

General Conference

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Item 12 of the provisional agenda
(GC(57)/1 and Add.1)

Appointment of the External Auditor

1. The term of office of the Agency's current External Auditor – the Comptroller and Auditor General of India – will expire upon the completion of the audit of the Agency's financial statements for 2013. It will therefore be necessary for the General Conference, at its forthcoming regular session, to appoint an External Auditor to audit the Agency's financial statements for the financial years 2014 and 2015.
2. In the Note by the Secretariat, 2013/ Note 1, dated 3 January 2013 (Attachment 1), Member States were invited to nominate candidates – by 1 February 2013 – for consideration by the General Conference at its 2013 regular session. The Note specified that nominations should include: a curriculum vitae of the nominee; details of the national and international activities of the office of the Auditor General of the Member State submitting the nomination; an indication of the range of the audit activities envisaged and of the audit specialities that could be of benefit to the Agency; a presentation of the approach to the audit; the number and level of staff to be involved in the audit; a proposed audit fee (expressed in Euros) and an estimate of the total number of auditor-months which would be devoted to the audit of the Agency's financial statements for 2014 and 2015.
3. As of the 1 February 2013 deadline, the Secretariat had received the nomination of the Comptroller and Auditor General of India (Attachment 2). No further nominations have been submitted to the Secretariat. Attachment 3 gives a summary of the details of the nomination of the Comptroller and Auditor General of India.
4. On 7 June 2013, the Board of Governors considered this information and agreed to recommend to the General Conference the appointment of the Comptroller and Auditor General of India as the External Auditor to audit the Agency's financial statements for the financial years 2014 and 2015.

Recommended Action

The General Conference may wish to endorse the recommendation of the Board as set out in paragraph 4 above.



Atoms for Peace

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国际原子能机构
International Atomic Energy Agency
Agence internationale de l'énergie atomique
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2013/Note 1

NOTE BY THE SECRETARIAT

The Secretariat has the honour to notify Member States that the present term of office of the Agency's External Auditor (Comptroller and Auditor General of India - CAG) expires with the completion of the audit of the financial statements for the financial year 2013. It will be necessary for the General Conference at its fifty-seventh regular session, in September 2013 to appoint a new External Auditor to audit the financial statements for the financial years 2014 and 2015. Appointment is traditionally made for a period of two years, but may be extended.

Member States are invited to nominate candidates whom they wish the General Conference to consider at its fifty-seventh regular session for appointment as the External Auditor of the Agency. The full text of Article XII of the Agency's Financial Regulations and the additional terms of reference governing audits of the Agency's financial statements are enclosed herewith.

The nominations should include the following:

- a) a curriculum vitae of the nominee and details of the national and international activities of the Auditor-General's office, with an indication of the range of audit activities envisaged and of the audit specialities that could be of benefit to the Agency;
- b) a presentation of the approach to the audit and the number and level of staff to be involved in the audit; and
- c) a proposed audit fee (expressed in Euros) and an estimate of the total number of auditor-months which would be devoted to the audit of the accounts for 2013 and 2014.

The proposed audit fee should cover the audit related salaries, secretarial and other support costs, travel costs and living expenses of the External Auditor and his/her staff. Travel costs should cover travel between the Auditor-General's office and the Agency's Headquarters in Vienna and – if deemed necessary for audit purposes – other Agency offices.

Nominations should reach the Agency's Director General as early as possible, and in any case not later than 1 February 2013, in order to allow sufficient time for further inquiries and subsequent forwarding of a proposal by the Board of Governors for consideration by the General Conference in September 2013. The Agency's Division of Budget and Finance would be pleased to provide any further information or clarification that may be required.



3 January 2013

ARTICLE XII. EXTERNAL AUDIT**APPOINTMENT OF EXTERNAL AUDITOR****Regulation 12.01**

An External Auditor, who shall be Auditor-General (or an officer exercising an equivalent function) of a Member State, shall be appointed by the General Conference for a period determined by it.

TENURE OF OFFICE OF EXTERNAL AUDITOR**Regulation 12.02**

If the External Auditor ceases to hold office as Auditor-General (or equivalent function) in his/her own country, his/her tenure of office as External Auditor shall thereupon be terminated and he/she shall be succeeded as External Auditor by his/her successor as Auditor-General. The External Auditor may not otherwise be removed during his/her tenure of office, except by the General Conference.

CONDUCT OF AUDIT**Regulation 12.03**

Subject to any special direction of the General Conference or the Board, each audit which the External Auditor is required to make shall be conducted in accordance with the Additional Terms of Reference set out in the Annex to these Regulations.

RESPONSIBILITY OF EXTERNAL AUDITOR**Regulation 12.04**

The External Auditor shall be completely independent and solely responsible for the conduct of the audit.

SPECIFIC EXAMINATIONS**Regulation 12.05**

The General Conference and the Board may request the External Auditor to perform certain specific examinations and to issue separate reports on the results.

PROVISION OF FACILITIES TO EXTERNAL AUDITOR**Regulation 12.06**

The Director General shall provide the External Auditor with the facilities required for the performance of the audit.

USE OF LOCAL AUDITORS

Regulation 12.07

Whenever it is necessary to make a local or special examination the External Auditor may arrange for the services of any national Auditor-General who is eligible to be appointed as External Auditor or of commercial public auditors of known repute.

TRANSMISSION OF AUDIT REPORT

Regulation 12.08

The report of the External Auditor shall be transmitted to the Board for its observations and the Board shall transmit the report to the General Conference in accordance with Regulation 11.03. A representative of the External Auditor shall be present when his/her report is first under consideration by the Board or by a subsidiary body of the Board. In addition, the Director General shall arrange for such representation during subsequent consideration by the Board or during consideration by the General Conference, if so requested by a Member State, if the Director General considers it desirable or if the External Auditor considers it essential.

**ADDITIONAL TERMS OF REFERENCE GOVERNING THE AUDIT OF THE
INTERNATIONAL ATOMIC ENERGY AGENCY**

1. The External Auditor shall perform an audit of the accounts of the Agency, including all Trust and Special Funds as he/she may deem necessary in order to satisfy himself/herself:
 - (a) That the financial statements are in accord with the books and records of the Agency;
 - (b) That the financial transactions reflected in the statements have been in accordance with the Financial Rules and Regulations, the budgetary provisions, and other applicable directives;
 - (c) That the securities and moneys on deposit and on hand have been verified by certificate received direct from the Agency's depositories or by actual count.
2. Subject to the provisions of the Financial Regulations, the External Auditor shall be the sole judge as to the acceptance in whole or in part of certifications by or on behalf of the Director General and may proceed to such detailed examination and verification he/she chooses of all financial records, including those relating to supplies and equipment and materials of the Agency or for which the Agency is responsible.
3. The External Auditor may affirm by test the reliability of the internal audit, and may make such reports with respect thereto, as he/she may deem necessary, to the Board or to the Director General for transmission, where appropriate, to the General Conference.
4. The External Auditor and staff working under his/her direction shall subscribe to such oath as may be approved by the Board. Thereupon he/she shall have free access, at all convenient times, to all books of account and records which are, in his/her opinion, necessary for the performance of the audit. Information classified as confidential in the records of the Secretariat, and which is required by the External Auditor for the purposes of the audit, shall be made available on application to the Director General. In the event that the External Auditor is of the opinion that a duty rests on him/her to draw to the attention of the Board or of the General Conference any matter respecting which all or part of the documentation is classified as confidential, direct quotation shall be avoided.
5. The External Auditor, in addition to auditing the accounts, may make such observations as he/she may deem necessary with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and, in general, the financial consequences of administrative practices.
6. In no case, however, shall the External Auditor include criticism in his/her audit report without first affording the Director General an opportunity of explanation of the matter under observation. Audit objections to any items arising during the examination of the accounts shall be immediately communicated to the Director General or the Director, Division of Budget and Finance.
7. The External Auditor shall prepare a report on the accounts which shall include:
 - (a) The extent and character of his/her examination and of any important changes in the extent and character of such examination, including whether he/she has obtained all the information and explanations he/she has required;
 - (b) Matters affecting the completeness or accuracy of the accounts, such as:
 - (i) Information necessary to the correct interpretation of the audit;
 - (ii) Any amounts which ought to have been received but which have not been brought to account; and
 - (iii) Expenditures not properly substantiated.
 - (c) Other matters which should be brought to the notice of the Board and, where appropriate, of the General Conference, such as:

- (i) Cases of fraud or presumptive fraud;
 - (ii) Wasteful or improper expenditure of the Agency's money or other assets (notwithstanding that the accounting for the transactions may be correct);
 - (iii) Expenditures likely to commit the Agency to further outlay on a large scale;
 - (iv) Any defect in the general system or detailed regulations governing the control of receipts and expenditure or of supplies, equipment and materials of the Agency or for which the Agency is responsible;
 - (v) Expenditure not in accordance with the purpose of the appropriation concerned, after making allowance for duly authorized transfers between appropriation sections.
 - (vi) Expenditure in excess of appropriations, as amended by duly authorized transfers between appropriation sections; and
 - (vii) Expenditure not in conformity with the authority which governs it.
 - (d) The accuracy or otherwise, as determined by stocktaking and examination of the quantitative records relating to supplies, equipment and materials of the Agency or for which the Agency is responsible; and
 - (e) Transactions accounted for in a previous financial year, concerning which further information has been obtained, or transaction in a later financial year concerning which it seems desirable that the Board or the General Conference should have early knowledge.
8. The External Auditor, or such officers as he/she may designate, shall express and sign an opinion on the financial statements which shall:
- identify the financial statements examined; and
 - describe the scope and extent of audit procedures; and
- which shall address, as appropriate, whether:
- (a) The financial statements present fairly the financial position of the International Atomic Energy Agency as at the end of the financial year and the results of its operations in that year;
 - (b) The financial statements were prepared in accordance with the stated accounting principles;
 - (c) The accounting principles were applied on a basis consistent with that of the preceding financial year;
 - (d) Transactions were in accordance with the Financial Regulations and legislative authority.
9. The External Auditor shall have no power to disallow items in the accounts, but shall draw to the attention of the Director General for appropriate action any transaction concerning which he/she entertains doubt as to legality or propriety.



