

Audit

EPFO

An Insight

Meaning

- Audits are performed to ascertain the validity and reliability of information
- Also to provide an assessment of a system's internal control
- The goal of an audit is to express an opinion on the person / organization/ system (etc) in question under evaluation, based on work done on a test basis
- The term 'Audit' includes Financial Audit, Regularity Audit and Performance Audit

Types

- **Propriety** (Relates to proper or improper as per rules, laws, etc)
- **Regularity** (Relates whether it is regular or irregular based on justification, need, etc)
 - **Internal** (Internal mechanism)
 - **External** (CA firms, etc)
 - **Statutory** (CAG, etc)
 - **Compliance**
 - **System**
 - **Process**
 - **Product**

Need

- As the trade and commerce grew extensively globally, the involvement of public money therein also increased manifolds
- This in turn has created a demand from the clientele to have the accounts of the business ventures examined by a person independent of the owners and management of the business to ensure that they were correct and reliable
- Such a demand laid down the foundation for the profession of auditing
- The extent of reliance placed by the public on the auditors has increased so much with time that it is generally felt by the public that nothing can go wrong with an organisation, which has been audited
- It is extremely important that the auditors carry out their assignments with utmost professional care and sincerity, to uphold the faith posed by the public in them

Standards

- Audits should always be an independent evaluation that will include some degree of **quantitative and qualitative analysis**
- The auditor and the audit institutions must **be independent**
- The auditor must possess the required competence
- The auditor must **exercise due care and concern** in complying with these auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations
- It should be **fair in its evaluations** and in its reporting the outcome of audits
- Performance and **exercise of technical skill** should be of a quality appropriate to the complexities of a particular audit
- Auditors need to be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results, which could be indicative of fraud, improper, or unlawful expenditure unauthorised operations, waste, inefficiency or lack of probity

Expectations

- In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the audit report.

Materiality is often considered in terms of value but the inherent nature of an item or a group of items may also render a matter material as for example mandatory disclosure requirements of statutes regardless of the amounts involved.

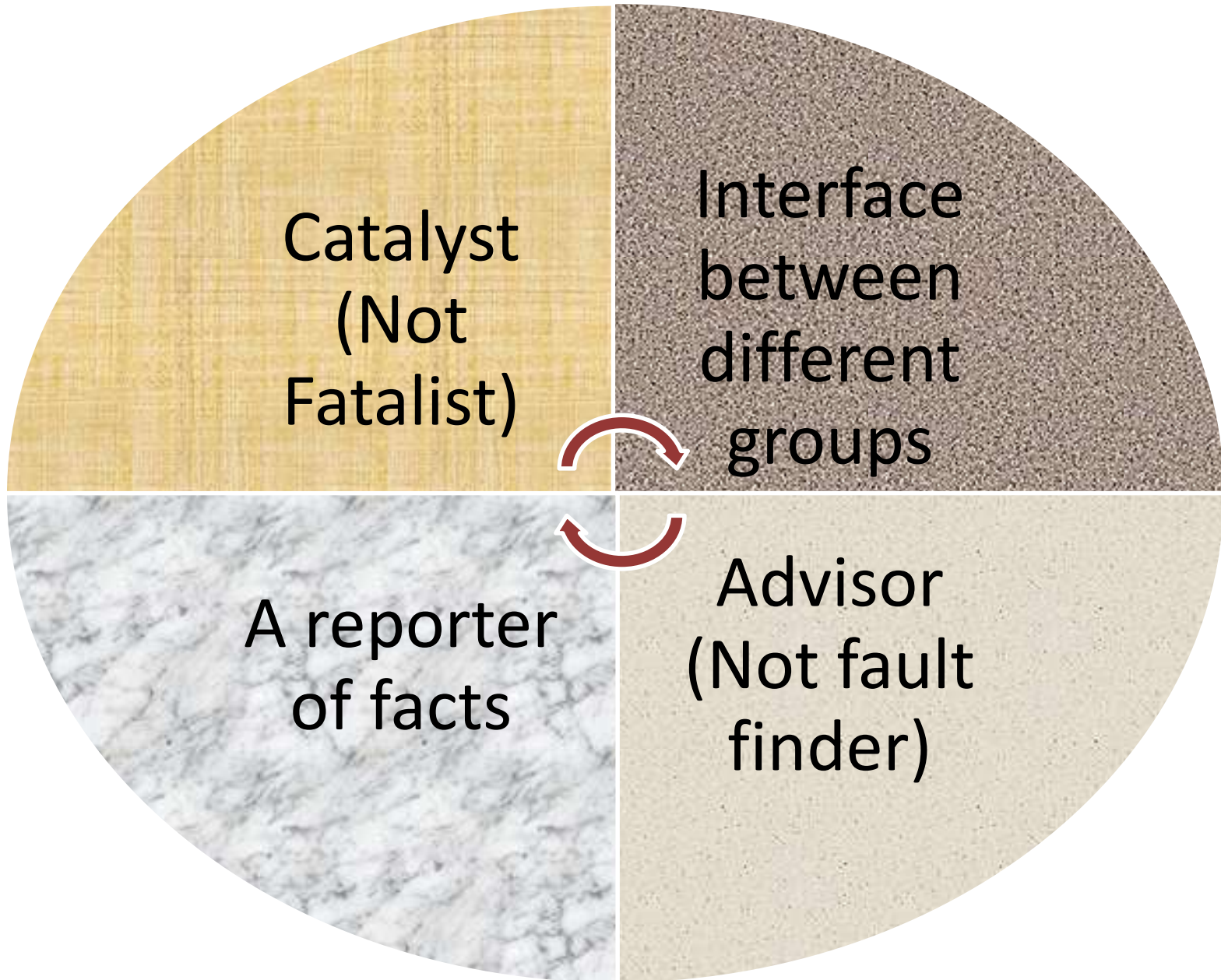
- In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs, for example, considering an item relating to:
 - The overall view given to the financial information;
 - The total of which it forms a part;
 - Associated terms;
 - The corresponding amount in previous years.

