

Indian Military Audit Insights: Analysis based on Audit Reports 2010-2017

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Abstract

In October 2019, the Central Military Commission issued "Opinions on Strengthening the Audit Work of the Military in the New Era", clearly stating that efforts should be made to build a military audit system that meets our national conditions and has our military characteristics. 2020 In June 2020, with the approval of the Central Military Commission, the General Office of the Central Military Commission issued the "Regulations on Economic Responsibility Audit of Military Leading Cadres", which emphasizes that audit supervision has no forbidden areas, no blind areas and No exceptions. At this point, the status of military audits has reached an unprecedented level. However, the validity of the use of military audit reports in China is at a low level, and the effectiveness of audit reports is still not fully utilised. This paper will analyse the conceptual framework and practical application of military audit reports in India based on India's military audit reports from 2010-2017, so as to provide suggestions for improving military audit reports in China.

Keywords

Military Audit; Audit Reports; Audit Efficiency.

1. Overview of Military Audit in India

The Comptroller and Auditor General of India (CAG) is the government's auditing authority. The Comptroller and Auditor General of India has a vertical, hierarchical and decentralized system of government auditing, which is legislative in nature and completely independent of the government. The Comptroller and Auditor General's Office is not normally involved in any specific audit operations, but is mainly responsible for formulating policies, directing, supervising and controlling the audit work of local audit offices at all levels.

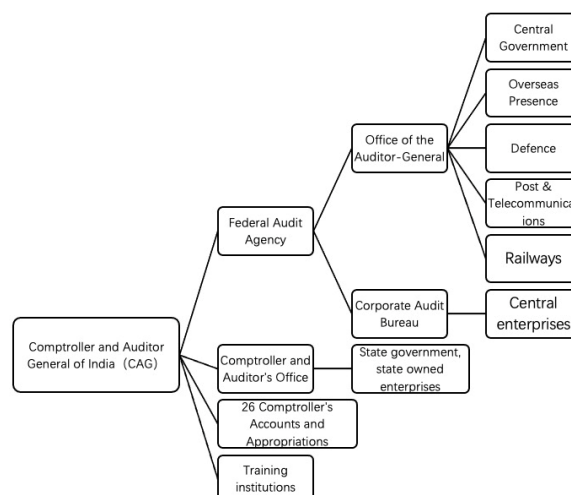


Figure 1. Structure of the Office of the Comptroller and Auditor General of India

Military audits in India are carried out by the Office of the Director General of Audit (DGA), and the auditing authority issues separate departmental audit reports on the military audit activities for the year in accordance with the annual audit plan prepared by the CAG. The type of audit report is influenced by the service and the objectives of the audit and separate audit reports are issued. The audit cycle is usually one year and various special audit activities are presented in accordance with the annual audit plan. The Indian military audit adopts a combined internal and external audit model, whereby part of the military audit work is tendered out to social audit agencies to assist with part of the military audit activities and complete the audit work to meet the military audit objectives and reduce the pressure on the National Office to audit, while ensuring wider audit coverage.

2. Conceptual Framework for Military Audit Reports in India

2.1. Scope of the Military Audit

The Office of the Comptroller and Auditor General of India conducts military audits of all projects, subjects and units for which defence funds are spent, as well as of units and projects involving military work. As per the 39 defence military audit reports disclosed on the official website of the Office of the Comptroller and Auditor General of India at , the Indian audit authorities use elements such as risk levels determined by pre-assessment, priority projects and units for the current year's funding, priority problematic projects from previous years' audit feedback and priorities for the current year's defence military development to develop the audit plan and determine the final audit projects. According to the Army Defence Services Audit Report 2010-2017 published on the official website of the Office of the Comptroller and Auditor General of India, it can be found that the Indian Army's audit priorities for each year are the Ministry of Defence, Army, Engineering and Military Engineer Services, Border Roads Organisation, Defence Research and Development Organisation, and Arsenal Organisation; the audit priorities for each year are adjusted and increased according to the aforementioned factors. The audit focus for different years is adjusted according to the impact factors presented in the previous section and the final version of the audit report is issued.

