During the first half of the twentieth century economic planning and socialism caught the imagination of a number of newly independent states. Planned economy and state control of means of production and distribution was considered as the means of achieving rapid economic and social development of a nation. But in India the Public Sector Undertakings (PSUs) had come into being in the third and fourth decades of the nineteenth century. There was a progressive expansion in the scope of public sector after independence and the advent of planning in India. The Industrial Policy Resolution of 1956 and the adoption of the socialist pattern of society led to a definite enlargement of the public sector in India.

Today public sector in India has attained a position of prominence and importance with respect to investment and its national importance with its expansion in diverse industrial and commercial fields. In India PSUs are organized in various forms on account of the nature and forms of business units, operational authority, financial autonomy, and the extent of public accountability. At the micro level the different forms in which PSUs are organized in India are:

- Departmental Undertakings
- Public Corporations
- Government Companies
- Other forms – Commissions, Public Trust, Commodity Board and Operational Contracts.
The working and administration of PSUs have many distinctive features. Most of them are registered under the Companies Act or under the Special Act of the parliament. The chief executive officer functions under the overall guidance of the Ministry concerned, with defined powers which are somewhat limited when compared to that of the private sector.

PSUs have a high degree of public accountability because the investment in them is from the public funds and the public would like them to uphold the values and achieve their objectives for which they were established. The accountability of PSUs to the public at large is mostly informal or based on traditions and conventions. But on the other hand, the responsibility to the legislature, and to the audit and the court, which is the major factor of PSUs accountability, is well-defined and formal.

The audit of PSUs is done by the Comptroller and Audit General of India (C & AG) on behalf of the legislature under the heads financial audit, efficiency audit and proprietary audit. Financial audit in a PSU is limited to certifying that proper books of account have been maintained and that the accounts represent a true and fair view of the affairs of the enterprise for a given period. It is not concerned with the prudence or the lack of it in managing the enterprise. The financial audit of government companies is carried out by chartered accountants (CAs) appointed by the advice of the C & AG, and that of the statutory corporations by the staff of the C & AG.

The financial audit of government companies is more rigorous and independent because the CAs, being nominees of the C & AG, are not dependent on the pleasure of the top management of the company for their continuance on the job. Secondly, the C & AG has the right to issue directions to the CAs of the government companies under section 619 (3) of Companies
Act on the performance of their work. Based on their directions, special reports are to be prepared by the CAs on the accounting systems and control in government companies. Thirdly, the audit report of the government companies are vetted again by the C & AG under section 619 (4) of the Companies Act. Every year the C & AG chooses 5 to 6 PSUs for efficiency audit on an average. A comprehensive report containing various parameters like utilization of manpower, actual consumptions and standard consumption, percentage of major components of expenditure, etc. is presented to the parliament.

In government audit and in independent financial audit the auditors are concerned with examining the accuracy of the recording and the classification of transactions. The techniques applied by the auditors to collect evidence are also similar. But some aspects of government audits are quite different from that of independent financial audit. Its scope and emphasis is too much wider than that of the latter. In government audit much more emphasis is placed on rules and procedure than in independent audit. It is also closely concerned with examining the propriety of expenditure.

1.1 Significance of the Study

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. Since government companies are governed by the general provisions of Indian Companies Act, their books of accounts are required to be audited by a firm of chartered accountants. These accounts are also checked by the C & AG in what is called supplementary audit. Statutory auditors generally see that a company complies with the technical requirement of the company law and various guidelines issued by the Institute of Chartered Accountants of India (ICAI).
Thus, if the company has made adequate ‘disclosure’ in the ‘Notes to the Accounts’ the legal requirements are fulfilled. On the other hand, the government audit looks beyond the legality and enquires whether accounting policies followed by the company are camouflaging the real financial health of the company and distorting the profitability profile.

