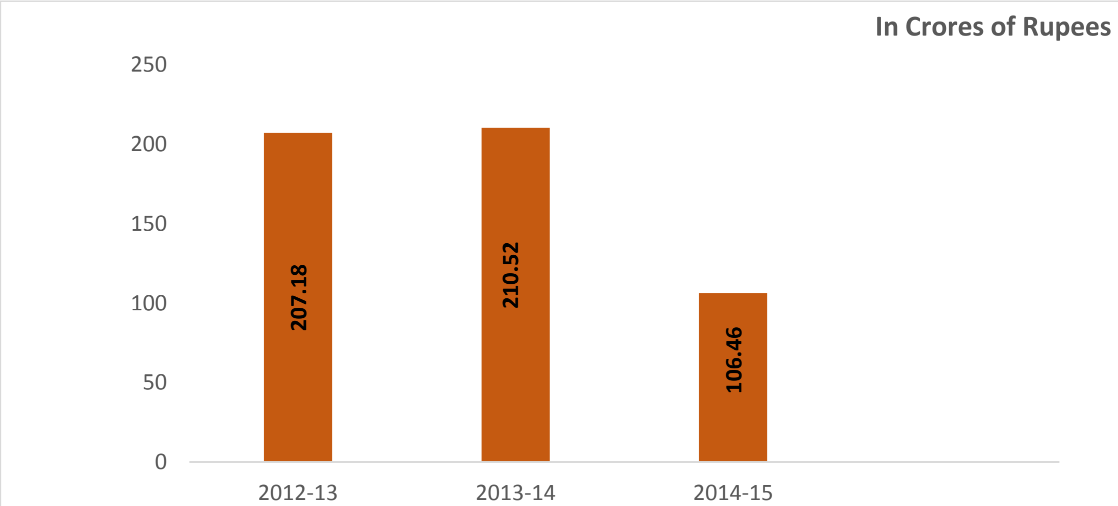
From the above data, it is evident that 380 (38.27 per cent), 443 (42.43 per cent) and 396 (38.75 per cent) units were planned for audit in the years 2013-14, 2014-15 and 2015-16 respectively. The audit coverage during 2015-16 was less than that of year 2014-15.

AUDIT PRODUCT

The resultant audit product having money value of ₹207.18 crore, ₹210.52 crore and ₹106.46 crore, on account of compliance audit, appeared in Audit Reports for the years 2012-

13 (Audit Plan 2013-14), 2013-14 (Audit Plan 2014-15) and 2014-15 (Audit Plan 2015-16) respectively.

***Chart 32: Money value of Audit Report** (AG (E&RSA) MP/BHOPAL/REVENUE)*



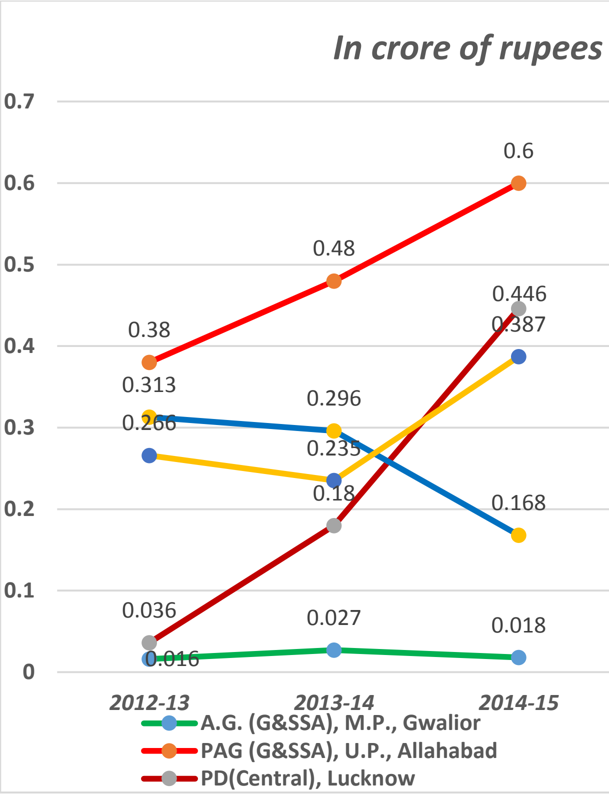
Analysis of data indicates that during the years 2013-14, 2014-15 and 2015-16, out of 333, 312 and 279 High risk units, 247, 257 and 279 units were planned for audits. The total units planned were 38.26 per cent, 42.43 per cent and 38.75 per cent, out of the total units, for the years 2013-14, 2014-15 and 2015-16 respectively.

