This study was undertaken to evaluate the audit system in public sector undertakings, auditing in public sector and non-public sector undertakings, the scope and applicability of modern trends in accounts and audit of PSUs, the role of the Comptroller and Auditor General of India in public sector auditing, the views of the auditors regarding the audit of public sector undertakings, and the problems of public sector auditing. From the findings based on primary and secondary data, certain conclusions are drawn out and certain concrete suggestions are made for improvements in the audit system of public sector undertakings in Kerala, especially where inadequacies are found and where immediate attention is needed. The researcher has also pointed out certain specific areas where further research is needed.

5.1 The Study in Retrospect

Public sector in India has acquired a prominent place with respect to investment and employment generated and has witnessed phenomenal growth since attainment of independence. Majority of the public sector undertakings in India have been incorporated as government companies under the Companies Act 1956. Kerala, the state having the largest number of state level public sector undertakings, offers a good cross section of the PSUs in India. With the massive investment of public funds in PSUs, whether controlled by the centre or the state, the principle of public accountability acquires special significance, especially in the context of recent financial scams.
As one of the major constituents of public accountability, auditing of PSUs has played a very prominent role in the working of PSUs in India.

In India, government companies are audited by two external agencies — by a firm of chartered accountants called statutory auditors and the Comptroller and Auditor General of India. The chartered accountant, who is appointed by the central government on the advice of the C & AG, conducts the audit of financial accounts and balance sheets of the company. The C & AG, in what is called supplementary audit, also checks these accounts to ensure that public funds are not wasted due to inefficiency or lack of propriety.

An efficient and economically sustainable public sector is crucial for a developing country like India. But, the control measures envisaged by the constitution through audit in PSUs do not fulfil their objectives up to the expectation of the stakeholders. The expectation of the public from the auditor has now spread to a number of areas that go beyond mere presentations of accounts.

A serious handicap in the study of public sector auditing in Kerala is the lack of specific literature relating to the general and specific problems in the audit of public sector undertakings. Though there have been many studies relating to the public sector and a lot of literature relating to the different aspects of auditing, no specific study has been conducted with special reference to the auditing of public sector undertakings in Kerala. The present study, therefore, strives to bridge this gap by focusing attention on the auditing of public sector undertakings in Kerala with the following objectives in view:

1. To evaluate the audit system in public sector undertakings in Kerala.
2. To compare the audit system in the public sector and non-public sector undertakings in Kerala.

3. To examine the scope and applicability of modern trends in the accounts and audit of public sector undertakings in Kerala.

4. To review the role of the Comptroller and Auditor General of India in public sector auditing.

5. To ascertain the views of auditors with regard to public sector auditing.

6. To identify major problems of public sector auditing.

7. To make suggestions and recommendations on the basis of the findings of the study.

With reference to the above objectives, the following hypotheses were formulated and tested:

1. There is no significant difference among the respondents regarding the audit system in public sector undertakings in Kerala.

2. The audit system in public sector undertakings in Kerala is less effective.

3. There is no significant difference among the respondents regarding the audit system in the public sector and non-public sector undertakings in Kerala.

4. There is no significant difference among the respondents regarding the scope and applicability of modern trends in the accounting and auditing of public sector undertakings in Kerala.

5. There is no significant difference among the respondents towards the role of the Comptroller and Auditor General of India in the audit of public sector undertaking.
6. The views of auditors about public sector auditing are not multidimensional and are not explainable by the independent variables selected for the study.

7. The independent variables selected for identifying and analysing major problems of public sector auditing are not multifaceted and are not explainable by the independent variables selected for the study.

In order to test the main hypotheses the researcher has also formulated and tested sub-hypotheses at appropriate stages.