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Delivered By Hand

No. VIEN/110/10/2013

January 29, 2013

The Permanent Mission of India to International Atomic Energy Agency (IAEA) presents its compliments to the International Atomic Energy Agency (IAEA) and has the honour to refer to Mission's Note Verbale No. VIEN/110/10/2013 dated January 23, 2013 and to forward herewith printed copies of the nomination papers of the Comptroller and Auditor General of India for appointment as IAEA's External Auditor for second term for the period 2014-15

The Permanent Mission of India avails itself of this opportunity to renew to the International Atomic Energy Agency (IAEA) the assurances of its highest consideration.



International Atomic Energy Agency
[Kind Attn: **H.E. Mr. Yukiya Amano**
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Proposal for the Renewal of
Provision of External Audit Services
for the financial years 2014 and 2015
International Atomic Energy Agency

Comptroller and Auditor General of India

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Section - A



CURRICULUM VITAE OF MR. VINOD RAI, COMPTROLLER AND AUDITOR GENERAL OF INDIA

Mr. Vinod Rai took over as the Comptroller and Auditor General of India on 7th January 2008. Mr. Rai has wide and long experience of working in various capacities at both the Federal and State Governments. His previous position was as Secretary in the Ministry of Finance, Government of India, where he was responsible for managing the Financial Services sector. He has been a Director on the boards of several public sector and private companies including the State Bank of India and Life Insurance Corporation of India. Mr. Rai has also been the Principal Secretary (Finance) in the State Government of Kerala, and has held senior positions in the Government of India in the Ministry of Commerce and Ministry of Defence.

Mr. Rai's responsibilities in the international arena include chairmanship of the U.N. Panel of External Auditors and membership of the Governing Board of the International Organisation of Supreme Audit Institutions (INTOSAI). He has the responsibility of steering INTOSAI's Knowledge Services and Knowledge Sharing Committee and the Working Group on IT Audit as Chairman of these Fora. He is also a member of the Professional Standards Committee and Sub-Committees on Compliance Audit and Performance Audit of INTOSAI and also of INTOSAI's Working Group on Environmental Auditing and its Task Force on Communication Strategy. Mr. Rai, till recently, was the Secretary General of the Asian Organisation of Supreme Audit Institutions (ASOSAI) and continues to be on its Governing Board.

Mr. Vinod Rai (born on 23.05.1948) has a Masters Degree in Economics from Delhi School of Economics, University of Delhi and a Masters Degree in Public Administration from Harvard University, USA.

He is a keen tennis player and his other interests include gardening, trekking and mountaineering.

GENERAL INFORMATION ON THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

A. Official title and brief history

The Comptroller and Auditor General (CAG) of India is the designated head of the Supreme Audit Institution (SAI) of India. He is an officer created by the Constitution and is, therefore, neither a part of the legislature nor of the executive. He ensures that diverse authorities under the government act in all financial matters in accordance with the Constitution and the laws and rules framed under it. The Constitution of India and the laws made there under fully secure his operational and financial independence.

The CAG of India was established in 1860 and has a history of 150 years. His current constitutional status was conferred when the Constitution of India was enacted on 26 January 1950.

B. Role and functions

Along with the legislature, judiciary and the executive, the CAG of India is one of the four defining pillars of Indian polity. His primary role is to ensure accountability in the governance process and is responsible for auditing the accounts and related activities of all the three tiers of government i.e. the Federal, State and Local.

C. Appointment, length of term of office and removal

The CAG of India is the head of the Indian Audit and Accounts Department (IA&AD) and is neither a part of the legislature nor the executive, but is an independent Constitutional Authority.

He is appointed by the President of India by warrant under his hand and seal and his oath of office requires him to uphold the Constitution and laws made there under. Thus, his allegiance is only to the Constitution.

The Constitution provides for a six-year term for the CAG or till he attains the age of sixty five years, whichever is earlier.

He can be removed from office only on grounds of proven misbehavior or incapacity after an address by both houses of Parliament, supported by two thirds majority of both the houses.

In addition to these, the other salient features which secure his independence are:

- His salary and conditions of service cannot be varied to his disadvantage after his appointment.
- He shall not be eligible for further office under the Government of India or of any State after retirement.
- His administrative powers and the conditions of service of his staff shall be prescribed by the President of India only after consulting him.
- The expenses of his office are a charge on the Consolidated Fund of India and are not subject to a vote in Parliament, thus giving him financial autonomy.
- He is independent of both, the Parliament and the executive, and is regarded as a key instrument for enforcing accountability in the government. His main audit findings are reported annually in one or more audit reports to the legislature. The law governing the CAG specifically stipulates that the scope and extent of audit shall be determined solely by the CAG.

The CAG of India does not report to any authority. The CAG's Audit Reports are presented to the President or the Governor of the State, who causes them to be laid in the Parliament/legislature of the State. These reports are then taken up for discussion by the Parliamentary committees established for this purpose.

The CAG is not obliged to share the Audit Reports of the International Organizations with the National Parliament or government and his international commitments are independent of his national obligations. This also ensures that there is no conflict of interest between his national constitutional duties and his responsibilities as external auditor of international organizations.

D. Budget and work programme

As already mentioned above, the budget of the office of the CAG is a charge on the Consolidated Fund of India (the main resource of the Government of India) and is not subject to a vote by the Parliament.

CAG is independent to decide his work programme. This, however, does not preclude requests to the CAG by the executive proposing matters for audit, which may or may not be taken up on the sole discretion of the CAG.

Section 23 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 empowers the CAG to decide the scope of his audit. No external authority can, therefore, dictate or influence in any way, the scope and extent of audit.

Similarly, Regulation 13 of the Regulations on Audit and Accounts authorizes the CAG to be the sole authority to decide the scope and extent of audit to be conducted by him or on his behalf. Such authority is not limited by any considerations other than ensuring that the objectives of audit are achieved.

In the exercise of the mandate, the CAG undertakes audits which are broadly categorized as financial audit, compliance audit and performance audit.

The scope of audit includes the assessment of internal controls in the auditable entities. Such an assessment may be undertaken either as an integral component of an audit or as a distinct audit assignment.

The CAG of India may, in addition, decide to undertake any other audit of a transaction, programme or organization in order to fulfill his mandate and to achieve the objectives of audit.

It is important to note that there is no power of direction by the executive in relation to the performance of the audit mandate by the CAG. The CAG is not obliged to carry out, modify or refrain from carrying out an audit or suppress or modify audit findings, conclusions and recommendations in the light of any directions by any authority.

NATIONAL ACTIVITIES

A. As auditor to national public sector organizations

As stated earlier, CAG is responsible for auditing the accounts of the government and related activities that include:

- All the Government of India departments and offices including departmental commercial undertakings such as Indian Railways, Post and Telecommunications.
- All the departments of the State Government; the States have financial autonomy and separate budgets.
- Over 1600 state owned public commercial enterprises controlled by Federal and State Governments.
- Over 350 non-commercial autonomous bodies and authorities controlled by the Federal and State Governments.
- Over 4800 bodies and authorities substantially financed by Federal and State Governments.
- Over 3000 large and medium sized Local Bodies responsible for municipal activities.

The CAG audits both receipts and expenditure and the scope of audit covers financial audit, performance audit and compliance audit. We have a long and rich experience and expertise in carrying out all types of audit. This is reflected in the number of Audit Reports and other audit products prepared annually by the CAG. On an average, the CAG issues 650 Financial Audit Certificates and 150 Compliance Audit Certificates in respect of accounts and transactions of the Federal Government, and 8500 Financial Audit Certificates and 2000 Compliance Audit Certificates in respect of the State Governments and Union Territories. The CAG prepares about 13 Compliance Audit Reports on the accounts of the Federal Government for placing before the Parliament and 70 Audit Reports on the accounts of the State Governments and Union Territories for placing before their legislatures. During 2010-11, 193 performance audit reports were approved incorporating 1602 recommendations to our audited entities at both federal and state levels.