The auditing of public sector undertakings, especially in the context of recent financial scandals, like Enron, Xerox, and World. Com, is of much economic and political significance, but the academic community or professional bodies do not seem to consider it seriously. The control measures envisaged by the constitution, especially the control through audit, do not rise to the expectation of the stakeholders, especially the public and the regulators. There is a lot of ‘expectation gap’ between the performances of audit in PSUs and the expectation of the stakeholders. Though the government of India set up three committees to, namely, The Administrative Reforms commission (1967), The Faizal Committee (1980) and The Arjun Sen Gupta Committee (1984), to study it, no significant follow-up action followed it. Therein lies the need for such a study, which will be very much encouraged by the stakeholders of PSUs, especially the public and the regulators. There is definitely a gap in the field of research and in this context the present study is highly warranted. The attempt of the researcher is to fill the gap by evaluating the performance of auditing in government companies by carrying out an in-depth study and to submit creative suggestions emerging from the study.

1.2 Review of Literature

A substantial volume of literature at the macro and micro levels exists on the subject of public sector undertakings. But there have been very few studies in audit in PSUs. However, a thorough survey of available literature
was conducted, with special emphasis on Kerala, for constructing a theoretical framework for this study. The survey helped to understand and appreciate the earlier studies conducted in the field of public sector auditing and it also provided a broad framework for this study.

A.H. Hanson\(^1\) draws attention to the state of PSUs in the context of the present day world. He observes that, the proliferation of public enterprises in some parts of the world continues on a large scale and that they are becoming a headless branch of government. This potent statement compels us to re-examine the very concept behind and the administration of PSUs in the global situation. The findings of the Estimate Committee\(^2\) also substantiate the above observation and found that companies are set up under the company law by the executive decision of the government. Approval of the parliament is not obtained specifically for setting up the companies, though funds for them may be provided for in the budget or drawn from the Contingency Fund with the result that the parliament is confronted with a fait accompli. This provision of the company law is one of the reasons for the proliferation of public enterprises without any direct accountability or public scrutiny before and after the inception of the entity.

Arjun Sengupta Committee\(^3\) states that government should be primarily concerned with the overall strategic planning and policy rather than the day-to-day functioning of the PSUs. The committee argues for the functional autonomy of PSUs as a prerequisite for the proper accountability and optimal


\(^2\) The Estimate Committee, 80th Report, 2nd Loksabha.

performance of PSUs. The Committee on Public Undertaking\textsuperscript{4} in its report on the working of PSUs in India pointed out that financial management is ineffective and unscientific in PSUs in India and found that it is the main reason for the failures of most of the PSUS in India. It strongly recommended effective and sound financial management tools and practices for the working of PSUs.

Dr. Surinder Kand,\textsuperscript{5} in his review of the rationality of engaging an economic activity like the establishment of a PSU, is of the opinion that when an economic agent undertakes an economic activity, decision-making has to be rational, or the activity cannot be sustained. This statement is particularly true about PEs in India as many of them are established with conflicting objectives and usually without any sanction from the parliament.

The recommendation of Economic and Administrative Reforms Commission (EARC)\textsuperscript{6} is that there should be a radical re-examination of the nature of the government’s relationship with PSUs. The PSU should be distanced from the ministers, and the constant stream of instructions, questions, request for information, summons to meeting, telephone calls etc. should be radically curtailed, to provide functional autonomy. Determined effort should be made to get away from the tendency on the part of the administrative ministries to treat PSUs as subordinate offices.

\textsuperscript{4} Committee on Public Undertaking (4\textsuperscript{th} Loksabha), 1976, 15\textsuperscript{th} Report on Financial Management of Public Undertakings.

\textsuperscript{5} Dr. Surinder Kand, “Power Sector Reforms a Review and Alternative”, \textit{Southern Economist}, 1\textsuperscript{st} May 2004, p. 12.

Administrative Reforms Commission\(^7\) states that the effectiveness of government control is not adequate. Ineffective control is worse than no control, because while it inhibits operational initiative by an external apparatus, it fails in its objective of regulating matters in those areas where regulation is essential.

Jagdish Prakash\(^8\) pointed that PSUs have been assigned as many as about 30 socio-economic objectives. In actual operation these objectives are contradictory and many of them undermine and even negate the concept of economic and financial profitability. Multiplicity of objectives without any clarity, political interference and lack of accountability can be cited as the main reasons for the poor performance of PSUs in India. Sethe and Kidwi\(^9\) opined that, the confusion about the concept of public sector has to be cleared. The achievable objectives have to be clearly defined. The strategies of achieving the tasks have to be laid down. The responsibility of the management and owners has to be clearly determined. Lack of clarity, norms, strategies and vision is the main cause of the dismal performance of the management of PSUs in India.

