# Audit Reporting and Reommendations

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# Audit Process

Planning → Conducting → Reporting → Follow-up
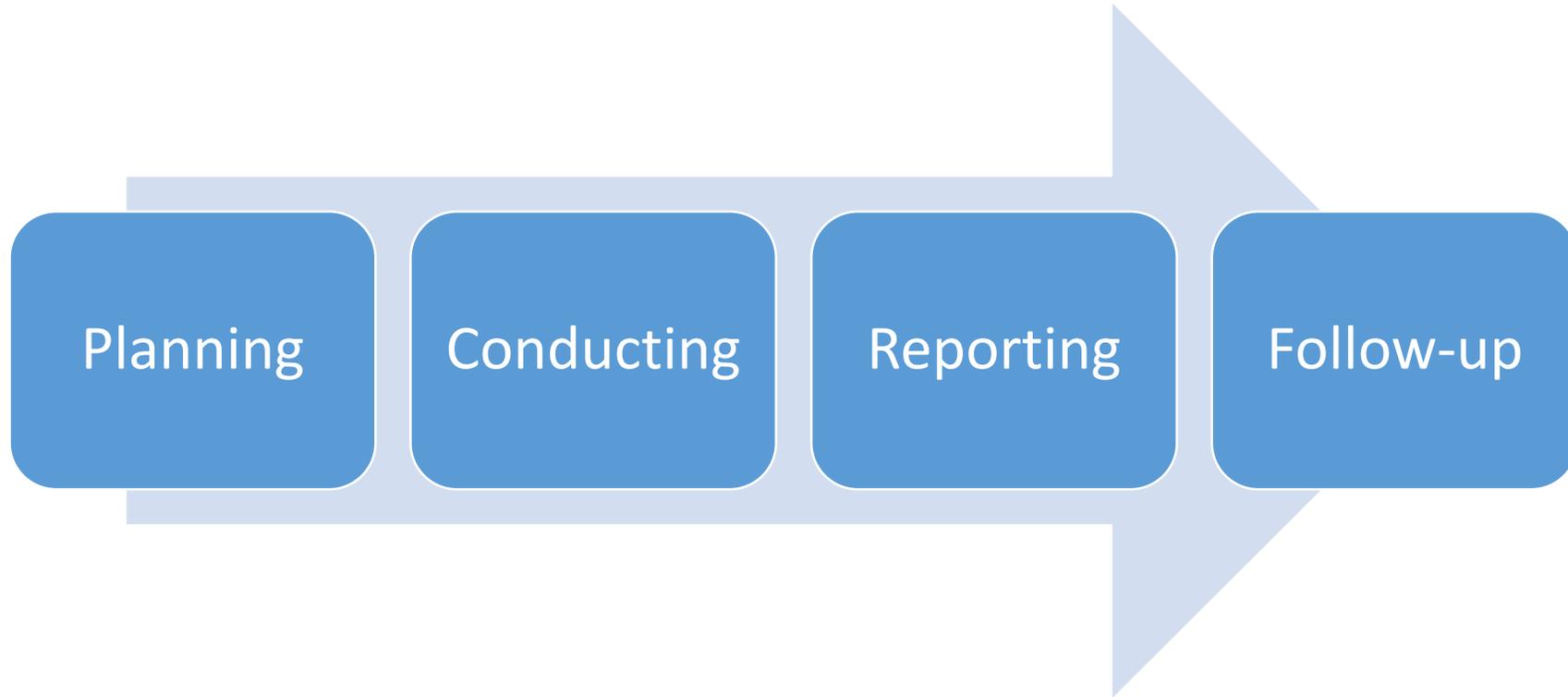
- Reporting, i.e. presenting the outcome of the audit: answers to the audit questions, findings, conclusions and recommendations to users

# Purpose of Audit Reporting

- Communicate results of audit to the readers

- Make the results less susceptible to misunderstanding

- Make the results available for public inspection

- Facilitate follow-up to determine whether corrective action taken

# Importance of Audit Reporting

- The audit report communicates the results of the audit work. For that reason alone it is perhaps one of the most important parts of the audit process.

