

Professional Practices Group

No. 194/35-PPG/2014

Dated: 3/October 2014

Guidance Note

To

All Heads of Field Audit Offices

Subject: Developing Recommendations

1. Objective of the guidance note

The objective of this guidance note is to emphasise on the significance of recommendations in Performance audit reports and provide guidance to Audit Offices in developing appropriate, practical and constructive recommendations.

The quality of our recommendations is a measure of our professional excellence and positive approach. It is thus, essential that recommendations made in our various performance audit reports are directed towards enhancing the *economy, efficiency and effectiveness* of the performance of the Government undertaking, program, system, activity or organisation that was the subject of the performance audit.

This Guidance note draws attention to the relevant paragraphs from the Performance Auditing (PA) Guidelines and contains the various requirements that need to be considered while developing and incorporating recommendations in the Performance Audit Report. The Guidance note also cites sample examples to explain the nature of recommendations that need to be developed. These guidelines have equal relevance in the area of financial attest audits and compliance audits as well.

2. Significance of recommendations in performance audits

Performance auditing carried out by the Department is an independent, objective and reliable examination of whether Government undertakings, programs, systems, activities or organisations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement (Para 1.4).

Performance Audits are currently one of the most visible ways in which the institution of the C&AG promotes accountability, transparency and good governance.

The institution of the C&AG plays a vital role in holding Governments to account for their stewardship of managing public funds and in helping ensure the transparency of Government operations. We aid the legislature in this regard and rely on a legislative audience for our reports so that findings and recommendations may translate into effective advice to Governments to help improve financial control and efficiency, and ultimately public-sector performance. Performing audits focus on areas in which we can add value for citizens and those areas have the greatest potential for improvement.

3. Flow of recommendations from the audit findings.

Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. (Para 1.5)

It is essential that recommendations flow from the audit findings. The PA guidelines require that recommendations should be linked to the audit objectives, findings and conclusions.

To be convincing, there must be clearly defined and logical links from the audit evidence to the findings, the conclusions and recommendations. If this chain of links is broken at any point, then the reader can dismiss the argument from that point on. If, for example, the findings do not necessarily lead to the conclusions drawn by the auditor, then the reader may reject the conclusions and the recommendations, even if the recommendations actually solve the problems highlighted by the findings.

3.1. Identification of “cause(s) of a finding”

For developing recommendation, the underlying cause(s) of a finding should be identified, as this forms the basis for the recommendation. The cause is that which, if changed, would prevent similar findings (Para 5.16).

Given below is an example of how the identification of the “cause(s)” helps frame the right recommendations.

Audit criteria and Finding	Cause	Recommendation
The guidelines of a scheme XYZ require Gram Panchayats to prepare Annual Action Plans. However the Gram Panchayats did not prepare the same.	It was ascertained from the Gram Panchayats that they had not received any instructions to this effect from the Zilla Panchayats. This was confirmed by the Zilla Panchayats and Rural Development and Panchayati Raj department.	The appropriate recommendations would be: “The department must issue instructions to the Gram Panchayats to prepare annual action plans.” Merely by recommending that “Annual Actions must be prepared by the Gram Panchayats” would indicate that Audit has not appreciated the cause of the non-compliance.

The PA Guidelines encourage Audit teams to prepare an Audit Findings Matrix indicating the audit findings vis-à-vis good practices and the potential audit recommendation along with the expected benefits in case the recommendation is implemented.

The Audit Findings matrix contains columns on “Criteria, Situation found, Cause, effect, evidence and analysis, recommendation, good practices and expected benefit of the recommendation if implemented. If all the columns are filled properly, risk of making an inappropriate or redundant recommendation that is not linked to the cause of the finding is highly reduced. The Audit Findings Matrix is an excellent tool to identify system deficiencies which can lead to formulation of appropriate recommendations.

4. Communication with the audited entities

The PA guidelines have placed due emphasis on the requirement for Auditors to maintain effective and proper communication with the audited entities and other parties sharing the responsibility of the subject matter throughout the audit process and define the content, process and recipients of communication for each audit.