V. Gangadharan Pillai\(^10\) looks into the problems haunting public enterprises in Kerala. He is of the opinion that inefficiency of management, lack of finance, defective recruitment system, political interference and


indiscipline of their workers are the important factors responsible for the unhealthy performance of most of the state enterprises in Kerala.

Pradeep Kumar, Baldev Suchdeva and Jagwant Singh\textsuperscript{11} are of the view that profit and loss account and balance sheet which are prepared according to the legal requirements are to be supplemented by a non-technical presentation of all material or important items which would enable the average stakeholder not versed in accounting to appreciate the trading results and the financial position disclosed by annual accounts. This clearly shows that there is a certain lack of clarity and transparency in the preparation and presentation of accounts and underlines the need for a better format and a more effective method of presentation of final accounts. However, S. Anderson\textsuperscript{12} argues that the profit and loss account and balance sheet of today are not different from those produced at the beginning of the 20\textsuperscript{th} century. They are now produced in a much more expensive, elaborate, colourful form, but their contents have not improved or changed with their outward appearance. He also enjoins the company auditor’s constant endeavour to ensure that any information given should be explicit, complete and free from ambiguity. These findings signify the need for a thorough change in the formation and presentation of the final accounts from the way they are presented today. It is worth noting here that the Vital Committee\textsuperscript{13} highlights the urgent need for new uniform guidelines for accounting and auditing of PSUs in India.

\textsuperscript{11} Pradeep Kumar, Baldev Suchdeva Jagwant Singh, \textit{Auditing Principles and Practice} (7\textsuperscript{th} edition), Ludhiana: Kalyani Publishers, 2003, p. 387.
Laxmi Narain,\textsuperscript{14} while evaluating the efficiency of auditing in PSUs, points out the need for a proper and effective control of PSUs through audit. This control is necessary since the funds invested in them do not belong to those who manage the affairs of the enterprises. According to him the real need is to develop efficiency audit along with a built-in system of reward-cum-punishment for top management. He further stressed the need for a reoriented approach in the traditional audit system to win the confidence of the public and the other stakeholders. Jagdish Prakash,\textsuperscript{15} in his study on the administration of PSUs in India, mentioned that the audit of PSUs is wider in scope and coverage and it is not restricted to mere verification of facts. He further observes that the audit of PSUs in India is not restricted to finance and compliance, but it extends also to the efficiency, economy and effectiveness with which they operates, and fulfil their objectives and goals.

Chartered Accountant\textsuperscript{16} in its editorial ‘Public Enterprise and Accountability’ remarked that the scheme of audit is inoperative or defective in several PSUs due to a widespread lack of commitment, discipline and sense of accountability, especially in those that are set up by state governments. Goswami\textsuperscript{17} Committee on Industrial Sickness found out that delay in preparing the audited accounts, listing inventories, assets and valuation is one of the major reasons for sickness in industries in India.

\textsuperscript{14} Laxmi Narain, \textit{Efficiency Audit of Public Enterprise in India}, New Delhi: Orient Longman, 1972, p. XVII.
\textsuperscript{17} Goswami Committee recommendation on industrial sickness.
B.P. Mathur\textsuperscript{18} suggests that the top management of PSUs does not give internal audit the importance it deserves and does not allow it to raise inconvenient questions. He is of the view that internal control is one of the most neglected areas in the accounting and audit of public sector undertakings in India. More emphasis on internal audit and accounting in the management of the public sector in India is highly warranted.

C.G. Somiah\textsuperscript{19} advocates a remoulding of the entire functioning and the very objective of public sector auditing. According to him audit should act as an aid to the administration; it should help to strengthen internal control systems and should help to create a climate of increased responsiveness to the administration change. G.V. Mavalankar\textsuperscript{20} attempts to provide a fresh perspective to audit taking into account the changing economic situation throughout the world. He points out that the audit of PSUs should be conducted in such a way that it becomes duly acceptable to the management as well as the auditor. There are a few other studies too which call for a new perspective. Jagdish Prakash\textsuperscript{21} is of the opinion that the audit should shift its emphasis from methods, procedures or individual decisions to overall results and to the failure in achieving specified goals. He highlighted the need for a shift in the attitude and emphasis in public sector auditing.