- It is important because it is what the department and senior management sees, and in some cases may be the only product of our work that management receives. If written and communicated well, it can act as a positive change agent prompting management to take corrective action, which is ultimate aim of audit

# Characteristics of Good Reports

- It should also be
  - reader friendly,
  - well structured, and
  - contain unambiguous language. Overall, it should contribute to better knowledge and highlight improvements needed.
- The audit findings and conclusions should be based on evidence and should be clearly distinguishable in the report.
- All relevant viewpoints should be considered in the report and the report should be balanced and fair.

# Reporting Standards – ISSAI 300 / 3000

Auditors should strive to provide audit reports which are

- Comprehensive / Complete
- Convincing
- Accuracy
- Balanced
- Timely
- Reader-friendly

# Comprehensive

- The report contains all information and arguments needed to satisfy the audit objectives.

- It should promote an adequate and correct understanding of matters and conditions reported, and meet the report content requirements.

- It is vital that the starting points of the audit and the methods used, as well as important source material and conclusions, are described in the final audit report.

# Convincing

- The audit results should be responsive to the audit objectives,
- The findings presented persuasively, and
- The conclusions and recommendations follow logically or analytically from the facts and arguments presented.

# Accuracy

- The evidence presented should be true and comprehensive and that all findings are correctly portrayed.

- To assure readers that what is reported is credible and reliable.

- One inaccuracy in a report can cast doubt on the validity of an entire report and can divert attention from the substance of the report. In addition, inaccurate reports can damage the credibility of the SAI.

- In other words, a high standard of accuracy requires an effective system of quality assurance.

# Balanced

- Objectivity can be defined as 'impartiality, balance and neutrality'.

- When making decisions about scope, audit evidence, significance of observations, and conclusions, the auditor must have an unbiased point of view and an objective state of mind.

- The audit design should ensure that the selection of facts to be investigated and presented in the report is balanced and unprejudiced.

- Facts must not be suppressed, and the auditor must not exaggerate minor shortcomings. Explanations – especially from the auditee(s) – must always be sought and critically evaluated.

# Balanced – contd.

- Balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner.

- The report should be fair and not misleading, and should place the audit results in perspective. This means presenting the audit results impartially and guarding against the tendency to exaggerate or overemphasize deficient performance.

- One-sided presentations should be avoided. It is an advantage if the performance audit reports can make room for both positive and negative findings and assessments.

# Timely

- Being timely requires that the report should be issued on time in order to make the information available for timely use by management, government, legislative officials and other interested parties.

- A SAI must not be forced to withhold findings and should, within its legal mandate, be free to decide what to publish and how.

# Reader Friendly

Clear
- The report be easy to read and understand (as clear as the subject-matter permits).
- Technical terms and unfamiliar abbreviations must be defined.

Concise
- The report be no longer than needed to convey and support the message.
- Although scope may exist for considerable judgment in determining the content of reports, those that are complete, but still concise, are likely to achieve greater results.

# Audit Report - Structure

- Title
- Executive Summary
- Recommendations
- Introduction
- Audit Approach: Audit objectives, scope and methodology
- Audit findings
- Acknowledgement
- Graph, charts, diagrams, photographs, etc
- Glossary of terms
- References or bibliography

# Quality Assurance of Reporting

Can be assured by

- Adherence to auditing standards and guidelines;
- Transparent audit and audit management process documentation of entire reporting process;
- Securing entity response at all stages of performance audit;
- Concurrent supervision and control by middle management;
- Quality control assessment and review by SAI top management before approval of the report; and
- Technical inspection by SAI and peer review of the performance audit process.