Expectations

...continued

- In the case of regularity (financial) audit, study and evaluation are made mainly on controls that assist in **safeguarding assets and resources, and assure the accuracy and completeness of accounting records**
- In the case of regularity (compliance) audit, **study and evaluation are made mainly on controls** that assist management in complying with laws and regulations
- In the case of performance audit, they are made on controls that assist in **conducting the business** of the audited entity in an **economic, efficient and effective manner**, ensuring adherence to management policies, and producing timely and reliable financial and management information

Role of Auditor



Rights and Duties of Auditor

- Bring to light wastefulness, failures, system weaknesses, deficiencies and the circumstances leading to infructuous expenditure.
- Right to inspect any office of accounts of the Office, to require that any books, papers and other documents which are relevant to the transactions to be sent to him and
- Put such questions to the persons in charge of the office or make such observations and call for such information as he may require for the preparation of any account or report which it is his duty to prepare.
- Information about an audited entity acquired in the course of Auditor's work must not be used for purposes outside the scope of audit and formation of an opinion or in reporting not in accordance with the Auditor's responsibility.
- It is essential that Auditor maintain confidentiality regarding audit matters and the information obtained while carrying out audit engagements.
- The auditor should be independent.

Rights and Duties

...continued

- Avoid conflicts of interest with the audited entity on matters that may impair their independence materially.
- Possess the required competence.
- Exercise due care and concern in complying with the auditing standards.
- Maintain absolute integrity and devotion to duty.
- Confirm that internal quality assurance processes have operated satisfactorily;
- Ensure the quality of the audit report
- Secure improvements and avoid repetition of weaknesses.