The data for the study were collected from both primary and secondary sources. The collected primary data have been statistically processed, classified and tabulated using appropriate methods. Tables, diagrams and statistical results have been derived with the help of the computer software known as SPSS (Statistical Packages for Social sciences). The various statistical tools like percentages, means, profile analysis, error bars, analysis of variance (ANOVA), t-tests, skewness, and multidimensional scaling (MDS) technique have been extensively used for the cross examination of the data. Factor analysis has been applied for extracting the views and the problems of auditors with respect of the auditing of public sector undertakings in Kerala.

5.2 Findings

On the basis of the statistical inferences and observations, the following findings are considered relevant and worth noting.

5.2.1 Profile of Respondents

The analysis of the profile of the respondents on the basis of their experience in auditing reveals the following facts:

- Majority (56 per cent) of the respondents have a public sector audit experience of less than 5 years.
• 22 per cent of the respondents have experience between 5-10 years in PSU auditing.
• 22 per cent of the respondents have an experience of more than 10 years in PSU auditing.
• 35 per cent of the respondents have only less than 5 years of experience in non-PSU auditing.
• 29 percent of the respondents have an audit experience between 5- 10 years in non-PSUs.
• 36 percent of the respondents have a non- public sector undertakings audit experience of more than 10 years.

5.2.2 Audit System in Public Sector Undertakings

In this section the audit system in public sector undertakings is evaluated. The eleven variables selected to evaluate the audit system in public sector undertakings in Kerala are put to a reliability test and are found to give more than 70 per cent coverage of the factors and, hence, are reliable. The major findings of this section are:

• The profile chart reveals that most of the variables identified to evaluate the existing system of PSU auditing score below average, and hence it is found that the audit system in PSUs in Kerala stands below the satisfactory level or less effective.
• The mean and standard error of the eleven variables selected for the study and the one sample t-test also reveal that the audit system in public sector undertakings in Kerala is less effective.
• The combined analysis and the summated analysis of the eleven variables selected for the study prove that there is no significant difference among the respondents regarding the audit system in public sector undertakings in Kerala.
5.2.3 Audit System in Public Sector and Non-Public Sector Undertakings

In this section a comparison between the audit in public sector undertakings and non-public sector undertakings has been made to see whether the audit system in PSUs stands better when compared with the audit system in non-PSUs. The analysis reveals that:

- The audit system in non-PSUs is better than that of PSUs as revealed by the analysis of the overall mean rating of the five selected variables and the error bar.

- There is significant difference among the respondents regarding the audit system in the public sector and non-public sector undertakings in Kerala as revealed by the paired sample t-test.

5.2.4 Modern Trends in Accounts and Audit in Public Sector Undertakings in Kerala

In this section the scope and applicability of modern trends in accounting and audit in public sector undertakings has been studied. The variables selected are put to a reliability test and are found to give more than 70 per cent coverage of the factors and, hence, are reliable. The profile chart drawn to analyse the selected variables for the study reveals that:

- For the variables audit committee, risk based auditing, corporate governance and peer reviews the three classes of respondents gave a very high positive rating, which implies that they are all of very high opinion regarding the scope and applicability of these variables in the audit of PSUs.

- With respect to the variable ‘rotation of audit work’ among the audit firms all the respondents are of high negative opinion, which indicates
that this concept will not bring the desired results in the auditing profession.

- There is high and moderate opinion among the three classes of respondents that the accounting standards can confuse the auditing procedure.

- Regarding the variable ‘other services’ except among the respondents who have above ten years of experience, the opinion moves moderately towards the positive side. The more experienced class is of the opinion that allowing the auditors to provide other services to the clients will compromise the independence of the auditors.

- With respect to all the other six variables, viz. system auditing, quality standards, serious fraud investigation agencies, offer documents, quality review board, and legal audit, the opinion of the respondents’ was moderately positive which implies that there is potential and scope for the introduction of the modern trends in the accounts and auditing of PSUs in Kerala.

- Since the mean value of the summated score is above the average, it is further revealed that there is a positive scope for the introduction of modern trends in the accounts and auditing of PSUs in Kerala.

