

IMPACT OF AUDIT: A CASE FOR FOLLOW UP

Mentor

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Impact of Audit- A case for follow up

"The fact that post mortem examination does nothing to keep the patient alive is no proof that the existence of a system of post mortem examinations does not prevent murders." (Sidney Webb, H.C. Debates, June 1921).

The paper seeks to argue for building up an effective follow up audit mechanism for those Audit Reports which are not taken up by the Legislative Committees for detailed examination. The need for follow up has been identified in various instructions laid down in our Audit Standards and other guidelines. Though the need for follow up on our Audit Reports is recognized and the follow up of recommendations made in previous Performance Audit of the same scheme/entity is looked into while conducting the Performance Audit again, we have not so far attempted 'follow up audits' as a formal exercise resulting in a distinct Audit product. This paper outlines the current accountability framework and its limitations to build up a case for carrying out effective follow up audit on the implementation of the accepted recommendations contained in our Performance Audit Reports. Various issues have been identified for discussion so that we propose concrete suggestions on how to conduct follow up within the given resources at our command.

Introduction

1. The institution of the C&AG plays a vital role in holding governments to account for their stewardship of public funds and in helping ensure the transparency of government operations. For our findings and recommendations to translate into effective advice to governments to help improve financial control and efficiency, and ultimately public-sector performance, we need the support of the Legislatures. Producing an Audit Report is part of a wider process for achieving beneficial change. Audit Reports should not be seen as an end in themselves, but rather as a key part of the process of making government systems and processes transparent and accountable. Following up on the audit observations and recommendations ensures that departments role is not confined only to giving replies. It facilitates continuous efforts on the part of management to take timely and corrective action to improve systems based on our Audit Reports.

2. Our role as keepers of accountability is through the Parliament/ State Legislatures. The Audit Reports stand referred to the respective Financial Committees (Committee) for detailed scrutiny. Gladstone called the Committee on Public Accounts as the "last portion of the circle" of control. We have a rich history of association with the Committees. Sir Frederic Gauntlett, the Auditor General (1912-14) had played a silent but dominant role in the establishment of PAC at an early period in the Constitutional development of the country.

3. Examination of the Audit Reports by PAC follows two different paths. Some Performance Audits/ paragraphs in the Audit Reports are selected by the main committee/ sub committees for detailed examination. In case of the remaining PAs/Audit paragraphs, the PAC examines the Action Taken Notes (ATNs) submitted by the Ministries/Department, who are obligated to submit the corrective ATNs within four months of submission of the Audit Report in the Parliament.

4. The Performance Audits/ paragraphs in the Audit Report selected by the main committee/ sub committees for detailed examination based on our feedback to the Committees follows a well-defined path regulated by the orders and directions of the Committee. Based on the background material, Memoranda of Important Points (MIPs) prepared by our offices and detailed written reply from the ministries, oral evidence and post evidence replies of the ministries, the Committee comes out with an original Report to the Parliament containing its observations and recommendations.

5. The Ministry is required to intimate to the Committee the action taken or proposed to be taken on the observations/ recommendations contained in the original Report in the form of Action Taken Notes within 6 months of the presentation of the Report. The secretariat of the Committee keeps a watch over the receipt of replies from the ministries and brings to the notice of the Chairman/ Convenor all cases of delay.

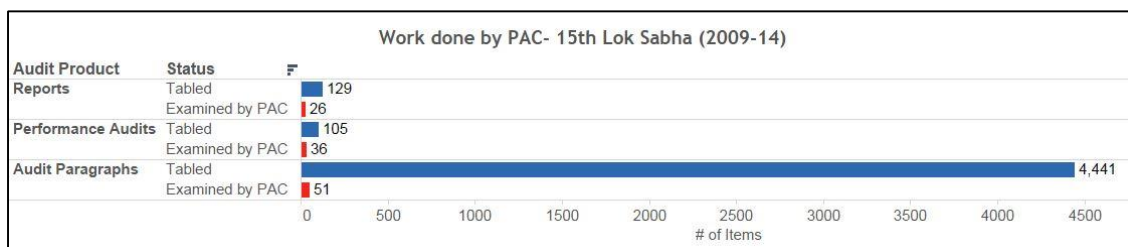
6. The action taken notes are considered by the Committee and after due classification of the replies, an Action Taken Report (ATR) is presented to the Parliament. The ministry is further required to intimate to the Committee the action taken by it on the recommendations contained in Chapter 1 of the ATR and also to furnish final replies in respect of earlier recommendations contained in the original Report. The action taken thus reported by the ministry is laid on the table of the House in the form of a Statement without any further comments by the Committee. This completes the examination of a subject by the Committee.