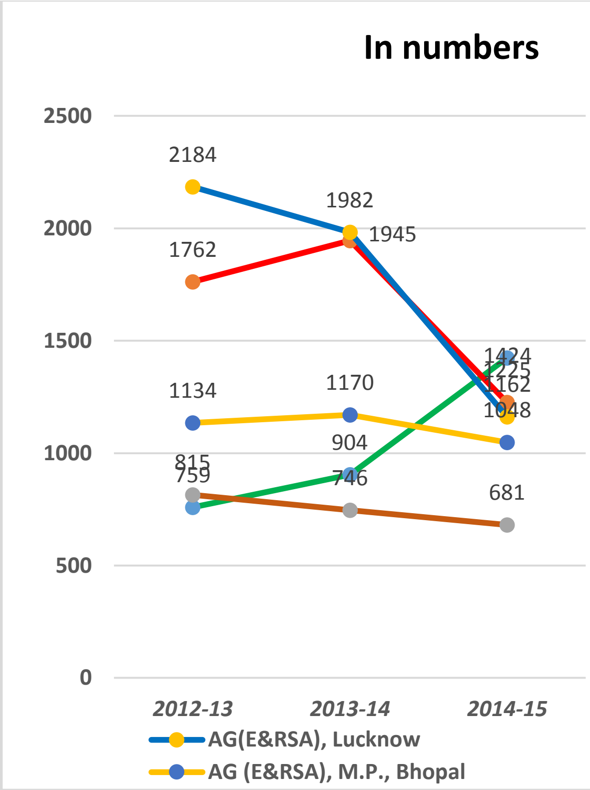
The money value which appeared in the Audit reports of 2012-13 (Audit Plan 2013-14), 2013-14(Audit plan 2014-15) and 2014-15 (Audit plan 2015-16) for compliance audit was ₹207.18 crore, ₹210.52 crore and ₹106.46 crore respectively.

ANALYSIS

During the year 2013-14 to 2015-16, the percentage of units planned for audit was almost same with slight increase in 2014-15. During the years 2013-14 to 2014-15, number of high risk units planned for audit increased from 74.17 per cent to cent per cent in 2015-16, but the money value of ₹106.46 crore in the Audit Reports for 2014-15 (Audit Plan 2015-16) drastically decreased as compared to ₹207.18 crore in the year 2012-13 (Audit Plan 2013-14) and ₹210.52 crore in the year 2013-14 (Audit Plan 2014-15). So as the per unit output decreased from ₹0.54 crore in first year to ₹0.26 crore in the last year.

Chart 32: Office wise Consolidated Audit Output per unit and planned units





As deliberated earlier, analysis of the empirical data has revealed interesting scenarios. There have been instances where enhancement in the quality of risk assessment by following more rigorous and methodical system has resulted in risk profiling of units undergoing change. The high risk units have increased in some offices, which then enhanced their coverage also in order to increase the audit assurance. Such audit planning gives a greater confidence about reduced audit risk. But if it is correlated to output in monetary terms, the analysis has churned out different scenarios. As illustrated in Chart-32, office wise consolidated output per unit (total money value of audit report of an office divided by number of units audited) shows mixed trend. In office of AG/G&SSA, MP, Gwalior, more audit coverage in totality as well as that of high risk units have given a marginal increase in money value of Audit reports in absolute terms but per unit output has decreased when more rigorous risk analysis was carried out. In office of PAG/G&SSA, UP, Allahabad, same exercise led to decrease in audit coverage but increase in per unit output. In offices of PD/Central, Lucknow and AG/E&RSA, MP, Bhopal, there has been decrease in audit coverage but a quantum jump as far as money value of Audit Report in absolute term as well as per unit is concerned. In office AG/E&RSA, UP, Lucknow, there has been huge decrease in audit coverage and money value in absolute terms as well as per unit.

