

## ICAI and CAG have to Work Together for Accounting Reforms: V.N. Kaul

In an interview with ICAI President and Editor-in-Chief CA. T.N. Manoharan, Comptroller and Auditor General Mr. V.N. Kaul shares with professionals his vision and mission on a range of issues, including the giant strides made by the CAG in various crucial areas, the Government's accounting reforms, challenges for the auditing profession, and the role of Chartered Accountants against this backdrop. Here are the excerpts from the interview.

**Q. Our congratulations for your unanimous nomination by the 35<sup>th</sup> Board of Asian Organisation of Supreme Audit Institutions (ASOSAI) for the third consecutive term as Secretary General of ASOSAI. Could you retrace the journey of your professional success for the inspiration of our readers?**

**A.** After a Masters Degree in History from Delhi University, I joined the Indian Administrative Service in 1965. I have held various assignments with the Government of India and the Madhya Pradesh Government, and I was fortunate to have a long stint in the UN as an international civil servant. In the state government, my main assignments (after the usual field experience) were as Secretary and later Principal Secretary in the Finance, Home and Industries departments. In the Government of India, at the middle level, I had two spells in the Ministry of Commerce and later served as Secretary to the Government of India in three Ministries—Coal, Chemical, and Petroleum and Natural Gas—before being ap-

pointed Comptroller & Auditor General in 2002. I've had some exposure to the Indian Public Sector, from my working as Chairman of state-level Finance and Industry Corporations as well. I must say without sounding immodest that my assignments abroad have given me the ability to "see ourselves as others see us".

**Q. Being the supreme audit institution in India, CAG has been instrumental for ensuring a high standard of auditing in the Government of India. What are the challenges before the auditing profession in India and abroad?**

**A.** The challenges that my organisation faces as a constitutional body are of two types: strategic and operational. The greatest strategic challenge is that of rising expectations from public audit in the face of explosion of information and our ability to meet this 'expectation gap', given our limited resources and the constraints of our mandate. The operational challenges to public audit in India are many, chief of which include



*Having already made a mark by leading CAG's march into the IT era, Mr. V.N. Kaul is more particularly known to have brought about vital reforms and modernisation of audit practices, which are going on constantly.*

the adoption and absorption of information and communication technology within the CAG's organisation. We have made huge strides in our organisation through the Work Flow Automation Programme and the Audit Management System Initiative but we have a long way to go before we can become international leaders.

The second important challenge is the structural change in government accounting policies that is likely to take place as the Government moves from cash to accrual basis of accounting with increasing convergence between public and private accounting systems; i.e. what is sometimes called "the balance sheet approach" to the Budget. We have taken the leadership in negotiating this seminal and difficult transition in conjunction with the Ministry of Finance and created Government Accounting Standards Advisory Board to front-end our effort in this regard.

Thirdly, there is the question of response to audit from the Government and of disposal of pending audit objections. Any delay in these matters defeats the basic relevance of audit, and dilutes accountability of persons involved. While we are modernising our systems by introducing new methodologies of audit with greater emphasis on systems audit, performance audit, environment audit etc. to improve the quality of our recommendations and avoid their unnecessary fragmentation, we have to persuade the executive to improve compliance and become more sensitive to the concerns of audit and, therefore, of accountability.

Lastly, public audit in India cannot remain insulated from the revolutionary changes taking place in audit in the international arena. We have responded to these global impulses by a fundamental review of our audit practices, particularly by overhauling the methodologies for performance audit. There is also greater emphasis on accountability of government auditors. Modernisation of audit practices is a continuing exercise and training is the keystone for modernisation. We hope to continue with greater vigour.

**Q. The CAG's vision is to "promote excellence in public sector audit and accounting services towards improving the quality of governance". In the current scenario, when public sector companies are increasingly getting tech-savvy, what role can 'technol-**

**ogy audit' and 'science audit' play in realising the above vision?**

**A.** The rapid introduction of information and communication technologies in the public sector has impelled us to speedily upgrade both technological knowledge and human resources to meet this challenge. We have developed a robust practice of IT audit within the CAG's organisation to cover all audit areas, including commercial audit. In 2004-05, for the first time we brought out a report dedicated to IT audit assignments undertaken by the CAG. However, as the absorption of sophisticated IT-based systems grows in our public sector, we are changing our audit and reporting systems to enable wider coverage through IT audits as a part of all audit reports. We have developed manuals and guidelines to ensure high-quality IT audit, both through direct substantive testing as well as through systems-based audits. We have also greatly upgraded human resources and skills in the Department to undertake a range of IT audits, including those related to ERP systems, e-governance, system development projects, audit of e-procurement, audit of operations and maintenance, and audit of IT security controls. Our IT audit division is training experts to carry out IT audits not only within the country but also in international organisations, including UN specialised agencies that we audit.