2.2. Criteria for Issuing Military Audit Reports

The military audit standards are the guidelines for judging the degree of compliance with the various types of military activities, military expenditure, defence construction and other military acts and the basis for issuing military audit opinions and audit reports. An analysis of military audit reports in India, the main military audit standards used are shown in Table 1.

Table 1. Indian Military Audit Standards

Classification	Related documents
The Law	Articles 149 and 151 of the Constitution of India
Audit law	Auditor-General and Auditor-General (Duties, Powers and Conditions of Service) (DPC) Bill
Auditing Standards	Audit and Accounting Regulations 2007 Guidance on Orders Guidance on Performance Auditing
Audit framework	Audit Quality Management Framework

The Office of the Comptroller and Auditor General of India conducts military audits with the Constitution as the fundamental guiding document and any audit activity must comply with the requirements of the Constitution. The specific reference standards include relevant audit laws and regulations, guidelines in practice, and strict adherence to the relevant audit quality management framework. In addition, the audit should also comply with the relevant

requirements of the Defence Forces Regulations to ensure that the audit reference standards are comprehensive, cover a wide range of areas, are instructive and binding and provide favourable conditions for the practical audit work to be carried out; at the same time, the consistency of audit standards helps to improve the accuracy of audit results.

2.3. Objectives of the Military Audit Report

Military audits are special in nature and some audit objectives are not applicable to military audits due to the requirements of confidentiality and exclusivity of the military. At the same time, military auditing also has the universal characteristics of auditing, and the audit object meets the basic elements of government agencies and financial funds, so the audit objectives still meet the other characteristics of government auditing. The purpose of defence military expenditure is to strengthen the country's military strength and maintain social stability and territorial integrity at home and abroad. This is manifested in the operational capability of the military, border security and the ability to design and build military weapons. Fundamentally, the audit objectives are consistent with the purpose of the use of defence military expenditure. The objectives of military audits are directly influenced by both the external strategic environment and internal financial factors and reflect the relevant needs to promote the development of defence military construction. The audit report, as a textual statement reflecting the audit opinion, is a reflection of the concrete results of the audit objectives. The choice of setting audit objectives that match military development and issuing audit reports accordingly is conducive to promoting military development and improving the use of defence funds. The objectives of the audit report of the Office of the Comptroller and Auditor General of India are shown in Table 2.

Table 2. Objectives of the Military Audit Report

Military audit report objectives		Specifics
Military expenditure, defence construction and legal compliance of military conduct		Whether there is any violation of the relevant laws, regulations or requirements to issue a report on the conduct of military activities, use of defence funds, etc.
Authenticity in the use of military funds and military conduct		Report on whether fictitious defence expenditure and financial fraud in the use of military funds affect the use of military funds and the authenticity of military activities
Defence spending and the effectiveness of military activities	Economical	Report on whether defence expenditure and the disposal of assets in the course of military activities are carried out in such a way as to minimise resource consumption while meeting the quality and quantity of output
	Efficiency	Report on whether defence expenditure and the disposal of assets in the course of military activities maximises output for a given input while maintaining quality and quantity
	Effectiveness	Report on the extent to which the objectives set for defence expenditure and the disposal of assets in the course of military activities have been achieved

The objectives of the military audits conducted by the Office of the Comptroller and Auditor General of India revolve around three main themes relating to defence expenditure, the legal compliance and authenticity of military activities and the effectiveness of military activities and expenditure, and the audit methodology used to obtain evidence to support or disprove the audit objectives and to issue audit reports on the achievement of different audit objectives.

3. Current Status of Military Audit Report Development Practice in India

3.1. Types of Military Audits

The military audits conducted by the Office of the Comptroller and Auditor General of India can be classified as legal compliance audits, financial audits, performance audits, engineering audits and special audits. Legal compliance audits focus on the compliance with the laws and regulations that the Office of the Comptroller and Auditor General has established and promulgated in relation to the execution of military activities such as defence expenditure and military activities of the audited unit; financial audits are based on military activities such as defence expenditure and determine the efficiency of the use of funds in the process; performance audits focus on the efficiency and effectiveness of the execution of financial activities of the audited unit; and engineering audits are based on the laws and regulations as the basis and the subject matter of the project. Engineering audits are based on laws and regulations and take engineering projects as the subject matter to examine whether there is overspending and illegal collusion in infrastructure investment by the relevant military departments and units in the implementation of engineering budgets; special audits are for key policies and major capital use projects to create separate projects and issue special audit reports.