Using communication channels to explain the purpose of the performance audit to stakeholders also increases the likelihood that audit recommendations will be implemented (Para 2.16)

Continuous communication with the audited entity will also enable Audit to understand the entity better thereby increasing the likelihood of developing those recommendations which are practical, beneficial and carefully considered.

Audited entities should be given an opportunity to comment on the audit findings, conclusions and recommendations before the Department issues its audit report. Any disagreements should be analysed and factual errors corrected. The examination of feedback should be recorded in working papers so that changes to the draft audit report, or reasons for not making changes, are documented. (Para 2.18)

5. Obtaining specific response of audited entity on the recommendation

It is essential to obtain a specific response of the Audited Entity on each recommendation. It is advisable that the demi-official forwarding letter to the Secretary with a copy to the Financial Adviser to the ministry specifically states this requirement. In case specific response is not received, it must be pursued with the Government. The response of the audited entity must be such that it indicates whether the recommendation has been completely accepted, partially accepted/rejected or completely rejected. In the latter two cases, Audit must obtain the reasons for such a response based on which it should either delete or modify the recommendation or incorporate an appropriate counter.

Obtaining a specific response also reduces the risk of incorporating inappropriate recommendations which undermine the Performance Audit Report.

6. Placement of recommendations in the performance audit report

The recommendations should be clear and be presented in a logical and rational fashion. (Para 5.18)

As per the PA guidelines, recommendations should be presented along with the conclusions wherever applicable in a box or highlighted print. The recommendation should preferably be placed along with the relevant audit observation so that the reply of the department is not only in respect of the audit observation but also specifically to the recommendation made. This will also boost the readability of the recommendations in the report.

The recommendations should also be serially numbered. This would not only help identify them uniquely which could ensure that the audited entity responds to them individually.

The language used should indicate that these are only recommendations and not prescriptions. Therefore, use of terms like 'we recommend....' instead of 'Government should....' would be appropriate.

7. Nature of Recommendations

All performance audits ought to conclude with well thought-out recommendations, which should transcend inverted versions of audit conclusions or truisms and clearly spell out possible solutions, without taking over management's responsibilities. (Para 5.16)

A PA report is constructive if it manifests a remedial approach rather than a critical approach. Given below are the Do's and Don'ts which may be kept in mind while framing recommendations:

7.1 Do's - desirable features of recommendations

i. Make recommendations that are implementable

For a recommendation to be implemented, it must add value to the organization. The recommendation must be within the legal framework of the audited entity.

Some examples are:

S. No.	Recommendation	Analysis
1.	The Department may ensure that Bank Guarantees are valid. Also adequate penal provisions should be provided in the contract and enforced as and when required.	This recommendation is well within the mandate of the department. The adequacy of penal provision is something which can be easily incorporated.
2.	Preparing VAT manual for effective administration of VAT Act and the Rules made there under.	Recommendations which would operationalize the administration of Act and Rules would be well within the mandate and capacity of the Department concerned

ii. Recommendations should be constructive and beneficial to the audited entity

- *The main objective of performance auditing is to constructively promote economical, effective and efficient governance. (Para 1.15)*
- *Recommendations should be well-founded and add value. (Para 5.17)*
- *Sometimes, the cause may be outside the control of the entity under audit, in which case the recommendation should direct attention outside the audited entity, the governance structure (Para 5.18)*

The auditor must analyse whether the recommendation made will be beneficial to the audited entity. The last column of the audit finding matrix requires the expected benefits to be identified if the recommendation is implemented. This is an excellent way to ensure that the auditor has weighed the pros and cons of the recommendation made by him.

Recommendations which are aimed at addressing the lacuna of rules or plugging loopholes in legislations may generally be very beneficial. The department has a long standing tradition of such recommendations particularly on the Receipt Audit Side.