- The combined analysis and the summated analysis of the thirteen variables selected for the study reveal that there is no significant difference among the respondents regarding the applicability and scope of modern trends in the accounts and auditing of public sector undertakings in Kerala.
5.2.5 Role of the Comptroller and Auditor General of India in Public Sector Auditing

In this part of analysis the role of C&AG has been analysed. The analysis reveals that:

- 40.48 per cent of the respondents are of the opinion that the too detailed and continuous multiple auditing in public Sector undertakings affects the morale and inhibits the decision making of public sector managers.

- 59.52 per cent of the respondents are of the opinion that executives overlook most of the audit paras by C & AG, and, hence, the utility and effectiveness of audit report are affected substantially.

- 78.57 per cent of the respondents have positive opinion about the entire procedure of empanelment.

- 57.14 per cent of the respondents agreed that by giving C & AG executive authority to take actions against executives we could substantially improve the performance of public sector undertakings.

- 86.51 per cent of the respondents disagree with the statement that only an audit by the Comptroller and Auditor General can give fair and true picture of the balance sheet of government companies.

- There is no significant difference among the respondents towards the role of the Comptroller and Auditor General in the audit of public sector auditing as revealed in the ANOVA test.

- Upon considering the mean value and the skewness together, it is revealed that the majority of the respondents are against the role of C&AG in the auditing of public sector undertakings.
5.2.6 Ascertainment and Analysis of the Views of Auditors Regarding Public Sector Auditing

In this section the views of auditors regarding audit in public sector undertakings have been analysed. The variables identified for this part of the study are highly qualitative in nature and the issues are also interconnected, and so multidimensional scaling technique and factor analysis are used. The factors are extracted by using principal component method and rotated with Kaiser Varimax rotation method. The multidimensional scaling technique reveals that:

- There are mainly two dimensions for accepting public sector undertakings auditing. Experience and prestige are the main factors that contribute more towards accepting public sector auditing in both dimensions. But, if we consider only one-dimension, professional reasons is the leading factor and remuneration can be treated as only the second motivating factor.

The factor analysis reveals that:

Based on the Eigenvalues and relative percentage of variance 9 major components were extracted during factor analysis. The extracted factors together explain 73.986 per cent of variance, which is very significant considering the total number of variables analysed. The factor analysis further reveals that:

- The first factor identified includes the variables, accounting standards, actions against executives, system auditing, quality review board and review and comparison of industrial figures. These variables together make 10.142 per cent of the total variance. Considering the overall picture of the variables in this factor, it may be identified by the name Quality Controls.
The second prominent factor in the group which has explained a total variance of 9.334 per cent includes the variable like audit plans, audit committee and consultation with the board. Considering the nature of the variables this factor may be identified by the name **Audit arrangement**.

The third factor contains the variables corporate governance, auditor’s independence, peer reviews, and risk based auditing. Considering the overall picture of the variables in this factor, the factor may be identified by the name **New Trends**. This Factor accounts for 8.939 per cent of the total variance.

The fourth factor consists of multiple auditing, audit-by-audit board, absence of standardized financial and audit rules and manuals. This factor may be called by the name **Regulators**. This factor accounts for 8.735 per cent of the total variance.

The fifth prominent factor, which consists of variables like offer documents, quality standards, audit trial and multi disciplinary approach, explains 8.507 per cent of the total variance. This factor may be named **Competence**.

The next decisive factor which has a capacity to explain 8.454 per cent of the total variance, consists of variables like other service and rotation of audit works. This factor may be identified by the name **independence**.

**Transparency** is the name given to the next important factor with a power to explain 7.620 per cent of the total variance. This factor consists of variables like legal audit and parliamentary committees.
• The next important factor consists of only two variables with a total variance of 6.253 per cent. This factor consists of the variables audit paras and parliamentary controls. Considering the overall picture of the variables in this factor, it may be identified by the name Statutory Controls.