Stages



Planning

- The members of the audit team should have a clear and consistent understanding of the audit plan;
- The audit should be carried out in accordance with the auditing standards and practices in vogue
- The audit plan and action steps specified in that plan should be followed unless a variation is authorised
- Working papers must contain evidence adequately supporting all conclusions, recommendations and opinions
- The auditor should achieve the stated audit objectives; and
- The audit report should include the audit conclusions, recommendations and opinions, as appropriate

Methodology

- The main objective should be to point out errors not **FAULT FINDING**
- Preventive & Pro-active; **Not Postmortem**
- Wherever errors are found suitable **suggestion for rectification** should be given.
- Wherever there are errors of principle / misinterpretation, the effects should be brought out.
- Wherever existing instructions are insufficient, the attention of HO should be drawn to the requirements.

Methodology

- The Audit Team must have a beforehand knowledge of previous Audit Report and errors pointed out. For this purpose, it would be apt to examine the pending paras and dropped paras of the previous report(s) and verify whether the errors are recurring in case of dropped paras and whether the errors already pointed out are continuing
- Statistical returns should be reviewed with the reality and be facts be brought out clearly.
- All the audit slips issued should be compiled and recorded as official documents irrespective of whether retained or dropped.

Methodology

- Whenever the observations are dropped after raising a audit slip, the details of reply received for dropping the slip should be recorded.
- The records should be called for in writing and after verification even if no observations are made or slip raised, the official examining the document must put his signature with stamp indicating verification by the IAP
- Similarly, any record produced by the office in response to pending/ raised audit paras and verified should also be affixed with the rubber stamp as stated above

Deficiencies in Internal Control

- Absence of appropriate segregation of duties consistent with appropriate control objectives;
- Absence of appropriate reviews and approvals of transactions, accounting entries or systems output;
- Inadequate provisions for the safeguarding of assets;
- Evidence of failure to safeguard assets from loss, damage or misappropriation;

Deficiencies

...continued

- Evidence that a system fails to provide complete and accurate output consistent with the auditee's control objectives because of the misapplication of control procedures;
- Evidence of intentional override of internal control by those in authority to the detriment of the overall objectives of the system;
- Evidence of failure to perform tasks that are part of internal control, such as reconciliation not prepared or not timely prepared;

Deficiencies

...continued

- Absence of a sufficient level of control consciousness within the Office;
- Significant deficiencies in the design or operation of internal control that could result in violations of laws and regulations having a direct and material effect on the financial statements; and
- Failure to follow up and correct previously identified deficiencies in internal control.

Follow up of Audit Reports

- Adequate, prompt and proper follow up action by the entity on and in the light of audit conclusions projected will **enhance the effectiveness of audit** and **promote public accountability**.
- Systems and procedures should be in place and implemented for securing appropriate conclusions and **preventive follow up action** on audit reports.
- In subsequent audits and otherwise, the Auditor should examine and report whether satisfactory action was taken on the audit reports.

Frauds, illegal acts and other non-compliance

- When auditors conclude based on evidence obtained, that fraud or an illegal act either has occurred or is likely to have occurred, they should report relevant information.
- Auditors need not report information about fraud or an illegal act that is clearly inconsequential.
- Auditors should also report other non-compliance (for example a violation of a contract provision) that is material to the financial statements.
- Whether a particular act is, in fact, illegal may have to await final determination by a court of law. *Thus when auditors disclose matters that have led them to conclude that an illegal act is likely to have occurred, they should take care not to imply that they have made a determination of illegality.*

- In reporting material fraud, illegal acts, or other noncompliance, the auditors should place their findings in proper perspective.
- To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and be quantified in terms of money value, if appropriate.
- In presenting material fraud, illegal acts or other non-compliance, auditors should ensure that standard for objectives, scope and methodology, audit results and presentation standards, as appropriate are observed.
- Auditors may provide less extensive disclosure of fraud and illegal acts that are not material in either a quantitative or qualitative sense.

- When auditors detect fraud, illegal acts, or other noncompliance that are not of materials nature, they should communicate those findings to the auditee, preferably in writing and should refer to such communications in their report on compliance.
- Auditors should document in their working papers all communications to the auditee about fraud, illegal acts, and other noncompliance.
- **Management is responsible for taking timely and appropriate steps to remedy fraud or illegal acts that auditors report to it.**
- Auditors should obtain sufficient, competent and relevant evidence to corroborate assertions by management that it has reported fraud or illegal acts.