B. As member of national standard setting bodies

The CAG plays an active role in the following apex standard setting bodies in India:

Institute of the Chartered Accountants of India (ICAI)

An officer nominated by the CAG of India is a member of the Governing Council of the Institute of the Chartered Accountants of India.

Institute of Public Auditors of India (IPAI)

The CAG is also the Patron of the Institute of Public Auditors of India. The IPAI is a unique institution dedicated to furthering the cause of public audit in India and hence works very closely with the Supreme Audit Institution of India, i.e. the CAG of India.

Government Accounting Standards Advisory Board (GASAB)

The CAG has constituted the Government Accounting Standards Advisory Board (GASAB) (www.gasab.gov.in) for prescribing Indian Government Financial Reporting Standards (IGFRS), which are an adaptation of accrual IPSAS (International Public Sector Accounting Standards) to Indian requirements. GASAB has also issued guidance on “Auditing IPSAS Financial Statements” to assist audit teams in undertaking financial audits of international agencies which have either adopted IPSAS or are in the process of adopting them.

National Advisory Committee on Accounting Standards (NACAS)

The CAG is a member of the National Advisory Committee on Accounting Standards, which is the apex body in India for examining the accounting standards prepared by ICAI and is currently engaged in achieving the convergence of Indian Accounting Standards with the International Financial Reporting Standards (IFRS).

INTERNATIONAL ACTIVITIES

A. As auditor of international organizations

We have a long association as external auditors of United Nations, its Agencies and other international organizations. These include audit of:

- United Nations (UN) from 1993 to 1999
- Organization for Prohibition of Chemical Weapons (OPCW) from 1997 to 2003
- International Centre for Genetic Engineering and Biotechnology (ICGEB) from 1996 to 2004
- Food and Agriculture Organization (FAO) from 2002 to 2008

- World Health Organization (WHO) from 2004 to 2012

- International Maritime Organization (IMO) from 2000 to 2012

- World Food Programme (WFP) from 2010 to 2016

- World Intellectual Property Organization (WIPO) from 2012 to 2017.

- International Atomic Energy Agency (IAEA) from 2012 to 2013.

- International Organization for Migration (IOM) from 2010 to 2015.

This long association has enabled us to create a specialized pool of professionals experienced in the audit of international organizations, with substantial knowledge of standards, procedures, financial systems, and other operations relating to international organizations. The UN system is currently in the process of transition to IPSAS based financial accounting systems. As external auditors to WHO and IMO, we were engaged in facilitating the transition of these two Organizations to IPSAS. Similarly, as external auditors to WFP, WIPO and IAEA, we are engaged in assisting the Organizations in assimilating IPSAS into its business processes.

B. As member of international standard setting bodies

The CAG is affiliated to the following standard setting and international organizations:

Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency

He is the chairman of the Panel and is, thus, closely associated with its activities in establishing standards, best practices and guidance in the area of audit of International Organizations.

International Organization of Supreme Audit Institutions (INTOSAI)

He is a member of the Governing Board of INTOSAI and Chairman of the Committee on Knowledge Sharing and Knowledge Services as also the Working Group on IT Audit (WGITA). He is a member of the Professional Standards Committee of INTOSAI and its sub-committees on Financial Audit, Compliance Audit and Performance Audit. Besides, he is member of majority of Committees/Sub-Committees, Working Groups of INTOSAI. He has, therefore, been closely associated with the work related to setting and revising standards, establishing best practices and preparation of audit guidance.

Asian Organization of Supreme Audit Institutions (ASOSAI)

He is the Chairman of ASOSAI. He is closely associated with ASOSAI's training, research and publication activities in the area of public auditing and also edits the ASOSAI journal.

Auditors General Global Working Group (GWG)

He is a member of this select group of Auditors General that come together to address current and emerging audit issues of concern that have surfaced in the wake of new challenges such as globalization, privatization and growth of Information Technology.

As will be seen from the above, the CAG of India brings with him vast experience of not only auditing multifarious national and international organizations, but also rich experience of setting standards and best practices, at both national and international level. This has helped his organization to remain abreast of all developments taking place in the frontier areas of audit, thus giving his staff the cutting edge level knowledge and skills which enable them to provide best value to their auditee clients.

RANGE OF AUDIT ACTIVITIES ENVISAGED

A. Scope of audit

We realize that the General Conference, the Board of Governors and the Management of IAEA have a fundamental interest in good governance, accountability and transparency in IAEA. We strongly believe that good, well-organized and independent External Audit will contribute to better and more transparent management of IAEA, thus contributing to its economy, efficiency and effectiveness. Keeping this basic objective in view, we have proposed financial, performance and compliance audits. We also propose an increase in our audit effort as compared to our commitment during 2012-2013. This has been done in view of the experience gained during our work in 2012-2013. This broad range of audit activities is also in line with the International Standard of Supreme Audit Institutions (ISSAI 5000) which lays down the principles for best audit arrangements for International Institutions.

Financial Audit

As IAEA is now IPSAS compliant, our financial audit will include attest functions of the financial statements and providing an opinion on the financial statements prepared under IPSAS. Our opinion and report shall conform to the requirements prescribed in the relevant clauses contained in the 'Additional Terms of Reference governing the audit of the International Atomic Energy Agency'.

Performance Audit/Value for Money (VFM) Audit

This will cover audit of diverse areas including assessing whether the programmes and projects have achieved the desired objectives at optimum cost, that operations have been carried out with due regard to economy and efficiency and that they have been effective. The areas for performance audit will be selected on the basis of the quantum of

resources allocated to them and the risk to the efficient and effective operation of IAEA.

Compliance Audit

This will include audit against appropriation and assessing compliance with applicable rules, regulations and legislative authority. We will examine the propriety of transactions and report cases, if any, of wasteful and improper expenditure. The focus of audit, however, will be on enabling corrective measures to prevent recurrences and to recommend changes that may be needed to the system of internal controls, their adequacy and implementation. Compliance Audit will be carried out in Headquarters, Laboratories and Safeguard Offices and other field locations as deemed necessary.

Information Technology (IT) Audit

SAI India carries out IT audits under the broad framework of financial, performance and compliance audits. It covers audit of IT systems including all types of ERP systems like SAP, Oracle, PeopleSoft, JD Edwards etc. We note that IAEA's Agency-wide Information System for Programme Support (AIPS) aims at providing greater financial control and improvements to the operational capacity of IAEA. The system is critical for reliable and efficient financial reporting under International Public Sector Accounting Standards.

Our IT Audits in IAEA will focus on IT Governance areas which primarily include strategic alignment, value delivery, risk management, resource management and performance measurement. The objectives of our IT Audits will concentrate on substantiating that internal controls exist to minimize business risks and that they function as expected. We will also provide assurance regarding confidentiality, integrity, reliability and availability of Information and IT resources. We will also assess the integrity of financial reporting through computer assisted audit techniques.

AUDIT SPECIALITIES

A. Domain Appreciation of Atomic energy: Audit expertise in SAI India

About Department of Atomic Energy in India

The Atomic Energy Commission was set up in August 1948 under the Atomic Energy Act 1948. The Department of Atomic Energy (DAE), created in 1954, aims at harnessing nuclear energy for power generation and developing nuclear and other advanced technologies for use in health care, agriculture, industry, research and other areas. The main mandate is the production of safe and economical nuclear power, using indigenous uranium and thorium resources. Towards this end, it is involved in:

- Developing in stages pressurized heavy water reactors, fast breeder reactors and advanced thorium reactors with associated fuel cycle systems.
- Building research reactors for production of radioisotopes and carrying out programmes on isotope and radiation technology applications in medicine, agriculture and industry.
- Developing advanced technologies such as lasers, accelerators, supercomputers, control and instrumentation and encourage transfer of technology to industry.
- Supporting basic research in nuclear energy and related frontier areas of science.

The units under the DAE are segregated in three sectors viz. power, industries & minerals and research & development. The units are run mainly departmentally and a couple of units for mining and one for power generation are run as public sector units on commercial lines.

About the audit arrangements

Audit of the DAE is being conducted by the Comptroller and Auditor General of India since the formation of DAE in 1954. However, in order to take an integrated audit view of the

various scientific activities of the Government of India including the critical activities of the DAE, the CAG of India in 1986 created a dedicated office for the audit of scientific departments and for the last 24 years this office has been auditing and commenting on the complex activities of the DAE spread throughout the country.

Types of audit services offered

Our audit staff carry out various kinds of audit assignments which include:

- Certification of accounts (Appropriation and Finance) of the DAE
- Certification of the accounts of the commercial units under DAE
- Compliance audit of DAE and its units
- Performance audit of DAE and its units

Since atomic energy is a highly sensitive and regulated industry, compliance audit and performance audit assume great significance.