• Compatibility is the name given to the last factor identified with 6.001 per cent of the total variance, and it consists of only one variable, environmental factors.

From the factor analysis, it is clear that the factors identified are multi-dimensional and fit for explaining the views of the auditors, as the nine factors identified together are capable of explaining 73.986 per cent of the total variance regarding the audit of PSUs in Kerala. It is also found that the factors identified hold the key to make the audit system in public sector auditing more effective. A multi-prolonged strategy along with a strong commitment from all concerned only can make a difference in the audit system of public sector undertakings in Kerala.

5.2.7 Identification and Analysis of Major Problems in Public Sector Auditing

In this section the researcher tries to identify the major problems faced by the audit profession with respect to public sector auditing. The variables identified for this part of the study are put to multidimensional scaling technique and factor analysis as the variables are highly qualitative in nature and the issues are interconnected. The factors are extracted by using principal component method and rotated with Kaiser Varimax rotation method.
The multidimensional scaling technique used to represent the perceptions of the respondents with regard to ‘expectation gap’ in the auditing of PSUs reveals that:

- Lack of co-operation and purposeful delay made by the officials contribute much to expectation gap in both dimensions.
- Delay in getting information and workload of auditors are loaded in single dimension only.
- Professional compulsions, and lack of proper books of accounts and records do not contribute much to expectation gap.

The multidimensional scaling technique used to represent the perceptions of the respondents towards the factors that negatively influence the auditing of PSUs reveals that:

- Lack of accountability, lack of professionalism, and lack of commitment are the main contributing factors in both dimensions.
- Lack of awareness about latest changes/technologies, internal and external interference, and government apathy are loaded in single dimension only.
- Lack of clear-cut procedure, and inadequate staff strength do not contribute much to the negative influences on the audit work of public sector undertakings.

The Factor analysis with respect to the major problems of public sector auditing reveals that:

- Based on the Eigenvalues and relative per cent of variance four major components are extracted together which cause 60.353 per cent of variance which is significant considering the total number of variables analysed. The factor analysis further reveals that:
The first factor identified contains the variables the Registrar of Companies and the Committee on Public Undertakings. These variables together make 16.21 per cent of the total variance. Considering the overall picture of the variables in this factor, it is identified by the name **External agencies**.

The second factor contains the variables expectation gap, audit trial and other services with an Eigenvalue of 1.713 and accounts for 15.575 per cent of the total variance. Considering the overall picture of the variables in this factor, it is identified by the name **Professional**.

The third factor contains three variables, viz., remuneration, motivation and internal control, with an Eigenvalue of 1.697 and a total variance of 15.428 per cent. This factor is called by the name **Internal environment**.

The fourth factor identified with an Eigenvalue of 1.445 and a total variance of 13.136 percentage consists of procedures, internal control manuals and financial rules and auditing manuals. Considering the overall picture of the variables in this factor, it is identified by the name **Rules and Procedures**.

From the factor analysis, it is clear that the factors selected are good fit for identification and analysis of major problems of public sector auditing as the four factors identified together are capable of explaining 60.353 per cent of the total variance regarding the audit of public sector undertakings in Kerala. Therefore we may conclude that the independent variables selected for identifying and analysing the major problems of public sector auditing are multifaceted, and are explainable by the independent variables selected for the study. It is also clear from the factor analysis that the highest loading is on the factor ‘External Agencies’ which alone explains 16.21 per cent of the total variance.
variance. Therefore, we can say that by adequately strengthening the supervisory agencies like, the Registrar of Companies and the Committee on Public Undertakings, the auditing of public sector undertakings can become more constructive and effective.

5.3 Suggestions

Based on the findings of the study and on the basis of the opinions and attitude extracted through open discussions with those in the field of auditing and management of PSUs, the following suggestions are made to enhance the credibility, independence and effectiveness of auditing in PSUs in Kerala. Serious attention of all concerned, i.e., the government, the auditors, the C & AG, the various committees associated with the PSUs, the Institute of Chartered Accountants, and the management of the PSUs is invited towards the suggestions and recommendations.