- Auditors under some circumstances may be required to report promptly indications of certain types of fraud or illegal acts to law enforcement or investigatory authorities.
- When auditors conclude that these type of fraud or illegal act either has occurred or is likely to have occurred, they should ask those authorities and/ or legal counsel if reporting certain information about that fraud or illegal act would compromise investigative or legal proceedings.
- Auditors should limit their reporting to matters that would not compromise those proceedings, such as information that is already a part of the public record.

The audit findings, conclusions and recommendations must be based on evidence.

Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the Organisation, program, activity or function under audit.

With regard to fraudulent practice or serious financial irregularities detected during audit or examined by audit, a written report should be prepared.

This report should indicate the scope of audit, main findings, total amount involved, modus operandi of the fraud or the irregularity, accountability for the same and recommendations for improvement of internal control system, fraud prevention and detection measures to safeguard against recurrence of fraud/serious financial irregularity.

Limitations

Non-exhaustive as limited to Test Audit on sample basis

Expectations are high and support system is low

Non-responsive auditees render audit a wasteful exercise

Inaction on observations lead to continuing deficiencies

Non empowerment for administrative action

Mostly restricted to reactive work / post mortem

Work limited to observation on only records made available

Internal, External and Pre Audit

- Internal Audit is conducted by the Organisation.
- Internal Audit Party makes a calendar for the Financial Year and communicates auditee offices well in advance.
- Visit all field offices & Head Office each year.
- Report is furnished at the end of Audit.
- This is a test audit of all areas.
- Mainly concentrates on policies, procedures and rules.
- This is a post audit – audit after completion of transaction.

- External Audit is conducted by CAG as per Scheme provisions.
- Immediately after compilation of balance sheet for the year, this activity is taken up.
- This is also test audit.
- The concentration is mainly on compliance to rules and standards.
- In addition to observations, a management letter is issued bringing out serious irregularities.
- This is also a post audit.

Pre Audit

- Pre Audit is a 100% audit of each contingency expenditures.
- Limited to Administrative Account (Account No.2) only.
- Without Pre Audit, payments cannot be made.
- Pre-Audit concentrates on procedures, policies and administrative delegation of powers.
- Also keeps track of Budgetary expenses.

