



The Role of the Comptroller and Auditor General of India in Enhancing Financial Reporting Quality in Public Sector Undertakings

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ABSTRACT

Public Sector Undertakings (PSUs) continue to occupy a strategic position in the Indian economy, commanding substantial public investment across infrastructure, energy, banking, and manufacturing. Because vast public funds are involved, the credibility of PSU financial statements is a matter of significant public and parliamentary interest. This article examines the role of the Comptroller and Auditor General of India (CAG), the country's Supreme Audit Institution (SAI), in enhancing the quality of financial reporting in PSUs. Drawing on the constitutional mandate under Article 148 of the Constitution, the statutory framework of the Companies Act, 2013, and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the study analyses the mechanisms through which the CAG shapes PSU financial reporting: direction of statutory auditors, supplementary audit, monitoring of compliance with Indian Accounting Standards (Ind AS), oversight of corporate governance practices, and linkage with parliamentary financial committees. Using a qualitative, doctrinal approach supported by CAG audit reports and secondary academic literature, the article finds that the CAG functions as an external assurance and accountability mechanism that improves the reliability, transparency, and comparability of PSU financial statements, while

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facing constraints of enforcement power, audit lag, and coverage. The article concludes with recommendations to strengthen the CAG's contribution to financial reporting quality in the PSU sector.

1. Introduction

Public Sector Undertakings have historically served as instruments of planned economic development in India, entrusted with building core infrastructure, achieving self-reliance in strategic sectors, and generating employment. Government companies and statutory corporations classified as Maharatna, Navratna, and Miniratna enterprises today represent a substantial share of national investment, and their financial statements are relied upon by Parliament, investors, credit-rating agencies, and the general public. Because these entities are financed largely through public resources, the quality of their financial reporting is not merely a technical accounting concern but a matter of democratic accountability.

The CAG of India, established under Article 148 of the Constitution, is the apex external auditor of the Union and State Governments and the statutory or supplementary auditor of PSUs. As an independent constitutional authority, the CAG occupies a unique position at the intersection of accounting oversight and parliamentary control, and its audit findings frequently determine how PSU accounts are perceived by stakeholders. Despite this centrality, academic literature in India has tended to examine either the constitutional and administrative dimensions of the CAG's office or the financial performance of PSUs, with comparatively limited attention paid to how CAG oversight specifically shapes the quality of PSU financial reporting. This article addresses that gap by analysing the statutory mechanisms available to the CAG, illustrating their operation through documented audit findings, and evaluating their contribution to financial reporting quality along the dimensions of reliability, transparency, comparability, and timeliness.

2. Literature Review

2.1 Supreme Audit Institutions, Accountability, and Public Value

Supreme Audit Institutions (SAIs) are increasingly studied as accountability actors whose relevance depends on demonstrating tangible public value rather than merely producing audit reports. Cordery and Hay (2019) argue that SAIs must show relevance to a range of stakeholders beyond the legislature to sustain their institutional legitimacy. Building on this, Lagos (2026) conducted a systematic review of the SAI literature and identified a shift among audit institutions toward outcome-focused auditing, in which the emphasis moves from the production of findings to the extent to which those findings generate real

improvements in public financial management and governance. In a global comparative study covering audit institutions across 189 countries, Caldeira, Romão, and Fernandes (2026) found considerable heterogeneity in the institutional design and effectiveness of SAIs, associating stronger accountability and governance outcomes with institutions that combine independence, adequate mandate, and follow-up mechanisms. Earlier foundational work by Stapenhurst and Titsworth (2001) had already emphasised that the core purpose of an SAI is to safeguard the quality and credibility of government-reported financial data, a purpose that extends naturally to state-owned enterprises audited under an SAI's mandate.

2.2 Corporate Governance and Financial Reporting Quality

A parallel stream of literature links governance mechanisms to the quality of financial reporting. Al Maqatari and Al-Hattami (2020), in a systematic review of corporate governance research in India, note that the relationship between governance structures and compliance with accounting standards following the convergence with Ind AS remains an underexplored area warranting further study. Pareek, Soni, and Maidullah (2025), examining listed Indian companies, found that board independence and audit committee effectiveness are associated with more accurate and transparent financial reporting, reinforcing the theoretical expectation that external oversight mechanisms, including statutory audit, function as a check on managerial discretion in reporting choices.

2.3 Financial Reporting Concerns in Indian PSUs

Research specific to Indian PSUs points to persistent reporting quality concerns. Gupta (2024), in a case study of a Central Public Sector Enterprise, categorised recurring errors in financial statements into accounting errors, statutory non-compliance, auditor-related lapses, and errors attributable to directors, arguing that such errors undermine the reliability of PSU accounts for investors, regulators, and the public. Vijaya Bath, Nayak, and Pasumarti (2018) evaluated the financial performance of Indian PSUs using the Altman Z-Score model and observed considerable variation in financial soundness across Maharatna and Navratna companies, underscoring the importance of dependable financial statements for meaningful comparative assessment. Taken together, this literature establishes both the theoretical rationale for SAI oversight of financial reporting and the practical urgency of examining that oversight in the Indian PSU context, which this article undertakes.