Our Reports on Atomic Energy

Bhabha Atomic Research Centre (BARC): BARC is a premier nuclear R&D centre of DAE. Its facilities include research reactors used for research and isotope production and plants for manufacture of uranium metal, nuclear fuels, fuel reprocessing and waste immobilization and seismic stations. At BARC we have reviewed:

- Functioning and setting up of research reactors
- Performance of the beryllium plant
- Setting up and functioning of a nuclear desalination plant
- Performance of the R&D activities at BARC
- Compliance related issues on various individual projects. Nuclear Fuel Complex (NFC): NFC is an industrial unit of DAE, which fabricates enriched uranium fuel for reactors

and produces zircaloy products required for power reactors. At NFC we have reviewed:

- Performance of NFC covering all its activities
- Various compliance related issues

Heavy Water Board (HWB): HWB is an industrial facility of DAE involved in production of heavy water which is used as a moderator and coolant in certain nuclear reactors. At HWB we have reviewed:

- Costing for the production of heavy water
- Compliance related issues Nuclear Power Programme: India's nuclear programme is to be carried out in three stages involving Pressurised Heavy Water Reactors in the first stage, Fast Breeder Reactors in the second stage and Thorium Breeder Reactors in the third stage. We have examined:
 - Nuclear power profile of the DAE
 - Performance of Nuclear Power Corporation in operating its power plants
 - Performance of second stage Fast Breeder Reactor
 - Research and development activities in the frontier areas of lasers, accelerators and radioisotope applications
 - Management of fuel for Pressurised Heavy Water Reactors: Front-end of the Nuclear Fuel Cycle
 - Functioning of the Gamma Ray Observatory for Astrophysics experiments
 - Project Management in the Board of Radiation and Isotope Technology
 - Procurement of stores and inventory management in DAE.

B. IPSAS and ERP; critical interdependencies

We have noted that the Agency is IPSAS compliant. Being the chair of Panel of External Auditors of the United Nations, its Specialized Agencies and the International Atomic Energy

Agency and also the External Auditors of International Organizations which have already migrated or in the process migrating to IPSAS, we understand that the adoption of IPSAS is beginning to have a major impact on United Nations system organizations, extending well beyond accounting. The conversion to IPSAS enables enhanced management of resources and business processes and improves results-based management. Depending on the organizations' initial readiness for IPSAS requirements, the transition to IPSAS has been a major project for most organizations as it impacts accounting, financial reporting and associated information technology systems and leads to a new approach to planning, decision-making, budgeting and financial reporting.

Having realized the interdependencies between IPSAS and information systems, we have synergized our skills in IPSAS with expertise in ERP Audits. Our role in facilitating smooth transitions from legacy accounting and IT systems to IPSAS and ERP based systems in WHO and IMO are examples of our ability to synergize our competencies in IPSAS with expertise in ERP audits. A three phased approach was adopted in these two agencies. In the development and rollout phase, IPSAS implementation and ERP implementation were evaluated independently. In the second phase, a Data Migration audit was conducted to evaluate the integrity and quality of data migration from legacy system to ERP with specific focus on business rules and policies pertaining to IPSAS. In the third phase, a post implementation review of ERP and the interim audit of financial statements of the organization under IPSAS was conducted. This approach yielded rich dividends in enabling smooth change over to a new governance regime with IPSAS and ERP. In the recent past years, the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency has repeatedly invited SAI India to share with other members of the Panel, wherever possible, our audit procedures on ERP implementations with reference to IPSAS.

Therefore, our special strengths in IPSAS and ERP systems together with the broad understanding of the sector are what we will bring to the table as our audit specialities, which would be of immense benefit to IAEA in its execution of IPSAS based financial accounting system and implementation of its ERP system, AIPS. Our claim is backed by the following:

i. Competence in IPSAS

We appreciate the fact that IAEA has migrated from United Nations System Accounting Standards (UNSAS) to IPSAS. We have more than 200 audit professionals trained in IPSAS, many of whom have conducted audit of IPSAS related issues in WHO, IMO, WFP and WIPO. As External Auditors, we have adopted a bilateral consultative process and have supported WHO and IMO in their process of migration from the legacy UNSAS accounting system to the one governed by IPSAS.

Further, CAG has constituted the Government Accounting Standards Advisory Board (GASAB) for prescribing Indian Government Financial Reporting Standards (IGFRS), which are an adaptation of accrual IPSAS to Indian requirements. GASAB has also issued guidance on “Auditing IPSAS Financial Statements” to assist audit teams in undertaking financial audits of international agencies which have either adopted IPSAS or are in the process of adopting them. These associations have given us valuable experience in IPSAS and insights into the nuances of these standards.

Our audit professionals are familiar with various accounting frameworks including IFRS, Accounting Standards issued by the Institute of Chartered Accountants of India and IPSAS. We have established competencies in auditing UNSAS financial statements.

With expertise in UNSAS, Indian GAAP and IPSAS, our audit professionals are eminently

placed to facilitate transition of UN and its agencies to IPSAS and to work with those which have already migrated to IPSAS to assimilate IPSAS in their business procedures and financial management structures and processes.

With the ultimate objective of delivering a high value added professional output, each member of the audit team selected for international audits is trained in IPSAS under our 'Continued Professional Education Programme' for the UN system.

ii. Audit of ERP and other IT systems

Our capabilities in the field of audit in Information Technology environment are internationally recognised and our processes are benchmarked with international best practices. Our credentials in this area are given below:

- The CAG is the Chairman of the Working Group on IT Audit (WGITA) of INTOSAI, which is the apex organization for the Auditors General (or their equivalents) worldwide. The Chairmanship has been entrusted to India in recognition of its demonstrated proficiency in such audits. The CAG is also assisting several SAIs in capacity building in the field of IT audit by training and secondment of experts to them.

- Domestically over 350 audits of IT systems of diverse platforms and databases have been conducted; COBIT has been adopted as the framework to guide the IT audits in the country. We have audited vast distributed database systems, mainframes and ERP applications including Oracle financials, SAP, PeopleSoft etc. apart from Information Security Audits using BS7799.

- Our team of auditors won the “Prime Minister's Award for Excellence in Public Administration” for our Information Technology Audit in 2006-07.

- More than 200 IT audit reports have been brought out on critical and sophisticated IT systems covering planning, programme implementation and specific IT issues.

- We have a large number of staff who are Certified Information Systems Auditor (CISA), apart from 500 IT audit specialists (level II and III IT Auditors as defined in the IT Audit Curriculum of the INTOSAI IT Audit Committee) amongst our professional staff. They are proficient in use of Computer Assisted Audit Techniques such as IDEA, SQL, TOAD, etc.

- The professionals who are deputed for audit of international organizations are well equipped to conduct audit in a computerized environment. Members of this pool have conducted audit of Integrated Management Information System at UN Headquarters in New York, ATLAS, PIREs and HRMS system. One of our earlier notable assignment was to assess the preparedness of UN to manage the Y2K problem.

- We have conducted audit of SAP and Oracle based ERP systems in WHO, FAO, WFP and IMO. In the case of WHO, apart from a detailed study of project processes in the Global Management System (GSM) in which several areas of risk were highlighted, we recently carried out an audit of the project processes and preparedness for implementation of Global Management System (GSM) and data cleaning and conversion under the new ERP package to obtain assurance on the data conversion process.

- Our audit reports on ERP systems have focused on:

- Controls implemented to ensure the integrity of financial information in various functions viz., procurement, travel, disbursement of funds, month-end procedures and operation of interfaces, human resources and pay roll.

- Tests of security, authorizations and segregation of duties within ERP focusing on review of use of roles to control access within ERP, role assignments to identify conflicts or issues with segregation of duties, password and other controls in operation, and restriction on powerful transactions.

- System administration procedures focusing on processes and approvals for system configuration changes, system access changes, and new user access and assignment of rights.

- IS controls over the ERP environment covering, among others, physical and logical access and application controls.

- Though we are not the External Auditor of International Thermo Nuclear Experimental Reactor (ITER), its information systems audit was outsourced to us by the Financial Audit Board (FAB) of ITER in view of our recognized IT audit abilities. The focus of this audit was SAP security and implementation.

Section - B



AUDIT APPROACH

A. Introduction

The Comptroller and Auditor General of India (CAG), will adopt a risk based execution strategy formulated to add value to the performance of IAEA while providing independent assurance to the General Conference. In addition to certifying the accounts of IAEA, we will report on the economy, efficiency and effectiveness of the financial procedures, the accounting system, the internal financial controls and the general administration and management of IAEA. The strategy will be consistent with providing high quality, cost effective and professional external audit services as rendered to UN organizations like United Nations (1993-1999), World Health Organization (2004 onwards), Food & Agricultural Organization (2002-2007), International Maritime Organization (2000 onwards), World Food Programme (2010 onwards), World Intellectual Property Organization 2012-2017, International Atomic Energy Agency (2012-2013).

