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The importance of government audit

Subramanyan Sundaresan



TWO months ago, the Prime Minister, Mr Atal Bihari Vajpayee, addressing a conference of the Comptroller and Auditor General officers, criticised the government audit system, and said it had reduced the Executive to a prisoner of procedures rather than an achiever of purpose.

There has been little public or professional reaction to the comment, though it tends to show the audit department in a poor light. There is a case for the Government to take a fresh, and positive, view of its auditors.

Role of the C&AG

As the consultation paper prepared for the Constitutional Review Commission on the Office of the Comptroller and Audit General comprehensively deals with the role and functions of the audit machinery. There is no need, therefore, to stress the obvious here.

Why run down procedures?

Governments, by nature and size, deal with a large volume of public funds. Every democratic government has, therefore, a set of well-laid rules and procedures for its machinery. These rules and procedures are an important tool for sound administrative and financial decisions. This covers not only their conduct but also the way accounts need to be kept and decisions taken. The delegation of powers is also laid down carefully.

The bureaucracy is, thus, required to follow these rules. The objective is to ensure sound and financially prudent decisions. There is, therefore, no point in criticising the government accountants and auditors if they do their job of reviewing every official decision and expenditure.

Further, it is not right to say that adhering to rules delays decision-making. Nor is it correct to paint a picture that the government official cannot discharge his functions effectively because there is an audit watchdog at his heels.

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In fact, such a view is blown out of proportion by the civil service. The reasons for delayed decision-making should, in fact, be ascribed to other quarters, and not on the accounting and audit system. The magnitude of the funds involved in government operations is phenomenal. It is important that the government official follows the well-laid procedures in decision-making.

Requirements in the new millennium

There is need for the government to have a fresh look on accounting and audit. Many a corporate scandal has been exposed in the West, and the role of accountants and auditors has come under the scrutiny of not only the regulators but also the government and the legislature.

Consequently, the accounting profession is trying to adjust to the increasing regulatory rigour. After several frauds and bankruptcies in the West, even the "dynamic" private sector and its regulators are re-emphasising the need for tougher accounting and auditing standards. When that is the position, it is difficult to appreciate government authorities blaming the auditing system for slower decision-making.

Complex financial systems

The financial sector is becoming so complex that people these days talk of "financial engineering". Recent corporate scandals in the West have shown that the "off-balance-sheet" transactions have escaped the eye of corporate auditors and accountants.

Increased emphasis on infrastructure projects

This is another reason why the public expects the government audit system to be watchful and ensure that the procedures are followed. Any infrastructure project involves several thousands of crores of rupees.

Apart from corporate greed, there is a competitive urge on the project providers' part to win orders from the government concerned. The mode of financing is becoming complicated, the projects bigger and competition cutthroat.

All these necessitate greater vigilance and care on the government's part — both the elected ministers and the civil service. There is, therefore, a great need now more than ever before to re-emphasise the positive role and function of the government accountants and auditors, especially when project providers function under a cloak of secrecy.

In such circumstances, it is only the government accountants and auditors who have access to full information and records of transactions. Being experts themselves, they can safeguard the public funds.

A Danish urban infrastructure expert who advises the Auditors-General of several European countries says, "We are confronted with a new political and physical animal: the multibillion-dollar mega infrastructural projects." He points out the mega projects paradox consists in the irony that more and more mega projects are built despite the poor performance record of many projects. He and his colleagues have conducted a research study involving some 300 infrastructure projects in 20 countries. Their recent book — *Mega Projects and Risk - An Anatomy of Ambition* by Bent Flyvbjerg, Nils Bruzelius and Werner Rothengatter; Cambridge University Press, February 2003 — is a fascinating account of how the promoters of multibillion-dollar mega projects systematically and self-servingly misinform parliaments, the public and the media in order to get the projects approved.

It reveals an unhealthy cocktail of underestimated costs, overestimated revenues, undervalued environmental impacts and overvalued economic development effects. The researchers have pointed out that this behaviour results in projects that are extremely risky, but the danger is concealed from the MPs, taxpayers and investors.

Their prescription includes the creation of institutional checks and balances, including financial, professional and even criminal penalties, for consistent and foreseeable estimation errors. In such a situation, care should be taken not to dampen the enthusiasm and morale of the government auditors and accountants.

Roy Jenkins in *Democratic Politics and Economic Reforms in India* (Cambridge University Press) quotes several government audit reports to comment on the lax administrative system in the country. He states that the reports of the Comptroller and Auditor-General offices are filled with damning indictments of States which would be difficult to attribute entirely to administrative failures.

Need of the hour

The several scandals that rocked the corporate sector have forced the Government to constitute a Serious Fraud Office ensuring coordination between regulators, the legal machinery and the police. The regulatory structures and systems are being strengthened and appropriate legislative provisions being enacted. The present, therefore, is an opportune moment for a review and strengthening of the role of the audit machinery, the vigilance apparatus and the police force. The least that is expected of the Government is not to dampen their morale.

To put it simply, it is on the efficiency, fairness and integrity of these triple pillars that the prestige of a well-governed nation rests. It is hoped, therefore, that the Government will take the earliest opportunity to tell its administrative machinery the importance and emphasis it wishes to lay on auditing, vigilance and enforcement with a view to ensure a cleaner and efficient governance.

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