Report of the Sub Committee of the Conference of Chairman, Public Accounts Committee, Accountability in Administration,\textsuperscript{22} has observed that there is no mechanism for identifying and booking the culprits responsible for

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\textsuperscript{19} \textit{Times of India} report, C.G. Somiah, Former C & AG, 1990, p. XIV.
\textsuperscript{21} Ibid., p. 590.
\end{flushleft}
huge losses incurred by PSUs. Here the committee advocates the need for a fresh look at the entire system of auditing of the public sector as well as highlighting some of the serious inadequacies of the existing system of auditing. P.M Narielvala, Salil K. Gupta and P.K. Mallik,\(^{23}\) however feel that the present structure of the code of ethics is strong enough to meet future challenges. What is lacking is awareness about the importance of the code of ethics in the audit profession and a strong machinery to punish the erring members. This clearly shows the need for inculcating more discipline and values in the working of the professionals.

One of the serious problems faced by public sector auditing in Kerala is the delay in finalizing of accounts. C & AG\(^{24}\) of India in its Annual Report for the year 2003 clearly sketches out the present state of the accounting and the financial performance of PSUs in Kerala. The C & AG reported that only 22 out of 91 working government companies, and only one out of 5 working statutory corporations, have finalised their accounts for the financial year 2000-03. The accounts of 69 working government companies and 4 statutory corporations were in arrears for a period ranging from one year to 11 years as on September 2003. The same report\(^{25}\) states that according to the finalized accounts of 91 working government companies and 5 working statutory corporations, 52 companies and 3 corporations had incurred an aggregate loss of Rs.230.40 crore and 135.33 crore respectively, and 36 companies and 2 corporations earned an aggregate profit of 220.02 crore and 62.97 crore respectively, while the remaining companies have not commenced commercial


\(^{25}\)Ibid., p.6.
activities. However, out of 52 loss incurring working government companies, 35 companies had accumulated loss aggregating 1376.53 crore which exceeded their aggregate paid up capital of 492.62 crore. It is also noted in the report that the accounts of 17 non-working companies were in arrears for periods ranging from one to 20 years as on 30 September 2003. Only five non-working government companies finalized their previous year’s accounts during the period from October 2002 to September 2003. The C & AG also remarked that there is dissatisfaction with the existing system of audit among PE managers and as a solution it recommended the abolition of multiplicity of audits in PEs. But the C & AG fails to suggest a better alternative in this matter, and it adds to the complexity of the situation.

R.K. Chandrasekhar remarked that there is a mismatch between the rate of presentation of reports and the examination by Committee on Public Undertakings (COPU) eroded the accountability enshrined in the parliamentary control. Reports on the workings of the committee show that nearly 50 percentage of the matters referred to the committee is still pending. Moreover, as the same remarks appear in C & AG report every year we can assume that the functioning of these committees needs further review. Mathur and Chandrashekar also present the same view. They state that mismatch between the rate of presentation of reports and the examination by COPU has created an anomalous situation, of increasing the value of unexamined reports. According to the study the backlog of the committee is

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29 Ibid., pp.1193-94.
50 percentage of the presented reports. This really calls for a thorough revamping of the entire functioning of the committee.

Sunil Bhargava\textsuperscript{30} remarks that the stakeholders’ expectations from the audit profession have increased significantly. There have been growing demands for high quality assurance, consistency and greater transparency in the attestation function.

Dr. P.T Gridharam\textsuperscript{31} in his article about the widening difference between the auditor’s work and the public expectations points out that lack of public awareness, and lack of understanding of the exact nature, role and duties of the auditors is widening the expectation gap day-by-day. This again leads to more expectations about the perceived responsibilities of auditors and thereby starts the cycle of disappointment.