1. An attitudinal change towards the audit control of PSUs is highly desirable. A control mechanism based on ex-post evaluation based on financial targets is best suited for PSUs. The auditors of PSUs, and the audit staff of the C&AG have to be trained especially for the purpose of reviews of the financial statements and accounts of commercial nature.

2. There is a need for developing a good efficiency- cum- management audit system in the case of PSUs. As far as possible the propriety audit should be limited to loss- making enterprises as too much propriety audit usually affects the morale of the managers of the enterprises under audit.

3. The C&AG audit in PSUs should be continued as the public and the parliament will not be satisfied merely by the self-assertions by the management that it is operating efficiently.
4. The Audit Board should utilize the agency of professional auditors for regulatory audit and should direct its auditors to efficiency audit only. To avoid duplication, combined audit parties consisting of the staff of the Audit Board as well as that of professional auditors should be formed so that the audit work can be done concurrently.

5. The reports relating to individual enterprises prepared by the Audit Board should be discussed in the presence of the representatives of the concerned ministries and the PSUs before it is presented before the C&AG and the Parliament.

6. At present the C&AG can cover only a small number of enterprises every year and that too only after 10 to 15 years. It would be good if it can be done within every 7 years. The C&AG audit should give more importance to performance appraisal than on finding minor lapses and faults.

7. The head of the internal audit department should have unrestricted access to the chairman of the audit committee and such other forums in order to ensure the independence of his department and position.

8. To be more effective the internal audit report should be placed periodically before the board of directors for review and necessary actions. The board and the auditors in turn should report on the effectiveness of the internal control system in their respective reports and statements. This will force the management to make necessary arrangements for the rectification of any deviation, if any, and can strengthen the entire accounting and audit system.

9. The PSUs must make sure that there is proper internal control manuals and system within the organization, and if not, immediate action should be taken to install such a system. Also the internal audit should be equipped and enriched even to undertake investigation on behalf of the audit committee and to follow-up any suspicion or fraud at times of need.

10. Necessary amendments and laws should be passed to ensure that there is no negligence on the part of the concern regarding the organization of the internal control departments in accordance with the size and operation of
the business. The government should see that the internal control department of PSUs are properly manned and also ensure that due attention is paid for the upkeep of its independence.

11. External auditors should be allowed direct access to the non-executive members of the board as and when necessary when they feel that it is in the best interest of their profession and the company. Both internal and external auditors should have unhindered right of access to the chief executive whenever they consider the matter to be sufficiently important.

12. A uniform accounting manual should be compiled and adopted by PSUs in order to bring standardization in the accounting practices followed by them. This will in turn make the financial accounts of the PSUs comparable and compatible with international standards. Necessary legal backing and follow up in the case of accounting standards developed by the different forums can eliminate unethical and fraudulent accounting practices.

13. Necessary legislation should be made to ensure that the items not usually disclosed in the financial statements, which are of great relevance to the users are included in the published statements. Proper measures are also to be adopted to restrict the number of options in accounting for identical transactions of different concerns at different points of time. The discretion and flexibility incorporated in the present accounting standards in the presentation of facts and figures in different ways should be done away with, so that the auditors can stand firmly against the particular treatment of certain items by the board.

14. The balance sheets and other published documents need to be rationalized and user-friendlier disclosures are to be made in the statements. Simplified financial statements, including very brief version of accounts, can allow the board to address the shareholders more meaningfully and effectively. Chief financial officer and other higher officials of the organizations
should be signatories to the financial statements as financial statements are still the primary responsibility of the management.

15. PSU audit should not be confined to financial audit but also move more towards efficiency-cum-propriety audit. Publications of audited quarterly or interim reports of PSUs can bring the much needed accountability and transparency in the administration of the public sector undertakings.