This section describes the detailed audit approach that we will follow for this assignment and the various elements that constitute the building blocks of this approach.

B. Standards framework

The audit of IAEA will be conducted in accordance with the following standards:

- The International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC) and adopted by the Panel of External Auditors of the United Nations, its Specialized Agencies and the International Atomic Energy Agency as its Common Auditing Standards;

- Auditing guidelines issued by the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency;

- The Auditing Standards of the International Organization of Supreme Audit Institutions (INTOSAI);

- The framework of UN Accounting Standards/International Financial Reporting Standards (IFRS) and accounting standards applicable to IAEA i.e. International Public Sector Accounting Standards (IPSAS) of the IFAC;

- Article XII of the Financial Regulations of IAEA and Additional Terms of Reference governing the audit of the International Atomic Energy Agency, set out in the Annex to the Financial Regulations.

Adherence to internationally accepted auditing standards and proven audit methods will form the basis of our assurance for providing high quality professional audit services to IAEA.

C. Audit Process

Audit will be carried out through a three stage process:

Planning

Prioritization of audit areas will be done on the basis of risk assessment conducted with reference to financial materiality, significance, topicality and visibility, and with reference to any specific areas indicated in terms of Article XII of Financial Regulations of IAEA. In determining materiality, we would consider whether there are any Agency specific factors to take into account. We would consider whether issues other than relative monetary values would be material to the Member States. In determining materiality, we would pay

particular attention to the General Conference's consideration of the IAEA's programme and budget.

The internal control environment will be evaluated to decide the extent of reliance to be placed thereon, based on which the nature and extent of substantive audit testing will be determined. Coordination will be established with the Office of Internal Oversight Services (OIOS) to avoid duplication of effort. Our approach on evaluation of Internal Controls has been explained in detail in paragraph E.

It is also mentioned that a detailed risk assessment exercise incorporating the above elements was carried out by us in September-October 2012 which informed our audit planning for the period 2012-2013.

We will interact with the Management before finalizing the overall audit strategy. Timing of individual audit assignments will also be discussed with the Management. Entities to be audited will be informed of the timeframe and terms of reference of the audit assignment in advance.

Each Audit Team will draw up an audit plan outlining the scope and objectives of the particular audit assignment, the areas of concern to audit, time frames for various activities and the exact job specification of each member of the Audit Team. Progress against the plan will be monitored in each case to ensure that the audit task is completed in an efficient and cost effective manner.

Execution

Audit execution will commence with an Entry Conference where the audit plan, consisting of audit objectives and audit approach, will be discussed with the Head of the audited entity and their views taken into account. The audited entity will also be apprised of the data, information and documents required by the audit team in the conduct of the audit assignment. Fieldwork will be conducted at the Headquarters of IAEA as

well as at its field locations (Laboratories Safeguard Offices and other field locations as deemed necessary), as required. Audits will be performed with a view to obtaining assurance regarding the accuracy of the financial statements, compliance with rules, regulations and the adequacy of internal financial controls, and in general, the economy, efficiency and effectiveness of the administration and management of the Agency. This will involve collection of evidence through scrutiny of financial records (both manual and computerized) and examination of supporting documentation, analysis of trends and variations, re-performance of calculations, interviews with key staff of the audited entity, questionnaires etc.

Audit Requisitions will be issued to request for any data, information and records etc. not otherwise readily available but needed specifically by the audit team.

Preliminary audit findings will be communicated to the official in-charge of the functional area being audited in the form of Audit Query for response and confirmation of facts and figures.

After considering the response received to the Audit Query, an Audit Observation will be issued containing audit findings and recommendations. An Audit Observation may be finalized after incorporating the responses received to more than one Audit Query.

Meetings can be held to discuss audit issues at the request of either the audited entity or the auditor.

Each audit assignment will close with an Exit Conference with the Head of the audited entity. The Exit Conference is an opportunity for the entity to discuss the audit findings and recommendations with the audit team. This also affords an opportunity to the audit team to clarify any points of doubt that the entity may like to raise. The record of the Exit Conference will be sent to the Head of the audited entity for his confirmation and record.

Reporting

While reporting the results of audit we will comply with the requirements as stated in the Article XII of Financial Regulations of IAEA and Additional Terms of Reference governing the audit of the International Atomic Energy Agency, set out in the Annex to Financial Regulations. Following the principle of “no surprises”, the reporting process will be elaborate, affording an opportunity to the Management to respond to the audit findings at each stage.

The principal steps in the reporting process stage will be:

- Preliminary audit findings will be communicated by the audit team to the head of the audited entity in the form of Audit Query for comments and response, after considering which an Audit Observation will be framed wherever considered necessary;

- After taking into consideration the responses received to the Audit Observations and the deliberations in the Exit Conference, a Management Letter bringing out significant audit issues will be issued by the Principal Director (International Relations) at CAG's Headquarters to the Director General, with copies to the Director, Division of Budget and Finance and Head of the audited entity;

- Based on the reply to the Management Letters, the Draft Audit Report will be issued to the Director General to give an opportunity to the Management to comment on the audit findings;

- Based on the responses to the Draft Audit Report and further discussion, if any, the Final Audit Report will be transmitted to the Board of Governors for its observations and onward transmission to the General Conference, together with the audited financial statements, in accordance with the Financial Regulations.

The entire reporting process will thus be marked by a vigorous two-way exchange of

audit observations and findings on one side, and Management views and comments on the other, at all stages. The final report to be presented to the General Conference through the Board of Governors will contain nothing which had not been brought to the notice of the IAEA Management earlier.

To ensure that they meet the highest standards of quality, all audit products to be presented to General Conference through the Board of Governors, will be reviewed by a committee of very senior SAI personnel, who are otherwise responsible for finalizing the CAG's national audit reports, before such reports are approved by the CAG for onward transmission to IAEA.

We will, while communicating audit findings make appropriate and constructive recommendations. As brought out above, the issue of reports will be preceded by comprehensive discussions and consultations with the senior Management. As a part of quality assurance, the audit work will be reviewed by experienced audit professionals unconnected with the audit to ensure that the audit assignment has been conducted with due regard to standards and best practices.

Audit Reports

The detailed reporting process has been described above. As explained therein, there will be three types of audit products which will be delivered to IAEA.

- (a) Management Letters,
- (b) Short Form Report or the Opinion on Financial Statements,
- (c) Long Form Report or Annual Audit Report.

While the Draft Audit Report will be issued to the Director General, the Short Form Report or the Audit Opinion on the Financial Statements and the Long Form Report or the Annual Audit Report will be presented to the Governing Body of IAEA, i.e. the General

Conference of IAEA through the Board of Governors.

All time-lines for completion of each stage of the audit process and the delivery of various audit products will be settled after mutual discussion with the Management before each assignment is taken up. The actual implementation of the assignment will then be monitored at CAG's Headquarters to ensure that there are no slippages in the time schedules decided earlier.

It will be ensured that the audit results presented to the IAEA Management through Management Letters and Audit Report will be balanced, fair, and accurate and will have constructive recommendations.

Issue and management of recommendations

The Management Letters and Audit Reports will conclude with constructive recommendations. The recommendations will be finalized after obtaining the response of the Management on our audit findings. We will do an internal review to ensure that the recommendations are practical and add value. The recommendations will be discussed in the Exit Conference to ensure that there is mutual agreement on them. They will address the objectives of the audit i.e. economy, efficiency, effectiveness, accountability, improvement in financial management and controls.

The implementation of the recommendations will be monitored periodically. For this purpose a mutually agreed follow up procedure will be established. The recommendations will be managed through a follow up programme which will be oriented towards;

- Compliance with the accepted recommendations with emphasis on encouraging the implementation rather than highlighting the lack of action;

- Follow-up on the accepted recommendations for which compliance reports are awaited;

- Testing the quality of implementation of recommendations and impact thereof.

D. Collaboration with Office of Internal Oversight Services (OIOS)

We follow a systems based approach in which the study of internal control structures in audited organizations is an integral part of audit process. Such a study also covers an analysis of internal audit arrangements. The quantum of substantive auditing to be performed and resources to be deployed is based on such studies. Audit work gets drastically reduced in organizations where internal controls including internal audit is strong. Audit effort on areas already audited by internal audit is minimised so as to avoid duplication of audit effort. We will follow this standard audit procedure in the audit of IAEA and closely interact with the Agency's Office of Internal Oversight Services to synergize the audit effort and coordinate audit activity so as to avoid duplication of work.