3. Constitutional and Statutory Framework of the CAG

The office of the CAG is created directly by the Constitution rather than by ordinary legislation, which insulates it from routine political control. The CAG is appointed by the President and can be removed



only through a process resembling the removal of a Supreme Court judge, while the office holder's salary and administrative expenses are charged to the Consolidated Fund of India, placing them outside the annual vote of Parliament. This constitutional design is intended to secure functional and financial independence for the audit function. The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 elaborates the CAG's duties, including the audit of government companies and corporations, while the Companies Act, 2013 specifically empowers the CAG to appoint or reappoint the statutory auditor of a government company under section 139, to issue directions to that auditor on the manner of conducting the audit under section 143(5), and to conduct a supplementary audit of the accounts of a government company within sixty days of receipt of the audit report under section 143(6). The CAG discharges these functions with the assistance of the Indian Audit and Accounts Department, staffed by officers of the Indian Audit and Accounts Service and a large subordinate cadre spread across field offices in India and overseas.

4. Objectives of the Study

- (i) To examine the constitutional and statutory mandate that enables the CAG to oversee financial reporting in PSUs.
- (ii) To analyse the specific mechanisms through which the CAG influences the quality of PSU financial statements.
- (iii) To evaluate, through documented audit findings, the contribution of CAG oversight to the reliability, transparency, comparability, and timeliness of PSU financial reporting.
- (iv) To identify the structural limitations of CAG oversight and propose measures to strengthen its effectiveness.

5. Research Methodology

This article adopts a qualitative, doctrinal, and analytical research design. Primary material was drawn from the constitutional and statutory provisions governing the CAG, including Article 148 of the Constitution, the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, and relevant provisions of the Companies Act, 2013. Documentary evidence was drawn from published CAG audit reports on Public Sector Undertakings, including reports addressing corporate governance compliance, Ind AS implementation, and disinvestment. This was supplemented by a review of peer-reviewed academic literature on Supreme Audit Institutions, corporate governance, and financial reporting quality, identified through targeted searches of relevant scholarly and institutional sources. The study uses



content analysis to identify recurring themes in CAG audit findings relevant to financial reporting quality, and synthesises these with the theoretical literature to develop the discussion and recommendations presented in later sections. As a doctrinal and documentary study, the article does not employ primary quantitative data or statistical testing; this is acknowledged as a limitation addressed in the concluding section.

6. Mechanisms of CAG Oversight over PSU Financial Reporting

6.1 Appointment and Direction of Statutory Auditors

For government companies, the CAG appoints or reappoints the statutory auditor and may issue directions on how the audit is to be conducted, including the specific aspects to be examined and the manner of reporting. This authority allows the CAG to standardise audit scope and depth across PSUs, reducing the variability in audit quality that might otherwise arise if each company selected and instructed its own auditor independently.

6.2 Supplementary Audit

Beyond appointing the statutory auditor, the CAG conducts a supplementary audit of the accounts of government companies within a prescribed period after the statutory auditor's report is received. Comments arising from this supplementary audit are placed before Parliament or the State Legislature and represent an additional layer of scrutiny not typically available in the private corporate sector. For departmental commercial undertakings, and for statutory corporations whose founding Acts do not provide for private-sector audit, the CAG acts as the sole auditor, applying commercial audit standards to their profit and loss accounts and balance sheets.

6.3 Monitoring of Ind AS Compliance

Following the phased convergence of Indian Accounting Standards with global standards, the CAG has specifically examined the implementation of Ind AS in Central Public Sector Enterprises. CAG reports on this subject have assessed the extent of compliance with Ind AS requirements across selected Maharatna, Navratna, and Miniratna companies, drawing attention to instances of non-compliance with prescribed accounting standards and thereby creating pressure for PSUs to align their reporting practices with the converged framework, which is intended to improve the comparability of Indian PSU accounts with international peers.



6.4 Oversight of Corporate Governance Practices

CAG reports on PSUs have also examined corporate governance dimensions that bear directly on reporting quality, including the composition and frequency of meetings of the board of directors, the appointment and functioning of independent directors, the filling of key managerial personnel positions, the functioning of audit committees, and the existence of whistle-blower mechanisms. Because audit committees and independent directors are recognised in the broader governance literature as important checks on management's reporting choices, CAG scrutiny of these structures functions as an indirect but material mechanism for safeguarding financial reporting quality.

6.5 Linkage with Parliamentary Financial Committees

The CAG's Audit Report on Public Undertakings is submitted to the President or the Governor and subsequently laid before Parliament or the State Legislature, where it is examined in detail by the Committee on Public Undertakings and, in relevant respects, by the Public Accounts Committee. These committees may summon PSU management for explanations and recommend remedial measures, and the CAG assists them by clarifying technical audit points. This linkage converts audit findings into a formal accountability process, giving PSU management a concrete incentive to improve the accuracy and completeness of financial disclosures in anticipation of committee scrutiny.