16. The Company's Act should be amended to facilitate the PSUs to do audit and complete the accounts and to submit them in the annual general meeting in accordance with the same procedures and formalities as in the case of the private sector. The external auditor should be allowed to be present at the board meeting where the annual reports and accounts are put to vote and approved.

17. The chartered accountants should go beyond audit in the 'usual sense' to a positive role in the appraisal of PSUs by a multidisciplinary team of evaluators within a reasonable time. By focusing their attention on issues of public importance the auditors can act as real aid to the management and can thereby enhance the administrative performance of the concern.

18. The PSU auditors should abstain from micro-audit of isolated actions, decisions and judgments, which usually undermines the confidence and initiative of the PSU executives. The auditors should be proactive in providing the management with various alternatives along with their usual recommendations and comments in their reports.

19. Establishment of a separate government company may also be thought of because providing registration services on commercial basis can strengthen the corporate image of Indian establishments. Private companies may also be allowed to provide selected registrar services subject to strict regulatory checks and balances and it can reduce the workload of the regulatory authorities to a great extent. The government can also contemplate the setting up of a new autonomous body and entrusting them the functions
which are, hitherto discharged by the government, to bring better control and supervision in the working of the PSUs in India.

20. Uniform cost audit rules and format can act as a better tool of evaluation of the performance of the PSUs and can also help and supplement statutory audit functions in a better way.

21. Compulsory appointment of company secretaries in all PSUs irrespective of their capital base can ensure better accountability and it can also reduce the workload of statutory auditors. Enforcement of compulsory secretarial audit in the same line with financial audit can strengthen the audit system of PSUs. The government should see that the ‘Secretarial Compliance Certificate’ regarding the compliance with the various provisions of the Companies Act should be part of the annual return filed with the registrar of companies.

22. A mechanism like ‘Shareholders Board’, which can appoint, reappointment and dismiss an auditor, can fulfil to a great extent the expectation of the shareholders and can also keep the independence of the audit profession. This can also reduce the time lag usually associated with the appointment of auditors with respect to PSUs in India.

23. The rotation of auditors would increase, rather than decrease, the concentration of accounts in a smaller number of large audit firms which is detrimental to smaller audit firms. Mandatory firm rotation can have a negative impact on audit quality through the loss of cumulative knowledge and difficulty in maintaining industry specialization. Rotation of audit firms in every seven years and the softer option of changing audit partners within the same firm in every 5 years may be recommended as a healthy practice.

24. Audit firms which are currently doing the audit work of a concern should be disallowed to provide ‘other services’ to the organization. Even if it is allowed, the fees paid for the audit and non-audit services should be fully disclosed.
25. Widening the scope of both auditing and audit reports can add value to the audit process and to a certain extent, it can live up to public expectations, thereby reducing the so-called ‘Expectation Gap’ in auditing.

26. The fundamental principles of accounting such as the going concern, materiality etc., should be conscientiously looked into while preparing the audit report of a company. This will definitely check the sudden and unexpected demise of the companies after the publication of an unqualified audit report.

27. Appropriate legislation should be made so that the auditors can freely report without inviting the risk of criminal and civil suite for breach of duty, to the appropriate authorities if any fraud or misappropriation of fund is noticed while auditing a firm. Adequate publicity may be given to qualifications made by the auditors of large companies as the stake of the public in companies is wide and very large especially in the case of PSUs. A mechanism for follow-up on qualification should be constituted as it can make auditing more meaningful and independent.

28. Disciplinary action taken against erring auditors should be given adequate publicity to discourage the members from engaging in such kind of unprofessional and unethical activities against the interest of the profession and the public at large.

29. Regulatory authorities like RBI, SEBI etc., will have to call upon auditors to report on matters of importance from their regulatory angle, even though these matters may not be directly related to financial statements, as this would act as a deterrent both for the management and auditors against indulging in such kinds of irregularities against the interest of the shareholders. The auditors should be authorized or permitted, with legal impunity, to report about the financial health of the entity to appropriate regulatory bodies and audit committees within the organizations.
30. Audit committee and its responsibilities should be confined to what it is authorized. It should not be allowed to become a super board, the final arbiter of all matters of financial aspect, as it would undermine the authority and scope of the board. Independent directors in the board of PSUs can bring not only more expertise but also more transparency to the audit committees, as they are more free and independent.