# Report Writing Stages

1.  Plan the report

2.  Draft the report

3.  Revise the draft

# Analyzing the Audience

1. Who will be the most important readers of the report?

2. How much do they know about the subject?

3. How do they plan on using the report?

4. How interested are they in the report?

5. What's their reaction going to be to the report's message?

# Auditor/Writer vs. Reader Mindset

## AUDITOR

- I want to show you lots of data!
- Accuracy
- Linear explanations (Inductive reasoning)

## READER

- Just enough, and try to make it interesting
- Accurate, but brief and clear
- Bottom line first, then supporting details (Deductive reasoning)

# Planning Your Draft

1. Analyze your audience to decide on the best report format.
2. Develop a central message
3. Decide whether to Adopt "Top Down" method
4. List out Elements of a finding
5. "Bottom Up" yellow stickees

# "Top Down" Method

1. Think of the newspaper headline that would accurately summarize the report's message.

2. Write a paragraph that summarizes the report's key points.

3. Write paragraphs that explain and provide evidence for the statements made in the summary paragraph.

# Phase Two: Drafting the Report

- Writer's block

- The importance of finding the drafting method that suits you best

- Things you can do to make a report easier to read (summary, headings, charge paragraphs, topic sentences in paragraphs)

# Phase Three: Revising the Draft

- Benefits of having others review the draft

- Levels of draft reviews

- Tips on what to look for at each level of review

# Three Levels of Review

1. Report

2. Paragraph

3. Sentence

# Report Level

- Is the report's central message clear?

- Is it the appropriate length (i.e., too short or too long)?

- Does it have a summary of the report message up front?

- Does it have sufficient, clear headings?

- Does it have suitable graphics (e.g., pictures, tables, graphs)?

# Paragraph Level

- Does the paragraph contain a topic sentence that accurately conveys the paragraph's central idea?

- Does the paragraph contain enough information to support the idea expressed in the topic sentence?

- Does the paragraph contain too much information so that it will overwhelm the reader?

- Do the ideas presented in the sentences following the topic sentence flow logically (i.e., are they in the correct order)?

# Some advices

- "Never use a long word where a short one will do."
- "If it is possible to cut a word out, always cut it out."
- "Never use the passive when you can use the active."

# Sentence Level Basic Questions

- Are all the words in my sentences necessary?

- Are my sentences easy to understand?

- Do the sentences contain action verbs and actors (active vs. passive construction)?

# Tone

- Avoid biased language!
- Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances.

# Tone

- Be conscious about whether you want to take a positive or negative tone.

- For example, "Proper control can not be achieved unless reconciliations are performed."

- Versus "If reconciliations are performed, proper control can be achieved."

# Jargon

- Technical terms within a specific field or overly complex terms used to describe something simple should be avoided

- Avoid jargon unless a) you know the reader will understand it, or B) there are no simpler terms to describe something.

- You can deal with jargon by either A) substituting simpler terms, or B) defining it first.

# Developing Recommendations

- All performance audits should conclude with well thought out recommendations.
- Recommendations emerge from identification of the cause of the audit findings which ought to be addressed by the entity.
- The audit team may identify a cause-and-effect chain and have the option of reporting the findings at different points in the chain.
- Auditors should highlight the most crucial deficiencies in the chain.
- A good quality performance audit should yield recommendations which should, in most cases, be acceptable to the entity.

# Developing Recommendations

Addressing the following questions will assist the performance auditor in developing good recommendations:

- What needs to be done?
- Why does it need to be done?
- Where does it need to be done?
- How does it need to be done?
- Who is to do it?
- What is the expected impact if it is done?
- Are there any potential risks involved with the implementation of the recommendations?
- Is it practicable to implement the recommendations?
- Is the recommendation cost-effective?

# Entity Response to Recommendations

- The stage at which the recommendation should be developed and communicated cannot be prescribed uniformly.
- Recommendations may have to be addressed only to the entity who is competent to implement them.
- Where there is disagreement on one or more recommendations and it is the considered opinion of the SAI that the recommendation would improve the programme management and accountability, he may still retain them in the performance audit reports along with the reasons for disagreement by the entity and transparent reasons for making recommendations despite reservations by the entity.

# Thank You

**Introduction**

Mahatma Gandhi National Rural Employment Guarantee Act, (MGNREGA) was enacted Twith the objective of enhancing livelihood security in rural areas by providing at least 100 days of guaranteed wage employment in a financial year, to every household whose adult members volunteer to do unskilled manual work. The Act initially came into force in 200 districts with effect from 2 February 2006 and was expanded to cover all the rural districts by 1 April 2008.