Administrative Reforms Commission (ARC)\textsuperscript{32} in its report made an elaborate examination of the audit system in PSUs in India and recommended the overlooking of minor lapses or general adverse remarks about the working of PSUs as it can demoralize executives. The committee is of the opinion that these will also give the PSU executive a feeling of hurt and humiliation. However, the Arjun Sengupta committee (1984) on audit control recommended that the periodical performance audit of PSUs conducted by C & AG should be continued. Regarding core sector, the committee is of the opinion that supplementary audit as at present should be continued by C & AG. However, the committee holds the view that supplementary audit should shift

\textsuperscript{30} Sunil Bhargava, “Peer review moving to its quality awareness consistency and transparency in attestation service”, \textit{The Chartered Accountant}, (Feb. 2003, p. 852.
its focus from details and minor lapses to major lapses. Thus, according to the committee, the office of the C&AG should continue even if there demands for a better audit control of public sector undertakings. However, The Faizal committee (1980), constituted for improving the performance of PSUs, remarked that the PSUs in general are subject to over audit. The committee also recommended the abolition of double audit in PSUs by making suitable amendments in the Companies Act and following the same formalities as in private sector in the auditing and submission of accounts. It recommends a system of auditing without loss of freedom to the PSUs in selecting operating strategies.

EARC\textsuperscript{33} recommend the desirability of double audit in PSUs should be removed and allow to be audited and presented as in the case of private organizations. But the committee was neither able to create a favourable response on the part of authorities nor to substantiate their arguments in favour a change.

The Estimate committee\textsuperscript{34} states that there is considerable delay in the submission of annual reports and accounts to the parliament and that there is no uniformity in the form and content of reports. The committee points out the inadequacy of the present system of accounting and auditing in PSUs in India.

The Administrative Reforms Commission\textsuperscript{35} recommends that annual report should include more detailed information, as it would enable parliament to make assessment of their efficiency. ARC also remarks that traditional audit suffers from certain deficiencies and hence is not suitable for commercial purposes. The committee is of the opinion that the present system of preparation and presentation of accounts by the PSUs is wholly

\textsuperscript{33} Jagdish Prakash, p. 444.
\textsuperscript{34} The Estimate Committee, 2\textsuperscript{nd} Loksabha, 80\textsuperscript{th} reports, Para 5.
\textsuperscript{35} A.R.C. Report of the study team on PSU, p. 16.
inadequate not only from the commercial aspect but also with respect to the mechanism of parliamentary control.

The Administrative Reforms Commission report on PSU Government of India 1967\textsuperscript{36} recommends regular audit of PSUs by the Audit Board and the utilization of the services of professional auditors for that, but for efficiency audit it may utilize its own staff. The committee stands for the continuation of the double audit in PSUs irrespective of the shortfalls in the functioning of the system. But another report of the study team appointed by ARC found that the existing multiplicity of external audit leads to considerable waste of time for the management. It also pointed out that government auditors do not have sufficient appreciation of the commercial nature of the PSUs and that detailed and continual audit dampens the spirit/initiative of managers. Thus what we witness is that often these committees submit quite contradictory recommendations to the government with respect to the audit of PSUs in India. This situation leads to the conclusion that there is no fair appreciation of the working of these entities and that these committees are ill-equipped to deal with such complex issues.

Asish K. Battacharya\textsuperscript{37} in his article, “Accounting Standards Must Be Simplified” states that there is a need for the simplification of accounting standards and it should be a trade off between elegance of accounting principles and benefits from the use of those principles.

Institute of Chartered Accountants - Auditing practice committee Council in its article “Risk Based Auditing - A Basic Answered to the Challenge”\textsuperscript{38} argues for the ‘invention’ of an appropriate response from the auditing profession in

the changing world business environment - an auditing methodology that meets the norms of efficiency and cost effectiveness.

N. Rangachary, in a speech\(^3\) remarked that a modern accountant should not only be a professional adviser but also a change agent. He reiterates the need for a change in the role and attitude of auditors in the conduct of their profession. G.V. Rana Krishna\(^4\) in his article “Two Scores and Ten” speaks about the importance and ethics of giving honest audit opinion by the auditors. According to the writer giving wrong opinion with a dishonest intension is the worst form of corruption an auditor can indulge in.

S. Sundararaman\(^5\) takes up accountability and remarks that ‘Corporate Governance’ has brought additional responsibility for auditors by ensuring an effective supervisory board, a good system of internal control, and independent audit monitored by an audit committee. According to the author, it invariably leads to the emphasis on the importance of independent audit, the most vital link in the establishment of a system of accountability to provide good governance. The author is stressing the urgent necessity of having good internal control mechanisms in the audit of PSUs in India.