In EPFO,

Audit

- Core Function Centers
- Ros, SROs

Audit

- Administrative Centers
- HO, ZO

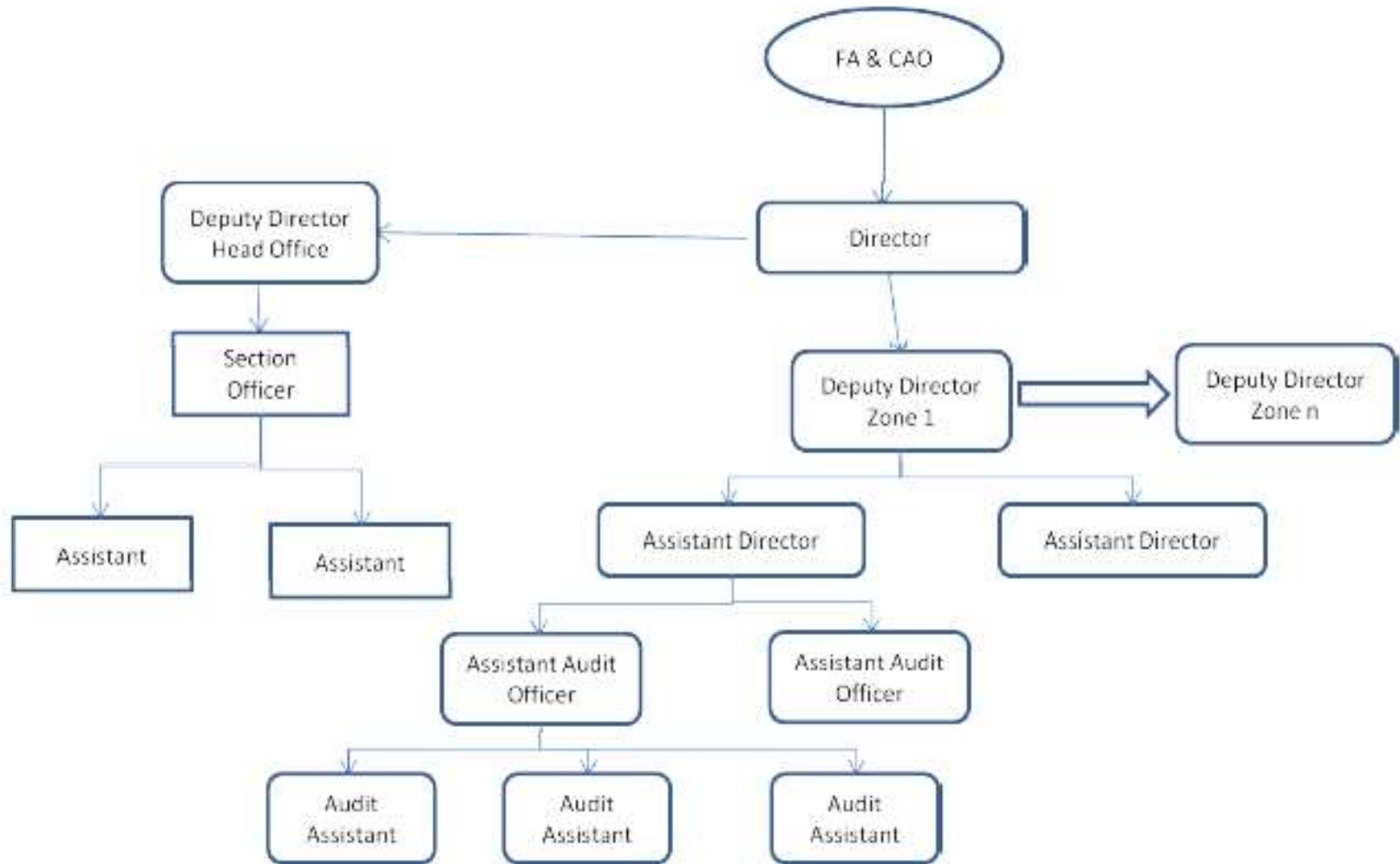
Audit

- Other Function Centers
- NATRSS, ZTIs, AT

Audit of different Centers - Strategy

- Core Function Centers:
 - Administration / Establishment
 - Enforcement
 - Accounts
 - Pension
 - Cash
 - Administrative Centers:
 - ASD, PFD, ISD, etc
 - Laying down of policies
 - Budget controls, planning, etc
 - Other Function Centers:
 - Training programs planning – participants, faculties, etc – procedures in selection
 - Achieving of targeted objectives (no. of trainings and trainees)
 - Budget control
- Adherence to Rules, Provisions, MAP, Timely disposal, maintenance of registers / records, growth rate, etc.
- Adherence to Rules, Provisions, MAP, Timely disposal, maintenance of registers / records, etc. Effects of policies laid down, control, etc

Structure



Audit of Finance Wing

- Budget
- Estimates – projection of receipts and expenditure
- Appropriate Classification of expenditure
- Use, abuse, misuse of budget
- Incorrect classification – effects
- Internal control on expenditure
- Use and misuse of delegated powers
- Internal Audit Vs. Pre Audit

Functional Response

- Co-operation to IAP, EAP in providing records regularly
- Immediate response to observations by Setting right the deficiencies
- Ensuring non-recurrence of deficiencies
- Amendments to deficient provisions
- Frequent review of the working
- In case of continuing deficiencies, administrative action on the concerned (Officers, staff, etc)
- Since audit is on test basis, thorough check of unchecked transactions in the Office
- **MUST UNDETSTAND THAT EACH OFFICIAL IS AN AUDITOR IN HIMSELF AND NOT WAIT FOR IAP / EAP TO FIND OUT THE DEFICIENCIES**

Remember,

Audit is in your own interests

&

Auditors are your representatives, eyes & ears

Audit is only a mirror which shows

your own image

your own image