31. External auditors should be allowed to be present in the audit committee meetings without the presence of executive members of the organisation to have discussions on matters which are unresolved between the auditors and the firm. The audit committee should have the explicit authority to investigate and resolve any matters within its terms of reference without any executive sanction.

32. The audit committee should periodically interact with both the statutory auditors and internal auditors to ascertain the quality and veracity of the company’s accounts and the capabilities of the auditors themselves to provide quality attestation services to the company. Most of the frauds were committed with the indulgence of the top management and therefore they are difficult to be discovered. There is a need for good corporate governance to ensure scrutiny of organizational and financial reporting of PSUs.

33. C & AG audit may be made optional for PSUs having good fundamentals and management systems and may be restricted only to the submission of report to the parliament. The C & AG should consider employing more specialists in different aspects of commerce to improve the professional competence of his staff and thereby can counter most of the criticism against it regarding the capacity of its staff in understanding the commercial nature of the transactions of a concern.

34. Like the French Court of Audit, the C & AG should have the force of law and power to recover improperly expended public funds or cash deficits from the accounting officers of a concern. Enterprises having sound internal control system and a good track record of enforcing strict accounting standards may be selected less frequently for supplementary audit or may be
exempted from supplementary audit by the C & AG. Common accounting policies and accounting standards have to be evolved for PSUs as such supplementary audits can be avoided in the case of non-core sector companies.

35. Instead of taking individual enterprises, the Committee on Public Undertakings (COPU) should take up the examination of a group of undertakings falling within one area of enterprise and bring out consolidated report which would enable the committee to cover it with in the time at its disposal.

36. Audit has been playing an important part as an instrument of controlling and enforcing accountability over PSUs. A change in the existing system, methodology and attitude towards audit control is desirable. The auditors have to be trained especially for the purpose of the review of the financial accounts and statements of these enterprises as they are established with objectives different from those of their private counterparts.

37. The PSU audit needs a reorientation in its approach and should make sincere efforts to judge the efficiency of the management and for that there should be more reliance upon the efficiency or propriety audit of these enterprises. Chartered accountants should verify individual transactions, which are material in nature, irrespective of the extent of internal control or internal audit procedures. A system of efficiency audit coupled with management audit can improve the system of audit in PSUs. Those who are charged with efficiency audit should be more forward looking, i.e., to be more concerned with positive suggestions for the future than with negative criticisms of the past.

38. Chartered Accountancy firms should be multidisciplinary; a chartered accountant can have only another chartered accountant as a partner in India. However, in other countries a chartered accountant can have a company secretary or a cost accountant as his partner. Restricting the number of partners and allowing limited liability partnership firms can also be thought out to bring necessary vitality to the profession. Joint audit system - two
independent auditors checking each other’s work and taking turns in auditing different areas of the company can make auditing more valuable and efficient. Networking of audit firms can solve the infrastructure deficiencies in a multi-disciplinary multi-location audit environment.

39. Moving from cash to accrual and again to cash system of accounting may become necessary, if the public and the media fail to understand the forecast nature of financial reports created under accrual accounting. There should be a mechanism for reporting about the financial health of an organisation by the auditors to the audit committee or the board of directors.

40. Among foreign companies only those affiliated to Indian audit firms should be allowed to practice in India. The code of ethics should be given prominence and should also apply to the foreign audit firms working in India. The present system of foreign firms operating through surrogate audit firms should be seriously dealt with and necessary laws should be enacted to do away with this kind of backdoor operations.