In recent years, the military audits conducted by the Office of the Comptroller and Auditor General of India have shifted from mainly legal compliance audits, supplemented by performance audits and financial audits, to a new pattern of joint development of performance audits and legal compliance audits. Although the number of disclosed audit reports on engineering audits and special audits is relatively small, with the significant increase in India's defence military expenditure and the rising number of infrastructure projects and bidding operations, engineering audits and special audits continue to receive increased attention as a regular type of audit in military audits.

3.2. Technical Approach to Military Auditing

The ways and means used by the Audit Office to better exercise its audit rights, perform its audit functions and achieve its audit objectives are called audit methods. The Office of the Comptroller and Auditor General of India conducts military audits using a variety of methods, which are used throughout the audit process and form the basis for the issuance of audit reports. In the military audit projects for the years 2010-2017, which have been disclosed on the official website of the Office of the Comptroller and Auditor General, the methods used include not only traditional audit methods such as interviews, document review, chart of accounts analysis and ageing analysis, but also computerised audit techniques, which are more widely practised.

3.2.1. Traditional Audit Technique Approach

3.2.1.1 Interview Method

The interview method is a routine audit method used by the Indian Audit Office to conduct audit activities and obtain audit evidence. The usage rate is 100%. It is usually used in combination with the document review method and the data analysis method. Interviews are conducted with a wide range of persons, including not only those concerned with the audited entity, but also relevant government officials, industry experts and others who may have access to information about the audited entity. This multi-dimensional approach to interviewing can effectively increase the rate of obtaining audit evidence and ensure the quality of audit evidence.

3.2.1.2 Document Review Method

The document review method, another conventional audit method used by the Office of the Auditor General of India to conduct military audits, involves a review of relevant documents (including relevant policies and regulations, previous audit reports and relevant academic

literature, etc.) over a certain period of time. A series of audit laws, regulations and framework guidelines issued by India are used as a standard basis for reviewing the documents, and a comprehensive measure of the items being audited, as well as an audit of the compliance and validity of the relevant documents and policies.

3.2.1.3 Data Analysis Method

Data analysis is the use of data and information as an element of analysis, the data will be analyzed and compared horizontally and vertically to review the implementation of policies and the effectiveness of measures and funds implemented by the relevant departments and units. After cleaning and comparing the data in the Indian military audit report, audit evidence is found and audit conclusions are drawn based on the Logical Relationships Reflected In The Data.

3.2.2. Computer Audit Technology Approach

Computer audit technology is used in the actual audit process, the use of computers to complete the audit data collection, data pre-processing and data analysis and preservation of various tasks, to ensure the scientific, standardised and accurate audit results, and thus ensure the objectivity and authenticity of audit results.

India being the world's number one software producing country, the use of computer office systems in auditing has reached a certain depth and breadth. As a result, the scope of military audits in India has been expanded to include extensive audits of electronic data processing systems, allowing auditors to evaluate the effectiveness, economy and efficiency of the systems, data integrity, system security, consistency of activities related to system-related activities with relevant laws, regulations and guidelines, making full audit coverage a reality.

3.3. Military Audit Follow-up and Correction Tracking

Audit and rectification is the process of adjusting the problems identified in the audit to the existing laws and standards, improving the efficiency of the use of financial resources and ensuring the legal compliance and financial integrity of the relevant actions, thereby achieving the audit objectives. The effectiveness of audit and rectification is related to the effectiveness of the application of audit results and the overall effectiveness of departmental governance, management of military activities and the use of defence funds. The Office of the Auditor General of India has established a long-term mechanism for audit rectification, which organises the whole process of monitoring the process of disclosing audit issues found by audits, tracing the causes of audit issues, providing audit rectification advice and managing the evaluation of audit rectification results. When conducting military audits, significant audit issues identified in previous years are subject to additional audits, and evaluation is conducted with regard to the subsequent adoption of rectification measures and the achievement of results. Ultimately, the audit process around rectification results in guidelines for improving the use of defence military expenditure and related military activities.