PERFORMANCE AUDIT

As in all audits, the users of performance audit reports seek confidence about the reliability of information in the reports. The performance auditors should, therefore, in all cases provide findings based on sufficient and appropriate evidence and actively manage the risk of inappropriate reports. Auditors should actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users. Many topics in performance auditing are complex and politically sensitive. While simply avoiding such types of audits may reduce the risk of inaccuracy or incompleteness, it could also limit the possibility of providing important feedback for better governance and adding value by audit. The risk that an audit will fail to add value ranges from the likelihood of not being able to provide new information or perspectives to the risk of neglecting important factors. Consequently, audit will not be able to provide users of the audit report with knowledge or recommendations that would make a real contribution to better performance. Important aspects of risk may include not possessing the competence to conduct sufficiently broad or deep analysis, lacking access to complete and quality information, relying on inaccurate information (e.g. because of fraud or irregular practices), being unable to put all findings in perspective, and failing to collect or address the most relevant arguments. Auditor should, therefore, actively manage risk.

Dealing with the audit risk is embedded in the whole process and methodology of performance audit. Audit planning documents should state the possible or known risks of the work envisaged and show how these risks will be handled. *In performance audit, materiality by monetary value may, but need not, be a primary concern*. In defining materiality, the auditor should consider also what is socially or politically significant and bear in mind that this varies over time and depends on the perspective of the relevant users and responsible parties. Since the subject matter of performance audits can vary broadly and criteria are frequently not set by legislation, that perspective may vary from one audit to another. Assessing it requires careful judgement on the part of the auditor. Materiality concern all aspects of performance audits, such as the selection of topics, definition of criteria, evaluation or evidence and documentation and management of the risks of producing inappropriate or low impact audit findings or reports.

The accuracy of the risk analysis will depend on the quality of the information available. Evidence should be used when it is available. Nevertheless, the auditor has also to rely on common sense and sound professional judgement, based on the knowledge acquired and on experience.

In performance auditing, objectives are usually expressed in terms of questions about performance i.e. achievement of economy, efficiency and effectiveness of an entity/programme/activity under audit.

The risk that an entity/organisation does not apply the principle of **economy** because:

- have no adequate mechanism to monitor that the desired outcomes are being achieved at the minimum cost.
- The procedures in place do not ensure that costs are the lowest available.

The risk that the programme is not managed **efficiently** because:

- Not considered and monitored the costs compared with the benefits received.
- have inadequate procedures to prioritise and select projects to ensure the maximum impact from available funds.
- Not ensured timely implementation of financial and technical cooperation projects and reduction of costs.

The risk that the programme is not **effective** as:

- There is no mechanism in place to ensure that activities financed are in line with the quantitative financial objective.
- Not set up and properly implemented suitable measures to monitor the impact of the policy.
- Have not carried out an adequate assessment of needs and possible benefits arising from the programme to support the funding decisions.
- have not set up and properly implemented appropriate mechanism to identify weaknesses and deviation from the objectives.
- The procedures put in place are not appropriate and properly implemented.
- There is an incoherent management.
- Different key performance indicators are used.

AUDIT PLANNING AND RISK ASSESSMENT

The performance audits normally commence only after a pilot study or at least a thorough desk review. Depending upon the nature of subject being taken up for performance audit, sometimes a desk review alone may be sufficient rather that a full-fledged pilot study. A judicious decision about the time to be allowed for this preparatory work would necessarily depend upon familiarity with the subject matter and the extent of clarity about audit issues to be examined. Normally, the desk reviews and pilot studies on topics included in the Annual Audit Plan of a particular year should be completed before the commencement of that year.