As far as science and technology audit is concerned, given the complexities of scientific endeavour in India, it is essential that our audit of highly specialised departments such as Space and Atomic Energy is governed by clear guiding principles so that the role of audit is complementary to the efforts of our scientific community, and aimed at improving managerial practices in scientific administration; not limited to a fault-finding exercise. While developing our audit practice for scientific departments and technology-oriented public sector corporations, we have taken care to encourage audit practices and procedures based on the approach adopted by committees such as the Abid Hussain Committee on CSIR and the Rao Committee on the ICAR. In fact, eminent scientist Dr U.R. Rao is a member of my Advisory Board and we seek his counsel from time to time to improve our science and technology audit practices. Specialised training



programmes have been organised for personnel engaged in the audit of scientific departments and corporations. We try to be ahead of the auditee learning curve through strategic planning of our IT audit effort and training. We have set up a Technology Watch Group to observe and absorb related developments in other countries.

**Q. The International Relations Division (IRD) of CAG is entrusted to co-ordinate with international bodies such as INTOSAI, ASOSAI and GWG, and with the external audit of United Nations/UN bodies. What are the recent initiatives taken by IRD in this regard?**

**A.** The CAG of India has extensive international audit experience. Till recently we were the external auditor for the United Nations, International Centre for Genetic Engineering and Biotechnology (ICGEB), and the Organisation for Prohibition of Chemical Weapons (OPCW). Currently, we are the sole external auditors of the Food and Agriculture Organisation (FAO), World Health Organisation (WHO), International Maritime Organisation (IMO) and the World Tourism Organisation (WTO). I am a member of the Panel of External Auditors of the UN and its specialised agencies, and my organisation has contributed significantly to its deliberations and activities.

We are currently one of 18 countries that are members of the Governing Board of the International Organisation of Supreme Audit Institutions (INTOSAI). Under the INTOSAI Strategic Plan 2005-2010, I have been elected as a member of the Finance & Administrative Committee, and also as Goal Liaison for one of the three Goals i.e. Knowledge Sharing and Knowledge Service. I have the responsibility to steer the INTOSAI Standing Committee on IT Audit as its Chairman. Officers from this organisation are members of various Interna-

tional Committees/Working Groups, viz., Auditing Standards Committee, INTOSAI Working Groups on Privatisation and Environmental Auditing, and Task Force on International Institutions. We have made significant contributions to the INTOSAI Development Initiative (IDI). I have also been elected as the Secretary General of the Asian Organisation of Supreme Audit Institutions (ASOSAI) for the third term. As many as 39 staff members are on secondment to international organisations and foreign countries, providing technical assistance without a burden on our exchequer. This shows the confidence that the international community reposes in the Indian Audit and Accounts Department.

**Q. On the recommendation of the 11<sup>th</sup> Finance Commission, the CAG has been entrusted with the task of technical guidance and supervision (TGS) of local bodies in a majority of states. What steps has the CAG taken in this regard, and how would they result in bringing more transparency into state governments' accounts, particularly those of local bodies?**

**A.** Consequent upon the 73<sup>rd</sup> and 74<sup>th</sup> amendments and the substantial devolution of funds and functions to local bodies, constitutionally recognised as the third tier of governance and with a view to strengthening the accounting and reporting systems in these bodies the 11<sup>th</sup> Finance Commission recommended that the CAG may extend technical guidance and support over the maintenance of accounts and audit of the local bodies.

As a consequence we suggested improved accounting systems, including simplified budget and accounts formats, for Panchayati Raj Institutions (PRIs) and accrual accounting system and corresponding formats for Urban Local Bodies (ULBs). Our suggestions have been widely accepted. We have also suggested Guidelines for Certification of Accounts for PRIs and Auditing Standards for Local Bodies. We insist on circulation of audit reports to PRIs and to the legislature concerned; this should help increase awareness regarding usage of public funds and improve accountability.



**Q. In what way is the focus of Government Audit different from that of Commercial Audit?**

**A.** Government audit is very different from commercial audit in its scope, nature and extent. The primary objective of commercial audit is to produce a report by the auditor of his opinion on the truthfulness and fairness of financial statements so that any person reading or using these statements can feel assured about their veracity and validity. The subsidiary objectives of such audit are to detect error and fraud, to prevent errors and fraudulent behaviour in the future, and provide spin-off effects to strengthen the principle of stewardship in accounting. A commercial auditor's report is in the end an assurance addressed primarily to the company's members and focused on financial statements that are laid before the Company's General Body.