E. Evaluation of Internal Controls

Enterprise Risk Management (ERM)

SAI India regularly conducts audits of internal control systems in individual Departments/ Ministries of the Government of India and the State Governments; such audits cover the adequacy and effectiveness of risk management in different areas - operational, financial and personnel. In addition, risk management is a key audit focus area for us in different sectors, such as;

- Credit risk management in Government/Government-controlled financial institutions;

- IT-related risks¹ for planning and implementation of IT projects in the public sector;
- Corporate governance and risk management practices in Government-controlled Business Enterprises;
- Natural disaster risk management activities; and
- Risk management systems in tax organizations.

However, neither the Government of India nor the State Governments had formal standards/frameworks for internal control and risk management. Consequently, SAI India partnered with other key stakeholders in the Government of India (including the Planning Commission, the Ministry of Finance, and the Controller General of Accounts) in developing an Internal Control and Risk Management (ICRM) Framework for major schemes/ programmes of the Government. The ICRM Framework covers the major phases of the risk management process viz. setting the risk management context; risk assessment; risk treatment; risk monitoring; risk assurance; and risk re-assessment. The Framework draws upon concepts/ principles enshrined in internationally accepted frameworks (notably the ERM-Integrated Framework of COSO, the supplementary guidance on ERM issued by the INTOSAI Sub-Committee on Internal Controls, as well as the Australia/New Zealand Risk Management Standard AS/NZ 4360), which have been appropriately adapted to the working environment in the Indian public sector.

Our evaluation of internal controls in IAEA has followed and will follow a similar approach, which has been codified in our Internal Control Evaluation Manual. This will enable us to determine the level of assurance that can be derived from the internal control framework of IAEA for the purposes of designing our audit procedures and tests. Such an exercise will also provide us opportunities to recommend suitable improvements required, if any, to further improve the efficacy of controls in the Agency.

CoBIT framework

Our staff is fully equipped with technical skills, knowledge and experience of using the internal control framework of Control Objectives for Information and related Technology (CoBIT) in undertaking audits of IT systems. As mentioned earlier, domestically over 350 audits of IT systems of diverse platforms and databases have been conducted. CoBIT has been adopted as the framework to guide the IT audits in the country. To quote an example, the audit of IS controls over the SAP environment in International Thermonuclear Energy Reactor (ITER) Organization was conducted after risk analysis and against standard benchmarks applicable in CoBIT framework.

F. Quality assurance and control

The CAG of India follows a rigorous quality assurance regime to ensure that all its products meet the highest standards of quality. We have an Audit Quality Management Framework (AQMF) for the Organization, the compliance of which is mandatory. The AQMF has five broad parameters of quality management processes, viz. leadership and direction, human resources management, audit management, clients and stakeholders relations and continuous improvement. These parameters are further divided into “Quality Management Elements”, each of which has then been mapped to “Key Instruments Employed (KIE)” - KIEs' being the Constitution of India, CAG's (Duties, Powers and Conditions of Service) Act, Auditing Standards, Manuals, Guidelines, etc.

To ensure high standards of audit, several quality assurance procedures are implemented. These are:

1. Establishment and compliance with documented audit standards and audit methods and procedures including a Comprehensive Code of Ethics.
2. Regular training of audit staff to update and enhance audit skills and knowledge.

¹ These are covered under the CoBIT framework, which is the standard audit methodology adopted by SAI-India for IT audits.

3. Frequent evaluation of audit staff through periodic tests.
4. Well laid down system of supervision of audit operations both at Headquarters and field offices.
5. Independent review of audit operations by Internal Audit and Headquarters inspection teams.
6. Rigorous scrutiny of audit findings, both at field offices and Headquarters, by persons not involved in audit fieldwork so as to ensure that audit findings meet standards of materiality and evidence. This also includes detailed discussion of draft audit findings with the audited entity.
7. Review of working papers.
8. Structured mid-term review of operations.

G. Value and knowledge framework

CAG's Auditing Standards

The CAG has prescribed Auditing Standards patterned on the auditing standards being used internationally. These have been disseminated throughout the Organization and are used as a basis for evaluating audit operations. These Standards are subjected to constant review and modified whenever required, to keep pace with the developments taking place globally and to bring them in conformity with the best practices. The latest edition (2002) of CAG's Auditing Standards is in line with the Auditing Standards issued by the INTOSAI in 2001. The Standards include ethical standards, which are similar to the INTOSAI code of ethics'.

The Auditing Standards include the following:

- (a) Basic Postulates
- (b) General standards
- (c) Field standards
- (d) Reporting standards

Basic Postulates

The Basic Postulates are the fundamental premises and requirements which guide the auditors in forming their opinions and reports, particularly in cases where no specific standards apply.

The Basic Postulates prescribe, inter alia, that;

- (i) the auditing standards shall be complied with by the auditors in all matters that are deemed material;
- (ii) the auditors shall apply their own judgment to the diverse situations that arise in the course of audit;
- (iii) there shall be an effective accountability process in operation;
- (iv) all audit activities shall be consistent with the audit mandate of the CAG;
- (v) audit shall avoid conflict of interest between the auditor and the auditable entity.

General Standards

The General Standards describe the qualifications of the individual auditor and the combined qualifications of the SAI, the compliance of which enables them to carry out the task related to conduct of audit and reporting of audit findings in a competent and effective manner. These standards establish a foundation for credibility of work of the auditor and the SAI.

The General Standards cover the aspects of independence, professional competence, due care, professional judgment and quality control.

Field Standards

The Field Standards provide an overall framework for conducting and managing an audit.

The Field Standards include aspects of planning, supervision and review, examination and evaluation of internal controls, compliance

with applicable laws, rules, regulations and audit evidence.

Reporting Standards

The Reporting Standards provide an overall framework for the auditor and the audit institution for reporting the results of audit.

The Reporting Standards encompass the form and content of all audit opinions and reports which need to be consistent with the principles laid down with regard to, (a) objectives and scope, (b) completeness, (c) addressee, (d) identification of subject matter, (e) legal basis, (f) compliance with standards, and (g) timeliness.

Ethical Standards

These standards apply to the head of the SAI, executive officers and all individuals working for and on behalf of the SAI. The SAI has the responsibility to ensure that all its auditors acquaint themselves with the values and principles contained in the Code of Ethics for the Organization and they act accordingly. The following auditing standards have ethical significance:

- The auditor and the SAI should be independent and should avoid conflicts of interest with the audited entity on matters that may impair their independence materially.
- The auditor and the SAI must possess the required competence.
- The auditor must exercise due care and concern in complying with the auditing standards.
- The auditor should at all times maintain absolute integrity and devotion to duty.
- The auditor should not disclose information obtained in the auditing process to third parties, either orally or in writing.

Further, all SAI employees are civil servants and are subject to the Central Civil Services (Conduct) Rules, 1964 that prescribe standards of behavior and ethical conduct. Information

regarding all financial transactions, gifts received, property acquired has to be notified on occurrence and where stipulated, prior permission is to be taken. These Conduct Rules are very similar to the Standard of Conduct for the International Civil Service.

Audit methodologies

In addition to the Auditing Standards, an important aspect of quality assurance in SAI India is the prescription and codification of audit methodology for all types of audits and also for audits by nature of transactions. These are supplemented by administrative instructions, guidance and technical circulars. This methodology is in line with International Auditing Standards and internationally accepted best practices.

Following are our laid down standards and principles.

1. Regulations on Audit and Accounts
2. Audit Quality Management Framework
3. Auditing Standards
4. Code of Ethics
5. Manual of Standing Orders (Audit)
6. Auditing IPSAS based Financial Statements: Ready Reckoner. This is essentially for our international audits.
7. Financial Attest Audit Manual
8. Performance Auditing Guidelines
9. Internal Control Evaluation Manual
10. Guidelines for auditing Public Private Partnerships (PPP)
11. Manual of Information Technology Audit

Mechanism to ensure adherence to professional standards

As already described in the foregoing paragraphs, the CAG has an elaborate system to ensure that all audit work is carried out in conformity with the auditing standards, prescribed methodologies and best practices.

This is ensured by the Audit Quality Management Framework. A hierarchical framework for audit guidelines is in place, starting with the SAI-wide auditing standards and guidelines, followed by function-specific guidance, and then instructions at the level of the local field formations. This hierarchy of guidance is constantly reviewed and those instructions which become incongruent are weeded out.

Supervisory officers, both in field offices and Headquarters, exercise checks to ensure compliance with the Auditing Standards, manuals and codes, and operational instructions while carrying out their prescribed supervision of audit operations and outputs. Further, audit operations are also independently checked by the Internal Audit wings in each office and by the Director of Inspection (Head of the internal audit function in SAI India) in Headquarters. Audits are supervised by senior staff according to prescribed norms and field offices visited by the CAG's deputies as well as CAG from time to time.

Each Audit Report that is presented to the Parliament or the State Legislature undergoes a robust review process. Each significant audit finding targeted for inclusion in the Audit Report is subjected to detailed scrutiny and review at multiple levels, followed by detailed discussions, both with the audit team proposing the finding and the audited entity, to arrive at a balanced view of the transactions and to ensure that every finding is supported by competent, sufficient, relevant and reliable evidence and can stand up to legislative scrutiny.