41. The ICAI should recognize the changes in the economic and business environment and make necessary updation in their curriculum and audit practice. The ICAI should recognize the opportunities for chartered accountants in new emerging areas and restructure its role as a pro-active, innovative and flexible organization. The ICAI should adopt the best international practices and fine-tune them to suit the local conditions on the question of auditor’s independence.

42. The opportunities available to the chartered accountants for rendering services to the global organizations should be recognized and encouraged. Audit firms are to be permitted to provide accounting services to the client only in emergency situations. Existing limit should be continued in the case of other services like tax audit by chartered accountants.

43. Joint educational programmes in the nature of workshops, seminars, etc., can bring uniformity in the perception of chartered accountants and
C&AG audit team regarding the audit of PSUs. This can remove the communication gap between the chartered accountants and the C&AG, which is considered as one of the main reasons for the delay and the present status of auditing in the PSUs.

44. A reasonable duration of time should be given to the auditors to complete the audit. Qualification by the auditor with respect to the non-compliance with accounting standards or unsound practices by the entity should be seriously viewed by the C&AG. A mechanism for fixing the responsibility for non-furnishing of the records and information for audit work should be introduced in the system for the timely completion of the audit process.

45. The present Companies Act is incompatible with the ground realities. There are about 300 instances in the existing Companies Act where the corporate sector needs to seek sanction from government authorities. We need our corporate laws to be simple and fully compatible with the global practice.

46. The scope and coverage of investigation agencies like Serious Fraud Investigation agency should be enlarged to the extent of investigating not only financial scandals but also misuse of authority and negligence of duty especially in the case with PSUs. Legal audit should be made compulsory for all public sector companies whose operations are of national and strategic importance.

47. Ratings of auditors and audit firms by other specialized agencies can enhance the auditee confidence and bring more competence and professionalism in the audit work. Peer review of audit firms should be made more frequently and necessary feedback and training should also be provided to the audit firms.
5.4 Conclusion

The study reveals that the audit system in PSUs falls much below the expectations of the stakeholders, while, in comparison, the audit of non-PSUs stands in a better position. The study also indicates that the office of the C&AG and its role in the auditing of public sector undertakings has not been able to create a positive image in the field of PSU auditing. With respect to the scope and applicability of recent trends in accounts and auditing in PSUs, the study indicates that there is positive scope for the application of modern trends in accounts and audit of PSUs. The study succeeded in factorising the views of the auditors regarding the audit of PSUs and the problems in the audit of PSUs according to their gravity and importance. The study gives clear indications about the possible measures which can be adopted to enhance the efficiency and effectiveness of auditing in PSUs. It also makes an attempt to highlight the possibilities of introducing recent trends in accounting and auditing of PSUs in the changing economic environment.

After a comprehensive analysis of the various aspects of public sector auditing, it can be concluded that public sector auditing in Kerala is presently not in a commendable position and it is facing a number of problems and threats both internally and externally. But, Kerala, having the highest number of public sector undertakings in India, has a good scope of transforming these units into models of good corporate governance, and into centres of excellence and productivity. Proper planning, commitment, and vision on the part of all stakeholders and the audit community can make the public sector undertakings realise their ultimate objectives.
5.5 Scope for Further Research

The present study on audit system in public sector undertakings is based on the response of statutory auditors only. Therefore, there is a need to investigate separately and specifically the other aspects and dimensions of public sector auditing. The researcher would like to suggest the following prominent areas among them for further research.

- Globalisation and its impact on the auditing of PSUs.
- The new accounting standards and auditing in PSUs.
- The role and impact of audit committee in the auditing of PSUs.
- Scope and applicability of legal audit in the auditing of PSUs.
- The role of regulatory agencies in the auditing of PSUs.
- Auditors’ independence and accountability in the auditing of PSUs.

It is hoped that the present study would provide a base for further research in the above areas. A systematic study on the various aspects of public sector auditing will not only give new insights into this area but will also make the various stakeholders aware of the importance of auditing as a means of control over public sector undertakings.