Dr. Dietrich Kebschull\(^6\) points out that cases like Enron in USA or Parmalast in Italy demonstrate how important corporate governance has become. To avoid such scams, voluntary self-commitment of entrepreneurs is as necessary as proper control and audit mechanisms. According to him,

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\(^3\) Auditing practice committee Council, “Risk based auditing - A basic answered to the challenge”, *The Chartered Accountant*, Jan. 2000, p. 54.


\(^5\) Ibid., p. 625.

there is a greater need for developing a good corporate culture in the organization, which can ensure more commitment in the accounting and auditing mechanisms. Without this kind of voluntary commitments no amount of legislation can ensure compliance with the rules of the land.

Rekha Dharmanka and Anand Koundarwale in their article\textsuperscript{43} opined that the case of corporate failure in USA and other parts of the world has led to increased attention on corporate governance and the role and responsibility of different constituents of corporate government mechanism. Being an important constituent of this mechanism internal audit assumes significant responsibility and requires continuous efforts to ensure that it is effective.

Jagdish Prakash and Rao Shukla in their book\textsuperscript{44} remark that the audit should shift its emphasis from methods, procedures or individual decision to overall results and to failure to achieve specified goals. It is necessary that C & AG should avoid a review of individual decisions unless an obvious error is involved. No business enterprise can dream of having cent percent correct decisions. If the initiative of PSUs is to be sustained, the audit will have to understand that genuine wrong decisions are a fact of life. According to the authors supplementary audit by C & AG may be done away with for profit making PSUs.

A meticulous survey of available literature related to public sector auditing reveals that no studies have so far been made to evaluate the audit system in public sector undertakings in Kerala. It is in this context that a research study of the present nature is highly warranted. The researcher has

\textsuperscript{42} Dr. Dietrich Kebschull, \textit{German News}, April 2004.
carried out an in-depth study of the audit system in government companies in Kerala in order to submit creative suggestions emerging therefrom.

1.3 Statement of the Problem

With the massive investment of public funds in public enterprises whether controlled by the centre or the state the principle of public accountability acquires special significance. Public enterprises are subject to a scheme of dual audit and they have been made accountable to parliament or legislature. The scheme is credited with the merit of combining the normal requirement of professional audit and the special check that is essential to ensure that scarce public funds are not wasted or drained away either due to inefficiency or lack of propriety. It is, however, an unfortunate fact that the full advantage of the provisions of various checks and controls incorporated in the legislations is not taken, but the scheme of audit is rendered inoperative due to widespread lack of commitment, discipline and sense of accountability on the part of public sector undertakings.

In India as in many other countries such as USA and the UK there is a widespread feeling among the public and also among the regulators that independent financial audit does not accomplish its perceived objectives fully. This feeling gets particularly accentuated whenever there is a financial scandal. The gap between the public perception and auditors’ performance, i.e., ‘the expectation gap’, needs to be bridged and has been the subject matter of considerable debate at various levels.

The public often wonders why a company should fail or a major fraud be subsequently discovered once an independent financial audit has been concluded. The public expects such audits to provide a complete assurance that everything is in order. Many believe that the mere qualifying the
audit report is not sufficient. Doubt has also been expressed about the effectiveness of existing measures to ensure the independence of auditors.

Thus, the findings of external audit are of limited use to internal management. Its value is lesser and more restricted when reports of audit are made available years after management actions. The auditor’s professional opinion as a set of financial statements is no longer enough to satisfy the public. The expectation of the public from the auditor has now spread to a number of areas that go beyond a mere presentation of accounts. In addition to the hard and verifiable data, the public wants assurance on soft, subjective information like corporate governance, financial projections, assets and share valuations, adequacy and correctness of managerial decisions in compliance with environmental and pollution control measures, sales practice, etc. But in the absence of sophisticated systems of internal management control and informative systems an effective audit is sometimes like wild goose chase. Conducting an effective audit without requisite change in outlook, approach and equipment of the audit force is likely to do more harm than good. Therefore it is high time that we evaluated the audit systems in PSUs in Kerala.

