

Interactive Session with Mr. Vinod Rai, IAS [Retd.], eleventh Comptroller & Auditor General of India (CAG) on the occasion of the 22nd Lalit Doshi Memorial Lecture held on 4th August 2016

Question: Audit is very essential, but it is hampering business decisions. Business organisations are subjected to number of audits by different agencies. Can you suggest a single audit system for all the businesses so that they are not wasting their time and energy in unproductive audits also?

Mr. Vinod Rai: I really couldn't make out when you say that you are subjected to so many audits, I thought there is merely an internal audit and an external audit.

Question: (Rephrased) There are number of agencies, like Chartered Accountants, Cost Accountants, Company Secretaries, CBDT tax audit, Service Tax Audit, like this there are number of other audits, in addition there is scrutiny audit by income tax department. Recently limited scrutiny has been converted to complete scrutiny.

Mr. Vinod Rai: I can't speak on behalf of the income tax department of course. Governments has introduced a large number of single window systems, I do not know whether they will take the initiative to introduce this single window to the kind of problem you point out. I would sincerely believe that audit for revenue or expenditure is done only by one agency and that would be by the chartered accountants you engage. Cost accountants are engaged for other purposes and not for validation of your balance sheet. Validation of the balance sheet is the primary role that the audit performs so that it is accepted by your shareholders.

Question: In a perfect world with unlimited resources, both manpower and financial, there could be a perfect audit, every default could be found, every defaulter could be punished. All money would not be recovered, part of it could be. Why can we not emphasise further on a preventive audit, something that prevents a default, a pre-audit as it were so that a fault cannot be committed, instead of post-facto audit.

*Effect of Audit –
Good Governance or Policy Paralysis
22nd Lalit Doshi Memorial Lecture*

Mr. Vinod Rai: In a perfect world there will no role for audit. The kind of audit that is mandated to the CAG, is an external audit. By mandate he is supposed to do an audit which is post-facto the event. But to save the fraud or to prevent fraud, is the role of the internal audit. Internal audit is supposed to be done on a concurrent basis and reports to the CEO of the institution. It is their job to be following this closely and to ensure that so-called irregularities do not occur. The external auditor will always do post the event and he is not in a position to be able to stop, as you said, a scam occurring. Internal audit function is the one which ensures that.

Question: Like in the corporate world, is there an internal audit in government?

Mr. Vinod Rai: There is an internal audit system in government, unfortunately, it is not a very well-structured and a strong system.

Question: Sir, you had said that, the Article 148 (4) of the Constitution protects the CAG from arbitrary dismissal, but can only be unseated by a process of impeachment. But what guarantee is there for appointment of a CAG who is honest to the core and who is not a puppet in the hands of the government? What is the transparency and faith which we can have in the accounting system? Common adage is the auditor is a watchdog and not a blood-hound, but today the scenario is absolutely different. Your comments sir.

Mr. Vinod Rai: I do not think that this is a fair assessment of the system as it prevails today, as appointments to these institutions is becoming very transparent. I am sure future CAGs will also be appointed along the same systems, where you have a Collegium comprising may be the Prime Minister, the Leader of the Opposition and the Chief Justice who sit together and then make the appointment. It is a fairly transparent process and withstands public scrutiny also. By chance, of course, the CAG is not appointed by this methodology, which we had recommended six years back, I am sure that in the process that will follow soon, the Collegium will also be making the selection for the future CAGs.

Question: Auditor's job is a very difficult job. He has to work like a Chartered Accountant, he has to work like a lawyer, he has to work like an engineer, and so on, so how does an auditor perform looking from all such angles?

Mr. Vinod Rai: The auditor also has his specialisations and we have people who are trained in different kinds of roles that you just mentioned. This issue had been raised against us in the Joint Parliamentary Committee when we were auditing exploration of hydrocarbons. Parliamentarians who asked us what is the skill-sets that we possess by which we can audit the books of anybody engaged in exploring hydrocarbons? We replied that at that point of time, we had fourteen of our auditors working in Muscat in their Oil Authority doing exactly the work that the auditors were doing in India. So we have a large number of people who have specialised skill-sets and that is why we can conduct audits of space centres, space programmes, may be defence programmes, may be atomic energy centres or hydrocarbons. As I mentioned, these skill-sets have been acquired and the institution ensures that these skill-sets are honed and upgraded regularly in the best of institutions anywhere around the globe.

Question: This is regarding statutory compliances, considering that there are plethora of laws and statutes to be complied with, where hundred percent compliance is difficult, have you had an occasion of really releasing a report which has totally hundred percent compliant? We expect that everything should be complied with, but the entity themselves may not be knowing which law will affect?

Mr. Vinod Rai: Why do you have a huge pool of professionals, whom you pay huge amounts, if they cannot ensure that all statutory compliances have been met? It is very unfortunate that so many statutory compliances or guidelines are put in positions, but you have to plug all kind of loop-holes. It is for this reason that this strict compliance regime is created. There are a large number of institutions where it is absolutely clear that the institution is not in default of the regulatory body which regulates it. I do not think it is that much of a difficult phenomenon to be able to comply with all the regulations that are put in place.

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Question: As regards the Commonwealth Games Scam or 2G Scam, whether these matters have been brought to a solution by Parliament process and whether implementation of the CAG reports have been effectively done. Is there any process by which the losses to the exchequer and the tax-payers money has been recouped or recovered?

Mr. Vinod Rai: As far as the auditor is concerned he only picks out the irregularities and places them in the public domain. Beyond that it is the role of the investigative agencies and after the investigative agencies the judicial process takes over. Unfortunately in India, as you are privy to it, the judicial process takes a huge amount of time. But I think it should be sufficient consolation for all of us that for irregularities committed not as an act of commission but as an act of omission, certain people had to go to prison. I sincerely believe: even if ultimately they are not convicted, but the fact that they spent time in prison is good enough of a deterrence for anybody in future who sits in that high office to ensure that he does not commit the kind of faults that were committed at that point of time. As far as losses are concerned, recouping losses in revenue transactions has been done. I mean audit does it on a routine basis and it is recouped too. But of the kind that has been pointed in couple of instances that you indicated, we call them presumptive losses, because these losses are not in terms of what the public exchequer has foregone, literally, but in terms of resources which could have been coming into the exchequer in some way. To recoup that kind of losses is very difficult. For instance we talk so much about black money can we really follow the trail and get it back? So to a large extent recoupment may not be feasible, but to the extent that we are able to deter such irregularities in the future, I think the objective would have been achieved.

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