AUDIT PRODUCT

NAME OF THE OFFICE	SECTORS/ UNITS/ BRANCH	2012-13		2013-14		2014-15	
		No. of topics	Amount appeared in Audit Report	No. of topics	Amount appeared in Audit Report	No. of topics	Amount appeared in Audit Report
AG (G&SSA), MP, Gwalior	--	5	413.24	6	728.03	10	357.45
PAG (G&SSA), UP,ALLAHABAD	--	5	9574.83	6	7189.92	9	16182.11
PDA(CENTRAL), Lucknow	**CENTRAL EXPENDITURE**	2	0*	1	323.32	1	206.79
	DIRECT TAXES#	3	77.76	3	255.65	3	1163.42
	INDIRECT TAXES	Since, Money value of observation pointed out in TBA/PA is published in Audit Reports at all India level by Headquarters office, figures not made available.					
AG(E&RSA), UP, Lucknow	**ECONOMIC SECTOR (PSU)**	3	23.52	5	237.13	6	10329.53
	ECONOMIC SECTOR (NON PSU)	3	1323.64	2	194.77	4	489.87
	REVENUE SECTOR	3	73.20	2	17.86	2	420.74
AG(E&RSA), MP, Bhopal	**ECONOMIC SECTOR (PSU)**	5	439.72	3	136.98	3	3228.40
	ECONOMIC SECTOR (NON PSU)	6	429.17	4	378.64	5	1655.12
	REVENUE SECTOR	5	136.01	3	157.54	3	508.30

* Not made available
# For both Uttar Pradesh and Uttarakhand

ANALYSIS

The objective and assessment of risk in performance audit is generally qualitative, with quantitative aspect, normally gauged in monetary terms being only incidental. In Performance Audit, the primary audit conclusion focussed on qualitative aspect (performance) of the Scheme/organisation rather than quantitative aspect (money spent). The detailed risk assessment provisions which have been discussed earlier has been devised specifically for compliance audit. The risk assessment or planning for selection of topics for Performance Audits is dependent on factors other than money, like topical relevance, interest of stakeholder etc.. Therefore, monetary value of audit product in Performance Audit, though important, is not primary concern.

CONCLUSION

The assessment of risk has been established as a critical component in the audit operations planning of every type. However, the risk- maturity level can vary across a wide spectrum ranging from merely complying with regulations to the minimum level to a proactive function seeking to enhance the value of the entity. Auditors can measure risk in a number of ways, not necessarily through financial measures alone, though economic value is the fundamental parameter generally used.

As conferred earlier, materiality consists of both quantitative and qualitative factors. Materiality is often considered in terms of monetary value but the inherent nature or characteristics of an item or group of items may also render a matter material. Determining materiality is a matter of professional judgement and depends on the auditor’s interpretation of the users’ needs. A matter can be judged material if knowledge of it is likely to influence the decisions of the intended users. The CAG’s Regulations on Audit and Accounts, 2007 state that in formulating audit opinion or report, the auditor should inter-alia give due regard to the materiality of the matter keeping in view the amount, nature and context. Materiality should be considered for the purposes of planning, evaluating the evidence obtained and reporting, though the materiality levels would differ for each of the processes.

Study of principles/theory about risk assessment and its related provisions existing in the department had led to a hypothesis: *Quality of risk assessment for audit planning impacts the quality and quantity of resultant audit product in positive/negative way*. Empirical data collected from various offices were analysed in order to arrive at a conclusion. While individual outputs have been discussed in detail in the preceding paragraphs, the underlying deduction is that quality of risk assessment is a vital component to ascertain the efficacy of audit as more rigorous the risk assessment, more would be the audit assurance. The comfort of the knowledge that high level of audit assurance would lead to decrease in audit risk results in audit process being more meaningful. The objective of audit itself has always been to be an aid to management and to help correct systems. In this process, if the resultant audit product has high monetary value, it is an icing on the cake.

Therefore, risk assessment results in targeted and relatively better planning of resources which may or may not reflect in money value of reports. However, the same enhances the effectiveness of Audit. It is a foregone conclusion that risk assessment is an integral part of audit planning to give comfortable level of audit assurance and acceptable audit risk. However, the objective of the exercise cannot be to obtain monetary value in resultant audit products which can at best only be incidental.