1.4 Scope of the Study

Majority of the PSUs in India have been set up as government companies under the Companies Act 1956 and the audit of government companies are governed by section 619 of the Act. They are audited by firms of professional chartered accountants appointed on the advice of the Auditor General by the government. Kerala has the largest number of state level public sector undertakings in India. Out of a total of 1071 PSUs in India, Kerala has
113 PSUs, of these PSUs in Kerala, 5 are statutory corporations. So Kerala offers a cross section of public sector undertakings India. Therefore the universe of the study is limited to those auditors who are auditing the PSUs in Kerala. The study is exploratory in nature and designed to analyse, examine and evaluate the audit system in government companies in Kerala.

1.5 Objectives of the Study

The main objectives of the study are:

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 in public sector auditing.
7. To make suggestions and recommendations on the basis of the findings of the study.

1.6 Hypotheses of the Study

The hypotheses evolved for the study are:

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

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

3. There is no significant difference among the respondents regarding the comparison between 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 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 undertakings.

6. The views of auditors about public sector auditing are not multi-dimensional 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.

1.7 Period of the Study

The period of the study was from 2000 to 2005. However information and data pertaining to the past several years became inevitable during the progress of the study and hence such relevant data are also used for analytical purpose.
1.8 Methodology of the Study

This study is exploratory in nature and hence designed as an empirical one based on survey method. Several issues relating to different aspects of the study have been discussed in detail with experts, researchers and other eminent professionals, staff/ members of C & AG department, etc. in the field of auditing and public sector undertakings in Kerala to get an insight into the subject prior to the collection of data in order to formulate a framework for this study and the information and ideas obtained from the discussion have been utilized.

1.9 Sources of Data

Both primary data and secondary data have been collected for the study.

1.9.1 Secondary Data

At the exploratory stage of the study, a detailed survey of literature was undertaken in order to be familiarized with the various aspects of auditing in public sector undertakings. To evolve an appropriate methodology for the study, the secondary data were immensely helpful. For this purpose, various secondary sources like books and journals, research articles, seminar reports, study reports of expert committees and commissions established by the government and other agencies, white papers published by public sector enterprises, C & AG reports on PSUs and other published and unpublished sources were surveyed. The survey of literature and discussion with experts in the field helped the researcher to collect and synthesise related studies and to discover important variables relevant to the problem.

1.9.2 Primary Data
The primary data for the study have been collected through interviews with 142 respondents by using a ‘structured interview schedule’.

1.10 Sampling Design

The Institute of Chartered Accountants of India (ICAI) has divided the members of the Institute into four regions such as west, south, central, and north. The state of Kerala, which comes under the southern region, is divided into six branches: Alleppey, Calicut, Ernakulam, Kottayam, Quilon and Trivandrum. Out of the total of 2850 Chartered Accountants in Kerala, about 2257(62%) of the auditors are in Ernakulam, and Trivandrum, and Kottayam branches. So the researcher selected these 3 branches for the study. In these selected branches there are 354 public sector auditors who constituted the universe of the study. From the 354 PSU auditors 150 auditors who have experience both in PSUs and non-PSUs are randomly selected for the study. But the researcher could actually interview only 142 of the 150 selected auditors of the study. The table below shows the number of respondents selected and interviewed from the selected chapters of the Institute of Chartered Accountants of India (ICAI) for the study.

Table 1.1    Number of respondents selected for the sample design

<table>
<thead>
<tr>
<th>Name of the Chapter</th>
<th>Number of PSU auditors</th>
<th>Number of sample respondents interviewed</th>
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<tbody>
<tr>
<td>Ernakulam</td>
<td>227 (64.12%)</td>
<td>91 (64%)</td>
</tr>
<tr>
<td>Trivandrum</td>
<td>55 (15.5%)</td>
<td>23 (15.5%)</td>
</tr>
</tbody>
</table>

As per the above table out of the 142 respondents interviewed for the study, 91 were from Ernakulam, 23 from Trivandrum, and 28 from Kottayam chapters of the ICAI.

1.11 Collection of Data

The primary data were collected by conducting interviews with the selected respondents by using a structured interview schedule. The entire text of the interview schedule is given in Appendix - 1. In order to obtain an overall view and to make the schedule of interview more accurate and relevant a sample of 8 statutory auditors were selected and a pretest was conducted for finalising the interview schedule. All aspects have been tested including the question content, wording sequence, form and layout. A pilot study was also conducted with the help of a draft interview schedule for finalising the interview schedule. Interviews started on July 2005 and continued till October 2005.