MGNREGA was notified on 7 September 2005. The objective of MGNREGA was enhancement of livelihood security of households in rural areas of the country by providing at least 100 days of guaranteed wage employment in every financial year to every household whose adult members volunteer for unskilled manual work. Creation of durable assets and strengthening the livelihood resource base of the rural poor were other important objectives of the Scheme.

Through MGNREGA, the Government was committed to providing employment to every rural family which demands such work and whose adult members volunteer to do such work. Such work was to be provided at the minimum wage rate and, as far as possible, within a radius of five kilometer of the village where the applicant resided. Failure to provide such wage employment within 15 days of the receipt of the application entitled the applicant to receive unemployment allowance. The principal implementing agencies under the Act were the gram panchayats(GPs).

MGNREGA also emphasized community participation in planning, implementation, social audit and transparency. Another important feature of MGNREGA was that it placed a complete ban on the use of contractors. It also laid emphasis on labour-intensive works for water conservation, drought and flood-proofing as priority works under MGNREGA.

**Wage – Material Ratio**

According to paragraph 9 in Schedule I of the Act, the cost of the material component of projects, including wages of skilled and semi-skilled workers, taken up under the Scheme shall not exceed 40 per cent of the project cost. Further, the Act defines 'project' as any work taken up under the Scheme for the purpose of providing employment to the applicants(Section 2- Definitions, of the Act). Essentially, each work taken up under MGNREGS should have an unskilled labour component of not less than 60 per cent of total cost of work.

The Ministry, however, failed to take adequate steps to ensure that this ratio was maintained at 'project' level by the implementing agencies. On the contrary the Ministry diluted this provision by stipulating in the Operational Guidelines (Para 6.2) that the required 60:40 ratio should be applied 'preferably at the gram panchayat, block and district levels'. This was in contravention to the provisions of the Act, according to which the ratio was to be maintained at the project or work level. As a result, a large number of works were taken up in violation of the 60:40 wage-material ratio.

Further, it was seen that in 649 GPs (16.87 per cent of all test checked GPs), 18 blocks and 38 districts in Andhra Pradesh, Assam, Bihar, Gujarat, Jharkhand, Madhya Pradesh, Punjab, Rajasthan, Sikkim, Tripura, Uttar Pradesh, Uttarakhand and Dadra & Nagar Haveli (12 states and one UT) the material cost exceeded the prescribed level by Rs. 1,594.37 crore. The excess expenditure on material cost was equivalent to short generation of at least 15.03 crore persondays in Andhra Pradesh, Assam, Jharkhand, Madhya Pradesh, Sikkim, Tripura and Uttarakhand (seven states) on this account.

The Ministry stated that wage material ratio of 60:40 will now be considered at GP level through an amendment to the schedule carried out in May 2012. Further, MIS (NREGASoft) generated regular 'alerts' on violation of wage-material ratio for necessary action by the states. Furthermore, Ministry had taken a decision to engage CAs/CA firms to assist the state in assessing the state share based on accounts of State Employment Guarantee Fund and other records/documents. The states would have to bear additional liabilities (in addition to that mandated by Section 22 of the Act) for violation and incorrect calculation of wage-material ratio.

The Ministry further stated that paragraph 9 in Schedule 1 of the Act provides flexibility to aggregate the projects at any level for the purpose of calculating the wages of skilled and semiskilled workers as well as materials. Hence, maintenance of 60:40 ratio between wages and material at gram panchayat level did not amount to a violation of the provisions of the Act or the Schedule. It was also clarified in para 6.2.2 of the Operational Guidelines that to ensure creation of sustainable assets and a holistic approach to planning, a project approach should be adopted for defining a work. This would enable subsuming a number of works as activities under an umbrella work or project. The project may be formulated with the block as a unit so that the Programme Officer may coordinate the activities under it at sub block levels. Inter block projects may also be formulated at the district level. The reply of the Ministry was not in consonance with the provisions of the Act as paragraph 9 in Schedule I of the Act did not provide such flexibility. The Act clearly defines a project as 'any work taken up under the Scheme for the purpose of providing employment to the applicants' which was unambiguous. The principle of aggregation can only be applied in case of a project which serves many GPs, which was not the case here.