4. Asudit Report Features

4.1. Diverse Audit Reports

The audit of the Indian Army is based on the premise that the Army, Navy and Air Force are to be audited for compliance, and various special and engineering audits are to be audited for compliance or effectiveness under the annual audit plan, covering significant aspects of the annual defence expenditure. In addition, audit reports will be issued on the legality and effectiveness of the audit reports according to the different audit objectives. At the same time, the content of the audit is determined by the annual military expenditure plan and the results of the previous year's audit. An analysis of India's military audit reports for the years 2010-

2017 disclosed on the official website of the Comptroller and Auditor General of India shows that the objectives of the military audit reports for each year are as shown in Figure 2.

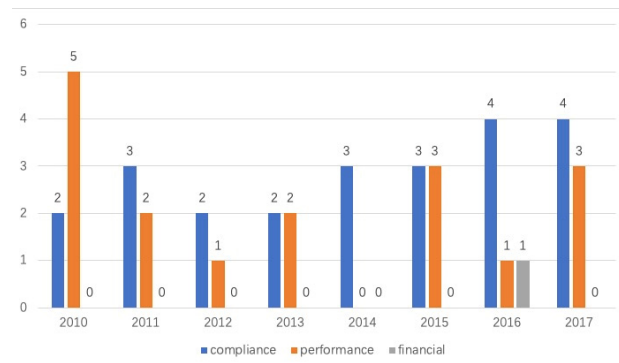


Figure 2. 2010-2017 Military Audit Report Targets

For example, in 2017 the Auditor General of India disclosed a total of six audit reports on India's defence military expenditure, including three compliance audit reports on land, sea and air, a compliance audit report on the Army and the military industrial complex, a compliance audit report on operations undertaken by the public defence sector, and an audit report on the effectiveness of the use of defence military expenditure.

4.2. Clear Audit Structure and Detailed Disclosure

According to the audit report on India's defence military expenditure disclosed by the Office of the Comptroller and Auditor General of India in recent years, it can be found that, firstly, the audit report provides a brief overview of the issues listed and summarises the main issues found by the audit in general; secondly, the audit issues are specifically described in the report by listing them in points, as well as the acts of military expenditure that conflict with the relevant regulations and systems and with policy requirements. At the same time, the auditor discloses in detail and fully describes the problems that existed during the audit. In addition, the auditor systematically analyses the causes of the audit issues and makes recommendations based on the audit conclusions, which provide direction to meet the legality, economy, efficiency and effectiveness of the military expenditure items found to be doubtful by the audit. For example, Audit Report No. 15 of 2017 of the General Audit Office of India disclosed 27 specific audit issues in seven categories. For example, the audit report describes the audit of the "non-revision of labour budget after introduction of CNC machines and incorrect payment of Piece Work Profit". Secondly, the auditor describes the audit findings: non-revision of the labour budget, payment of Piece Work Profit (PWP) in excess of the amount accepted by the Metal&Steel Factory (MSF), and indirect payment of salary allowances to workers. Finally, conclusions were drawn and audit recommendations were made on the aforementioned issues and control gaps: recommendations were made for the audited unit from the production procurement perspective, the human resources management perspective and the improvement of the internal control system based on the issues of "the introduction of CNC machines without revision of the labour budget and the payment of piece-rate wages".

4.3. Use of Multiple Data Description Methods to Analyse Audit Issues

According to the audit report disclosed by the Comptroller and Auditor General of India, it is found that the auditors have been able to trace the flow of military expenditure from one year to another by interviewing the concerned departments about the problematic military expenditure, explaining the various expenditures of the army with the help of charts and tables, using data ratios, etc., and identifying the issues identified during the audit that do not conform

to the truthfulness and legality of the military expenditure. The audit report also provides a breakdown of defence expenditure that does not meet the criteria of authenticity, legality and legality. As an example, the Auditor General's Office of India has used charts and graphs to compare and analyse the situation of the auditees as shown in Table 3 in the Army Compliance Audit Report for selected years between 2017 and 2011.