We also have a rigorous system of peer review of all field offices and Headquarters office. The Peer Review framework brings out various measures required to ensure quality control and assurance in audit.

The CAG is assisted by an Audit Advisory Board at the apex level which advises on strategic issues and also reviews the methods

and procedures. The proceedings of the Board, which meets every quarter and whose members are leading figures from the public life and professional bodies, focus on the activities of the CAG with particular reference to quality and serve as an important tool in the quality assurance process. The Audit Advisory Board has as one of its member the President of the Institute of the Chartered Accountants of India, which is the nodal standard setting body in the country in the field of corporate accounts and audit of private corporate bodies.

We are also subject to the Right to Information Act, 2005. This automatically contributes towards quality assurance as the Right to Information Act empowers every citizen of the country to seek any information from us, inspect any document and seek certified copies thereof.

H. Maintaining client confidentiality

We note that maintaining strict confidentiality by our staff while dealing with documents of IAEA would be of paramount importance. As explained in foregoing paragraphs, we have elaborate system to ensure ethical conduct of our staff. We have a Code of Ethics and specific ethical standards which require the auditor to maintain absolute integrity at all times and prohibit him from disclosing information obtained in the auditing process to third parties, either orally or in writing. To ensure compliance, all audit personnel have to sign off an assurance memo at the commencement of each audit assignment. The ethical conduct is monitored and reflected in the annual performance reports of the officials. Further, the staff being civil servants, are subject to the Central Civil Services (Conduct) Rules that prescribe standards of behaviour and ethical conduct. These Conduct Rules are very similar to the Standard of Conduct for the International Civil Service. Information regarding all financial transactions, gifts received, property acquired have to be notified on occurrence and where stipulated,

prior permission taken. The annual performance appraisal of the staff has a specific entry relating to integrity of conduct. Besides, all officials have to file an annual statement of immovable property. For dealing with staff that fail to meet standards of professional and ethical conduct required, the provisions of the Civil Services (Classification, Control & Appeal Rules), 1965 are resorted to, which codify all disciplinary methods including imposition of penalties and holding of formal inquiries. This also takes care of potential conflict of interest situations where the capacity of an auditor to make an independent decision or judgment may be influenced or prejudiced by considerations of a personal nature, or considerations emanating from a third party, resulting in the interests of IAEA being inappropriately affected.

NUMBER AND LEVEL OF STAFF TO BE INVOLVED IN THE AUDIT

A. Human Resource of SAI India

Being the auditor of all the three tiers of Government in India – Federal, State and Local (municipal and village) - CAG of India heads one of the largest SAIs in the world. SAI India boasts of a rich human resource pool, professionally qualified in diverse fields thus enabling the CAG to handle audit assignments even in very specialized areas. The availability of such in-house expertise allows the CAG to dispense with the hiring of any consultants or experts from outside or to outsource any work to outsiders. This goes a long way in ensuring client confidentiality.

Staff of SAI India have the status of government employees and normally continue in employment till retirement. Government employment in India enjoys a high status and hence employee turnover is very low. Recruitments are also limited to filling vacancies arising out of retirements. The Organization, therefore, has a workforce which

is stable in character and numbers. However, turnover of staff in individual assignments is ensured through periodic rotation between different wings enabling them to get wider exposure and at the same time preventing development of complacency and vested interests. There is also frequent updating of skills and knowledge through training programmes.

B. Core Team for managing IAEA Audit

The Core Team for managing and administering IAEA Audit Project in Headquarters of CAG of India at New Delhi will be headed by Director General, International Relations, who is of the rank of a Senior Audit Director. He will be directly assisted by Director, International Relations, who is of the rank of an Audit Manager and an Audit Professional. This team will be supported by specialized groups headed by officers of the rank of Senior Audit Directors specializing in issues relating to IPSAS, ERP systems, internal control evaluation and fraud examination.

The Core Team will be the External Auditor's interface with the Management of IAEA on audit matters and will provide liaison and support to IAEA as and when necessary. The Team will be available for interaction with the Board of Governors and the OIOS. This will assist us in greater appreciation of governance related issues of IAEA through personal contact with representatives of the IAEA, especially the Office of Internal Oversight. Since the Core Team has been handling audit of International Organizations of which the Comptroller and Auditor General of India is the External Auditor, it has wide experience in managing audits and administering quality assurance regime for international audit reports.

The Core Team will be responsible for strategic planning, risk assessment, audit programming, designing and administering training programmes for on-site audit teams, examining audit reports and replies of the management

thereto as a part of quality assurance process, assisting the CAG of India in monitoring and supervision of the audits and finalization of audit reports.

Team Staffing

Audit teams will be sent from India for financial, performance, compliance and IT audits at IAEA Headquarters, Laboratories, regional Safeguard Offices and other sites deemed necessary for deriving assurance. The audit teams deployed for the audit of IAEA Headquarters as well as field missions will be supervised by the Core Team.

Team composition

The audit staff to be assigned to the audit of IAEA will be drawn from a pool of experienced and well qualified audit professionals. They will have high core competence in planning, implementing and reporting on financial, compliance, and performance audits covering social and technical programmes, scientific departments, commercial undertakings, registered societies etc. The audit professionals to be deployed for the audit of IAEA fall into the following categories:

- (a) Senior Audit Directors
- (b) Audit Managers
- (c) Audit Supervisors and Professionals

Each audit team will consist of a Senior Audit Director, Audit Manager and Audit Professionals. It will be ensured that the Audit Teams have expertise in relevant accounting and auditing standards and procedures (including IT audit). They will have thorough knowledge of rules and regulations of IAEA, important administrative instructions, budgeting, financial statements and the IAEA accounting and IT systems. The audit teams will be so composed as to ensure that the team as a whole is the repository of all knowledge, skills and experience required for effectively carrying out the audit tasks assigned to it.

Quality Control in the audit procedure will be ensured through supervision by the SAI senior management to achieve effective execution of work plan with due regard to the auditing standards and adherence to the best practices.

As stated in our work approach, audit will be carried out through a three stage process consisting of planning, execution and reporting. The Senior Audit Director will be the Team Leader and responsible for prioritisation of audit areas on the basis of risk assessment including evaluation of the internal control environment. He will also be responsible for concurrent monitoring of audit work to ensure quality and adherence with the Auditing Standards. He will also maintain contact with the Core Team for guidance. Audit Managers and Audit Supervisors will carry out audit execution in their specific areas allocated by the Senior Audit Director. This will involve collection of evidence through scrutiny of financial records (both manual and computerized) and examination of supporting documentation, analysis of trends and variations, re-performance of calculations, interviews with key auditee staff, questionnaires, etc. The Audit Observation will be framed wherever considered necessary by the Senior Audit Director. After taking into consideration the responses received to the Audit Observations and the deliberations in the Exit Conference, a Management Letter bringing out significant audit issues will be issued by the Director General (International Relations) to the Director General of the Agency.

C. Building professional competence in-house

Professional qualifications

Being an organization with a large staff, the CAG conducts his own professional examinations at different levels of the hierarchy. The passing of these examinations is a mandatory precondition for appointment at a

professional level in the Organization. A similar examination, after comprehensive induction training, is also held for freshly recruited Audit Managers. The passing of this examination is necessary for their continuation in service. The rationale of ensuring core professional competence and continuing professional education within the Organization also stems from the fact that no professional body outside the CAG has either the experience or the expertise of understanding the nuances of Government auditing.

Though there is no mandatory requirement for our staff to acquire membership of professional bodies or acquire professional certification outside of what is prescribed within the Organization, the staff is encouraged through an incentive policy, to obtain international certifications and higher degrees. They have higher degrees in accounting, finance, business, administration or law. They also possess international certifications like Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certified Information Security Manager (CISM), Certified Fraud Examiner (CFE), etc.

Continuous Professional Development

To ensure highest professional standard of his staff, the CAG follows a rigorous training policy and a scheme for Continuous Professional Development. Continuous Professional Development is aimed at equipping the audit staff with the necessary skill-sets required to meet the emerging challenges arising out of rapid changes taking place in the operating environment. With this as focus, a training need analysis is conducted to determine the gaps between the available and required skill-sets, which determine the required level of Continuous Professional Development.

As part of this emphasis on developing capacity, consistent with the trends and issues in the field of auditing including risk-based audit planning, IT audit, environment audit,

performance audit in an increasingly complex environment, forensic audit etc., a five year training plan is prepared. The training plan includes training objectives, broad areas of training, training infrastructure and quality assurance. The five year training plan is implemented through preparation of annual training plans prepared on the basis of a training need analysis, which is carried out every year. For the purpose of quality assurance in training, Training Standards have been formulated by the CAG. These trainings are then delivered through a network of training institutes.