7. Empirical Illustrations from CAG Audit Findings

The practical significance of CAG oversight is illustrated by several documented cases. The CAG's audit of the 2G spectrum allocation and of coal block allocations exposed valuation and pricing irregularities with significant fiscal implications, findings that triggered major political and legal consequences and demonstrated the CAG's capacity to surface financial irregularities that might otherwise have remained undetected. In its audit of Air India, the CAG highlighted operational inefficiencies, financial mismanagement, and policy lapses, drawing public and parliamentary attention to the airline's financial position. State-level PSU audit reports, such as those examining Punjab's public sector undertakings, have similarly documented instances where profit and loss accounts were not prepared at all, or where accounts reflected substantial losses alongside continuing dividend obligations, illustrating the extent of reporting gaps that supplementary audit is designed to surface. Reports specifically addressing Central Public Sector Enterprises have combined findings on Ind AS compliance, corporate governance, corporate social responsibility compliance, and disinvestment, giving Parliament a composite picture of financial reporting health across the sector rather than isolated, company-specific disclosures.

8. Discussion: Contribution to Financial Reporting Quality

Viewed against standard dimensions of financial reporting quality, the CAG's oversight mechanisms make identifiable contributions in several respects. On reliability, the requirement of supplementary audit and the CAG's power to issue audit directions add a verification layer beyond the statutory auditor's opinion, reducing the risk that material errors or irregularities go unreported. On transparency, the tabling of audit reports before Parliament and their examination by the Committee on Public Undertakings converts internal audit findings into public information, subject to scrutiny by legislators, the press, and civil society. On comparability, the CAG's thematic reviews of Ind AS implementation across multiple PSUs create pressure toward uniform application of accounting standards, which is a precondition for meaningful inter-company comparison. On timeliness, the picture is more mixed: while supplementary audit is subject to a statutory time limit, the overall cycle from the financial year-end to the tabling of the audit report and its examination by parliamentary committees can extend well beyond the period in which the information would be most decision-useful to investors or the public, a limitation explored further in the following section.

9. Challenges and Limitations

Despite these contributions, CAG oversight of PSU financial reporting operates within significant constraints. First, the CAG's mandate is confined to audit and reporting; it has no power to compel corrective action or to recover misappropriated funds, leaving implementation of its recommendations dependent on executive and parliamentary follow-through. Second, CAG audit coverage is not universal: certain financial sector regulators and institutions such as the Reserve Bank of India fall outside its audit jurisdiction, and the extent of CAG involvement in a given government company depends on the specific incorporating statute and the government's shareholding. Third, the sequential nature of statutory audit followed by supplementary audit, followed by tabling before the legislature and subsequent committee examination, means that the corrective value of CAG findings is often realised well after the reporting period to which they relate. Finally, the sheer number and diversity of PSUs across Union and State governments places considerable strain on the capacity of the Indian Audit and Accounts Department, even though its combined cadre strength runs into the tens of thousands.

10. Recommendations

Based on the foregoing analysis, several measures could strengthen the CAG's contribution to financial reporting quality in PSUs. Audit cycles could be shortened through greater use of data analytics and continuous or near-real-time audit techniques, reducing the lag between the reporting period and the



availability of independent audit comment. A structured, publicly tracked mechanism for monitoring the implementation status of CAG recommendations by PSU management and administrative ministries would strengthen the link between audit findings and corrective action. Closer coordination between statutory auditors and CAG supplementary audit teams, supported by shared risk-based audit protocols, could reduce duplication while improving the depth of Ind AS compliance review. Capacity-building initiatives focused on emerging accounting and disclosure requirements would help the Indian Audit and Accounts Department keep pace with the increasing technical complexity of PSU financial reporting, particularly in sectors such as banking, insurance, and infrastructure finance.

11. Conclusion

The Comptroller and Auditor General of India occupies a constitutionally protected and institutionally distinctive position from which to influence the quality of financial reporting in Public Sector Undertakings. Through the appointment and direction of statutory auditors, supplementary audit, monitoring of Ind AS compliance, scrutiny of corporate governance structures, and linkage with parliamentary financial committees, the CAG contributes measurably to the reliability, transparency, and comparability of PSU financial statements, as illustrated by documented findings ranging from major national controversies to routine state-level PSU reports. At the same time, the CAG's inability to enforce its recommendations, incomplete audit coverage, and the time lag inherent in the audit-to-legislature cycle constrain the full realisation of this potential. Strengthening follow-up mechanisms, adopting more timely audit technologies, and building specialised technical capacity within the Indian Audit and Accounts Department would allow the CAG to more fully realise its role as a guardian of financial reporting quality in India's public sector. Future research employing quantitative analysis of PSU restatement rates, audit qualification frequency, or investor response to CAG findings would usefully extend the doctrinal analysis offered in this article.

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