Table 3. Utilisation of charts and graphs of Indian military audit reports

Type \ Ann	2017	2016	2013	2012	2011
Chart	41	20	25	30	29
Graphs	17	12	9	3	3

4.4. Pay Attention to the Collation and Disclosure of Wasteful and Non-Essential Expenditure on Military Spending

The audit report of the Auditor General of India focuses on the disclosure of problems found by the audit, unreasonable military expenditure, and provides detailed descriptions and explanations of the various unreasonable and wasteful expenditures incurred by the army. This is to urge the Indian Army to be more disciplined in its use of military funds and to reduce waste and improve the efficiency of military expenditure. For example, in Part II, Chapter III of the Audit Report No. 24 of 2017 of the General Audit Office of India on the Army's military expenditure, the description of "additional expenditure incurred on account of orders not placed within the validity period of the quotations", the auditor concluded that the audited unit had procured 85,259 chaff strips due to non-acceptance of quotations within the validity period, resulting in additional expenditure. Resulting in an additional expenditure of ₹90.26 million. This action could have been avoided and the resulting waste of resources and military expenditure could have been avoided.

5. Research Conclusion and Insights

Based on the analysis of the theoretical framework and the current state of practice of military audit reports in India, and taking into account the requirements for the development of our army, the current state of development of military audit and the visionary development goals, the following recommendations are made for the development of military audit reports in China .

First, to clarify the objectives of military audit, improve the audit specification system and build a military audit reporting system in line with Chinese characteristics. In October 2019, the Central Military Commission issued the Opinions on Strengthening the Audit Work of the Military in the New Era, clearly stating that efforts should be made to build a military audit system in line with our national conditions and with our military characteristics. In June 2020, with the approval of the Central Military Commission, the General Office of the Central Military Commission issued the Provisions on Economic Responsibility Auditing of Military Leading Cadres, which emphasises that there are no prohibited areas, no blind areas and no exceptions to audit supervision. By now, the status of military audit has reached an unprecedented level, fully understanding the dynamics and requirements of national defence development and clarifying audit objectives. At the same time, the effectiveness of the use of defence military expenditure should be strengthened to make it more efficient and targeted. Further promote the high quality of the use of defence military expenditure and the high level of effectiveness in the achievement of military objectives. In addition, improving the relevant audit standards will help promote the development of the audit business and the progress of audit work. China's existing audit norms and institutional system are incomplete, lacking rigid standards and lacking audit guidelines for specific operational practices, leading to insufficient audit work,

difficulties in implementing responsibility for audit issues and inadequate punishment. Limitations exist in audit practice, affecting audit efficiency and audit quality.

Second, adhere to the use of charts, data perspective results to explain audit issues, strengthen the readability of audit reports. At present, China's military audit reports mostly use textual descriptions of audit issues, summarize audit results and put forward audit recommendations, and the audit report's reasoning and logic lack graphical explanations and data perspective analysis. At the same time, audit reports often contain specialised audit terminology, which to a certain extent limits the audience of audit reports and prevents them from being more useful. The use of automated information technology, such as graphs and pivot tables, can improve the probative power and readability of military audit reports, enhance the effectiveness and efficiency of the use of audit results, and expand the range of intended users of audit reports.

Thirdly, the report is used to collate wasteful defence military expenditure, strengthen the military performance audit and enhance the application of audit results. The Indian military uses previous years' audit issues as an entry point and conducts audits for consecutive years on key issues to sort out the internal logical relationships and external financial links of the audit issues, analyze the audited activities or the process of using military expenditures, and optimize the behavior of military expenditures. Military audits in China often start with defence expenditure and are mostly ex post facto audits, focusing on error prevention and project evaluation. Audits focus on determining the legal compliance and financial aspects of military activities and defence expenditure, with secondary focus on the effectiveness of activities and expenditure, and lack of attention to the wastefulness of defence expenditure, resulting in "useless audit results", "repeated audits" and other situations occurring frequently. The audit efficiency is difficult to be improved. In the face of national requirements for military construction in the new era, military audits should broaden the audit perspective and establish a new pattern of performance audits, financial audits and legal compliance audits in a diversified manner. The audit department should strengthen the review of the wastefulness of military expenditure and conduct an in-depth and systematic analysis of the process and causes of audit problems. At the same time, focus on evaluating the effectiveness of the use of funds, improve the effectiveness of the use of funds, put forward effective amendments to avoid the emergence of similar problems, to achieve the audit to promote reform, to improve quality, to eliminate the occurrence of repeated audits from the root.

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