Before the commencement of the interview a sample schedule was given to each respondent and a brief explanation regarding the nature of the study was given to respondent. Each question in the schedule was asked by the interviewer with sufficient explanations whenever necessary in order to elicit correct information from them. Open discussions were also conducted with the respondents to collect additional information from them. The respondents were interviewed taking into consideration their time and availability by fixing prior appointment. The researcher collected all the
responses personally from the respondents. This ensured the reliability of the responses and also the privacy of the identities of the respondents.

1.12 Analysis of Data

The collected primary data have been statistically processed, classified and tabulated by using appropriate methods under six major heads. The respondents are classified into three groups on the basis of their experiences, as below 5 years, between 5 and 10 years and above 10 years. Other criteria like age, sex, marital status, income and geographical location have no significant bearing on the response/attitude of the professionals towards their profession. Tables, figures and statistical results have been derived with the help of the Computer Software called SPSS (Statistical Package for Social Sciences).

Statistical tools like percentages, means, profile analysis, error bars, analysis of variance (ANOVA), t-test, Skewness and multi-dimensional scaling have been extensively used for the cross examination of the data. Factor Analysis has been applied for extracting the prominent factors influencing the auditing and the problems faced by the respondents in the auditing of public sector undertakings in Kerala. The factors have been extracted by using Principal Component method and rotated by Kasier Varimax Rotation Method. The scores obtained for each of the variables under the six different major heads are analysed to draw conclusions. The survey data are analysed under six major heads:

1. Audit system in public sector undertakings.
4. Role of the Comptroller and Auditor General of India in public sector auditing.

5. Ascertainment and analysis of the views of auditors regarding public sector auditing.

6. Identification and analysis of major problems in public sector auditing.

The following types of analysis have been made in the given order:

1. The profile of the respondents have been drawn by using their experience in the field of auditing both in PSUs and non-PSUs by, adopting statistical tools like tables, percentages and charts.

2. Using the selected variables, the audit system in the PSUs has been evaluated and analysed with the help of percentages, means, ANOVA, t-test, and profile analysis.

3. Using percentages, means, t-test, ANOVA, skewness and error bars the identified variables have been analysed and evaluated for comparing the audit system in PSUs and non-PSUs in Kerala.

4. To evaluate the scope and applicability of modern trends in the accounts and audit in PSUs in Kerala the variables identified have been analysed and evaluated by using percentages, means, ANOVA, t-test, and profile analysis.

5. In order to analyse and evaluate the role of C&AG in the auditing of PSU the variables identified are analysed and evaluated by using percentages, mean, ANOVA and skewness.

6. To ascertain and analyse the views of auditors regarding PSU auditing the identified variables are evaluated by using multidimensional scaling (MDS) and factor analysis.
7. Finally, in order to identify and analyse the major problems of PSU auditing in Kerala, the identified variables have been put to multidimensional scaling (MDS) and factor analysis.

1.13 Limitation of the Study

Since the study is an individual effort, the investigator would like to point out some unavoidable limitations that have entered into the study. They are stated below:

1. The primary data required for the study have been elicited from sample respondents and are, therefore, subject to the normal errors inherent to such social surveys such as the natural bias in the reporting of data and inadequacy of information. Common limitation of statistical analysis might also have affected the study.

2. The scope of the study is limited to government companies in Kerala only. Further, the study is mainly based on the responses obtained from chartered accountants only and hence generalization need not be fully accurate.

3. The findings of the study are based on the expressed opinions of the respondents, which might have their own limitations. The possibility of lack of information and overlooking of certain facts and developments on the part of the respondents cannot be ruled out, although all possible efforts have been made to elicit correct and logical responses from the respondents.

To the best of the researcher's knowledge, this study is one of the pioneering studies of its kind in Kerala. Hence the primary aim of this study is to focus attention on the broader aspects of auditing in public sector
undertakings in Kerala and it is hoped that this study will provide a base for further researches.

1.14 Presentation of the Report

The study report is presented in five chapters.

Chapter 1. Introduction.
Chapter 2. Public Sector Undertakings in India.
Chapter 3. Auditing in Public Sector Undertakings.
Chapter 4. Analysis of Data.
Chapter 5. Findings and Suggestions.