S. No.	Recommendation	Analysis
1.	Surveys should be conducted periodically to identify the beneficiaries and encourage unskilled labourers to register themselves and avail of scheme benefits.	The recommendations are constructive in nature as they emphasise need for beneficiary identification a method to be inclusive thereby helping the Department to achieve the intended objectives
2.	Before sanctioning further residential schools/colleges, the Government needs to accord priority to equipping the already existing ones adequately by providing the requisite financial resources. Land required for construction of the schools/colleges presently functioning in rented or rent free premises needs to be identified quickly to kick start the process of construction of buildings.	This is a specific recommendation emerging out of the audit finding about funds being spread thin and the new activity being taken up before completing the ones already taken up, which if implemented would support the overall objectives of the scheme.

iii. Recommendations should clearly indicate who is responsible for implementation of the recommendation

It should be clear who and what is addressed by the recommendation, who is responsible for taking initiative and what the recommendations mean, i.e. how they will contribute to better performance. (Para 5.17)

Certain recommendations made may be beyond the capability of the audited entity to implement, especially, if these involve change in policy or procedures. The responsibility of implementation might lie on those charged with governance. To be effective therefore, the recommendation must state which audited entity is expected to implement it. This can be easily done if the recommendation has emerged from identification of the 'cause' of audit findings, which ought to be addressed by the entity or those charged with governance

If this is not done, there will be a risk of not getting a specific response to the recommendations.

S. No.	Recommendation	Analysis
1.	The society needs to maintain separate accounts for funds received from the client Departments including interest earned on unspent balances to avoid mixing up of funds.	The recommendation clearly states that the societies are required to maintain the separate accounts and Client Departments should institute a system for ensuring timely receipts of UCs based on which future releases should be made.
2.	The client Department need to put in place a mechanism to ensure timely receipt of UCs from the society for the funds released	

7.2 Don'ts - points to be avoided

i. No truisms and self evident propositions

Recommendations which are truisms or self evident propositions should not be made. Such recommendations do not aid the management in any tangible way and it dilutes the report. Further, the follow up of non specific recommendation can never be effective.

Some examples are:

S. No	Recommendation	Analysis
1.	Avoid cost overruns in	Cost overruns are common in projects. Merely be

	implementation of the projects.	recommending it is unlikely that such cost overruns would actually be avoidable. Occurrence of cost overruns would be the audit finding for which the appropriate recommendation would be one where it provides information to the department on how it could be overcome.
2.	Government should expedite implementation of the schemes and completion of the projects within the time schedule fixed.	A recommendation to complete projects within the time schedule fixed is a sine qua non for the successful implementation of any project. It is highly unlikely that the Government would not already be aware of the same. Therefore, such a recommendation though likely to be accepted by the audited entity is unlikely to be effective.

ii. No reiteration of existing Instructions.

Recommendations should not be a reiteration of existing instructions, or non-compliance with existing controls/instructions. The reason being, that such recommendations are redundant. Rather, the report should seek to ascertain the cause for the non-compliance and address the cause while developing the recommendation.

Some examples are:

S. No	Recommendation	Analysis
1.	Ensure that the terms of the agreements entered into are duly enforced.	The audited entity must anyway enforce the terms of the agreement. Therefore, this recommendation is redundant. The recommendation should instead have addressed the cause for the laxity in enforcing the terms of agreement.
2.	Ensure the strict compliance of the provisions of the Land Acquisition Act in acquisition of land.	This recommendation is not providing any new information to the department as it does not address the cause of the non-compliance with the Act and how the department could take steps to overcome it.

iii. No impractical recommendations

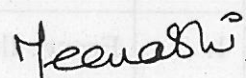
Recommendations should be practical and be addressed to the entities having responsibility and competence for their implementation. (Para 5.17)

Recommendations should not be such that cannot be implemented as they are impractical due to factors beyond the control of the department.

The inclusion of impractical recommendations not only dilutes the response to other important recommendations in the report, it also undermines the quality of the report.

For example:

S. No	Recommendation	Analysis
1.	Ensure that vacant posts are filled up urgently	Such a recommendation may be impractical if recruitment is not taking place or for any other reason it is practically impossible to fill the posts. Audit could examine whether there are cases where excess posts are filled which need to adjusted with those posts which are left vacant or reengineering the processes so that the entity can function with fewer posts.


(Meenakshi Sharma)
Director General (PPG)

Copy to:

- (i) All DAIs/ADAI
- (ii) All DGs/PDs in headquarters office