A major chunk of training is imparted through a country wide network of nineteen training institutions called the Regional Training Institutes (RTIs) and Centres (RTCs). These institutes are specifically meant for Audit Supervisors, Audit Professionals and Audit Support Staff. These institutes put together, conduct about 650 trainings every year, covering around 11,500 staff members. Structured Training Modules are prepared for each topic identified for training by various RTIs. Each of these modules is reviewed by a subject matter expert and peer reviewed by another RTI.

Considering the need for institutional linkage for issues being discussed in various Working Groups, research projects and Committees of INTOSAI, ASOSAI, UN Panel of External Auditors, Conference of Auditors General of Commonwealth, etc., eight RTIs have been nominated as nodal centres of excellence in various subjects.

SAI India has a training academy called the 'National Academy of Audit and Accounts' (www.naaa.gov.in) for its Audit Managers and Senior Audit Directors. This Academy holds professional courses for newly recruited Audit Managers, besides a large number of in-service refresher and specialist courses.

We also have an 'International Centre for Information Systems and Audit' (www.icisa.cag.gov.in), which specializes in

training in IT audit and also holds international training programmes for officials of SAIs of other countries. So far, 111 international training programmes have been held in which about 3400 officials from 121 countries have been trained.

With a view to providing depth to the professional development of staff with focus on priority areas of each field office, the field offices of the CAG conduct specific function related training courses in-house.

Besides pre-scheduled training programmes, just-in-time training courses are also held for staff to be deployed on specialised audit assignments.

It is our policy that all staff deputed for audit of international organizations must undergo specific training relating to his or her specialised audit assignment. Such trainings will also be held for staff deputed for the audit of IAEA.

It is reiterated that as a part of our standard procedure, staff deployed for audit of IAEA will regularly acquaint themselves with the new and emerging areas of audit, which we as an Organization keep abreast of by virtue of being the Chair of INTOSAI Knowledge Sharing Committee. This will include updates on various accounting frameworks, ERP systems and domain specific knowledge.

We also send our staff to training courses organized by reputed institutions of India. The Organization, largely to make its staff aware of international trends and practices in auditing, deposes a significant number of its staff to training programmes abroad. These include trainings conducted by INTOSAI, ASOSAI, and Supreme Audit Institutions such as the Government Accountability Office of the USA, National Audit Office of UK, Office of the Auditor General of Canada, Lee Kuan Yew School of Public Policy, Singapore etc. Additionally, staff is also deputed for trainings by availing of the cooperation programmes of Australia, Japan and UK.

The importance given to training in the Organization is evidenced by the fact that the average training days per staff member during the last three years varied between 8 and 10 per annum.

D. Capability of auditing international organizations

The staff of SAI India has extensive experience of the accounting systems, financial regulations, staff regulations, operations, procurement, transport and IT systems in UN and similar organizations. We have also kept abreast of the latest changes and trends in these areas on account of our ongoing audits and our membership of the Panel of External Auditors of the United Nations, its Specialized Agencies and the International Atomic Energy Agency. We pursue a dynamic audit approach capable of responding to the circumstances in which each of our audited organization operates. We are aware of the strong presence of Information Technology in the operations of the organizations and have adequate IT audit capability to review IT operations.

All our staff is proficient in English as all our Audit Reports are prepared in English. In addition, we also have adequate proficiency in French, Spanish and Arabic. Hence, the staff deployed for the audit of IAEA will possess requisite language skills.

It may be noted that our staff are attuned to working in a multilingual environment as our Audit Reports are also issued in regional languages of the States. They also have the ability to work alone, outside their national setting and in different cultural environments.

E. Communication system employed within the Organization

CAG's organization employs state of the art Information Technology infrastructure and commensurate security system and practices. We use secure corporate mailing system using

Microsoft Exchange Server. The internal network is fortified by use of two layered firewall and Intrusion Detection Systems. Centralized virus management is deployed over the network. We implement mission critical large scale IT systems for our internal use. These include use of applications on Oracle 11i. The expertise we gained on implementing the large IT systems within the Organization has led to robust Information Systems security practices.

Our websites are hosted and maintained by National Informatics Centre (NIC), the premier national public sector IT services provider. NIC also provides us internet services and supports maintenance of our network. We conduct periodic systems audits and penetration tests to improve our security system. We have further upgraded our communication infrastructure by operationalising a corporate Virtual Private Network (VPN) for all communication requirements in 2010.

FINANCIAL PROPOSAL

Section - C



FINANCIAL PROPOSAL

AUDIT FEE AND AUDITOR MONTHS

We will charge a total audit fee of Euro (€) 216,000 per annum which translates into Euro (€) 432,000 for the years 2014 and 2015. For this fee, it is estimated that we will devote a total number of 54.53 auditor months equivalent to 1636 man days for the years 2014 and 2015.

Explanatory Notes

- The fee is based on total recovery of audit costs and covers all costs specified in the Secretariat's Note 2013/Note 1.
- There is marginal increase in the annual audit fee as compared to audit fee for the period 2012-2013. This is because of a felt-need to increase audit coverage on the basis of our experience during 2012-2013. Accordingly, total number of auditor months has been increased from 46.33 during the audit period 2012 and 2013 to 54.53 for the audit period 2014 and 2015. This would require deployment of more resources.
- There is no element of fixed cost as we do not propose to charge any Audit Fee. We only propose to claim reimbursement of costs, all of which are in the nature of variable costs.
- The cost calculation is based on UN DSA rates for December 2012 and airfares that are currently applicable. However, any material changes in the cost on account of increase in the rate of DSA, air travel and staff costs, change of relevant exchange rate, changes in the scope or programme of work, or to reflect extraordinary items that were not foreseen earlier will be reviewed with IAEA either at our request or at the request of IAEA. Any increase in cost on account of these elements will be claimed on actuals with sufficient documentation supporting such claims. Further, these claims will be subject to approval by the competent authority of IAEA.

Analysis of our cost with reference to the proposed programme of work

To put it in proper perspective, our financial bid may be read in the context of our technical proposal and the audit coverage we have proposed. The work programme offered by us encompasses 1636 man days of work for years 2014 and 2015. At the offered cost of Euro (€) 432,000 for these two years, the per man-day cost of our bid comes to Euro (€) 264.06, which further translates into a per man-hour cost of only Euro (€) 33.00.

Acronyms used in the Document



ASOSAI	Asian Organization of Supreme Audit Institutions
AQMF	Audit Quality Management Framework
BARC	Bhabha Atomic Research Centre
CAG	Comptroller & Auditor General of India
CFE	Certified Fraud Examiner
CIA	Certified Internal Auditor
CISA	Certified Information Systems Auditor
CISM	Certified Information Security Manager
COBIT	Control Objectives for Information and related Technology
DAE	Department of Atomic Energy
DPC Act	C&AG's Duties, Powers and Conditions of Service Act
ERP	Enterprise Resource Planning
FAO	Food and Agriculture Organization
GAAP	Government Accepted Accounting Principles
GASAB	Government Accounting Standards Advisory Board
GSM	Global Management System
GWG	Global Working Group
HWB	Heavy Water Board
IA&AD	Indian Audit and Accounts Department
IAEA	International Atomic Energy Agency
ICGEB	International Centre for Genetic Engineering and Biotechnology
ICRM	Internal Control and Risk Management
ICWA	Institute of Cost and Works Accountants of India
IDEA	Interactive Data Extraction and Analysis

IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IGFRS	Indian Government Financial Reporting Standards
IMO	International Maritime Organization
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standard of Supreme Audit Institutions
IOM	International Organization for Migration
IPSAS	International Public Sector Accounting Standards
ISA	International Standards for Auditing
ITER	International Thermonuclear Experimental Reactor Organization
KIE	Key Instruments Employed
NACAS	National Advisory Committee on Accounting Standards
NFC	Nuclear Fuel Complex
OIOS	Office of Internal Oversight Services
OPCW	Organization for Prohibition of Chemical Weapons
PP	Public Private Partnerships
RTI	Regional Training Institutes
SAI	Supreme Audit Institution
SQL	Structured Query Language
TOAD	Tool for Oracle Application Developers
UN	United Nations
UNSAS	United Nations System Accounting Standards
WGITA	Working Group on IT Audit
WHO	World Health Organization
WTO	United Nations World Tourism Organization

Summary of the Nomination of the Comptroller and Auditor General of India for Appointment of the
External Auditor of the Agency for 2014 and 2015

Information requested ¹	India
Curriculum vitae of nominee	Provided curriculum vitae of Auditor General
Details of national and international activities of Auditor General's Office	Included details of national and international auditing activities.
Indication of the range of audit activities envisaged	Included both scope of audit as well as range of audit activities
Audit specialities to be available	Described a number of audit specialties that are available.
Proposed audit fee covering audit related salaries, secretarial and other support costs, travel costs and living expenses of external auditor and staff	Provided an audit fee of €432,000 for 2014 and 2015.
Number of auditor-months to be devoted to the audit	Estimated at 54.53 auditor months for the assignment for 2014 and 2015.

¹ Note by the Secretariat dated 3 January 2013.