A government auditor's role, while it varies from country to country, is primarily concerned with the financial accountability of the Government to the Legislature and with the accountability of subordinate departments, agencies and individuals in the Executive to the Executive itself. The CAG's duties and powers have a constitutional basis under Chapter V of the Constitution and these have been elaborated in the CAGs (Duties, Powers and conditions) of the Service Act, 1971. After carrying out an audit of the Governments' receipts and expenditure, the CAG has to certify the Appropriation and Finance Accounts of the Government as correct, but more importantly it has to make sure that all Government expenditure and all moneys shown in Government accounts as having been disbursed were legally available for and applicable to the service or purpose to which they were actually applied or charged, and whether all expenditure conforms

to the authority which governs it. The CAG has to additionally ensure that all receipts of the Government have been collected under authority of law and accounted for as required by Parliament. He has to satisfy himself that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue. Moreover, the CAG's mandate is not limited to financial audit alone, but extends to the examination of economy, efficiency and effectiveness of Government expenditure and its programmes and schemes.

**Q. Reforms in government accounting in India have been receiving increasing attention. What is your perception of their need and urgency?**

**A.** The necessity for reforms in government accounting have been recognised and the Government has accepted the 11<sup>th</sup> Finance Commission's recommendation on the introduction of accrual accounting. As you may be aware, the Government Accounting Standards Advisory Board (GASAB) was set up by the CAG with a view to promoting the basic characteristics of understandability, reliability, relevance, timeliness, consistency and comparability of Government accounts across departments, authorities and organisations in the Union and State Governments, GASAB has been asked to prepare a road map for the transition from cash to accrual-based system. It has also been enjoined to prepare an operational plan for this transition. The switchover to the accrual basis of accounting will address the weaknesses of the existing cash-based system and also help in better cost-price calculation, which will in turn help in better management of services provided and subsidies given. As the new system will depict assets and liabilities of the Government more meaningfully, the system will correct the current bias in favour of short term.

**Q. What is the state of internal audit in the Government? How important is this function for ensuring efficiency and effectiveness in implementation of Government programmes, and quality of accounting and reporting?**

**A.** The current state of internal audit in the Government has been engaging the attention of

the stakeholders. Some of the key issues in internal audit are:

- (a) Securing independence for internal auditors functioning in various ministries/departments of the Government of India.
- (b) Broadening the mandate of internal audit to include performance auditing.
- (c) Strengthening audit planning and ensuring that there is evaluation of risk of entities covered by internal audit, on the basis of modern risk analysis techniques.
- (d) Need for development of internationally benchmarked audit standards for internal audit across the whole of the Government of India.
- (e) Acquiring requisite skills and training for conducting modern auditing.

Currently, a Task Force has been set up by me at the behest of the Ministry of Finance to review current internal audit arrangements in the Government of India with a view to strengthening them.

**Q. How do you think the CAG and ICAI, two organisations working in the same field, can better contribute and work together in setting the highest standard of auditing in India?**

**A.** Increasingly, Government accounting policies and those of commercial accounting are converging, the world over. The Government of India has already decided to move to accrual-based accounting system from cash-based system, and this will accelerate the process of convergence. This requires that the CAG's organisation as well as Government's own accounting departments work closely with the accounting profession to find solutions to technical issues that Government accounts face. ICAI has a

laudable record of providing leadership to the accounting profession and modernising it. Its wealth of knowledge and experience would be a great asset in modernising the Government accounting system. We have to work cooperatively to achieve accounting reforms, which bring greater accountability, transparency and user friendliness to Government accounts.

**Q. CAs and auditing are so closely associated with each other that sometimes people refer CAs as auditors. In such a situation, when CAs already shoulder the responsibility for a lot of statutory audits, do you foresee any newer roles for CAs in the coming days?**

**A.** A new Company Act is on the anvil, which applies equally to private and government companies. The proposals notified in the draft seek to rationalise the system and remove many anomalies. The new roles for CAs along with new responsibilities will be defined by the new legislation.

**Q. What message would you like to convey to the community of chartered accountants through the CA Journal?**

**A.** Our accounting systems in both the private and public sectors have to develop in response to the needs of the economy. The responsibility of accountants in both the private and public sectors will grow, along with the need for greater competence, integrity, objectivity and independence in planning, conducting and reporting on their work. The floor of acceptable behaviour will be determined by international benchmarks, so institutions like ICAI will play a central role in ensuring that we remain internationally comparable in both the public and private sectors in this profession.

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