7. Since the recommendations of the Committee are unanimous and are arrived at after hearing the other side, these are by and large accepted by the Government. In cases where the Committee remains unconvinced, they reiterate their views in the ATR. The area of serious divergence between the Committee and the Government could even be taken up in the House as was done in the 4th Lok Sabha when two motions regarding areas of divergence between the Committee and Government were moved and discussed in the House on 28 November 1967. Thus, there is a continuous follow up in this channel and this follow up on the recommendations of the Committee is also monitored through a subcommittee. Although the Rules of Procedure and Conduct of Business in Lok Sabha do not preclude a discussion on a report of the PAC presented to the House on a motion, a convention has developed that specific approval of the Parliament should not be sought to the recommendations contained in these Reports.

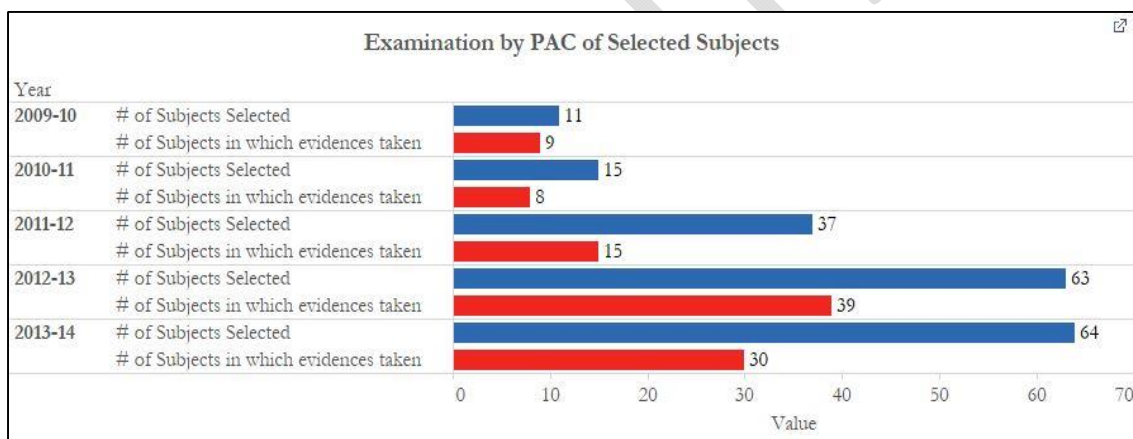
8. The Committee may also review the implementation by the Government of the recommendations made by it in its earlier reports. The purpose is to see how far the recommendations which have been accepted by the Government have actually been implemented. For example, during the Fifth Lok Sabha, the Committee presented two Review Reports, viz., 89th Report relating to implementation of recommendations on Customs and 186th Report relating to implementation of recommendations made on Corporation Tax and Income Tax during 1964-74.

9. Understandably the Ministries are more responsive to the PAC Reports (based on the selected PAs/Paragraphs) than the CAG audit paragraphs which are not selected for detailed examination by the PAC. Only a small percentage of PA and compliance paragraphs are selected by the PAC for detailed examination. Even those selected are not always discussed and buildup of arrears is not uncommon. Since the term of the PAC is annual, more often, the new Committee may prefer the current Audit Reports.

10. During the period (2009-2014), 129 Audit Reports containing 105 Performance Audits and 4441 Audit paragraphs were tabled in the Parliament. During this period, the PAC finalized 51 original Reports dealing with 36 Performance Audits and 51 Audit Paragraphs, drawn from 26 distinct Audit Reports. The overall scenario of arrears in discussion of Audit reports by the PAC is rather alarming and only a fraction of the CAG's Audit output is examined by the PAC, i.e. around a third of our Performance Audits and 1 % of the Audit paragraphs.



11. The examination by PAC, vis-a-vis the selection of topics in the last 5 years is tabulated below. Even though a small sample is picked up by the PAC (as shown above) for detailed examination, oral evidence is not completed in all these cases.

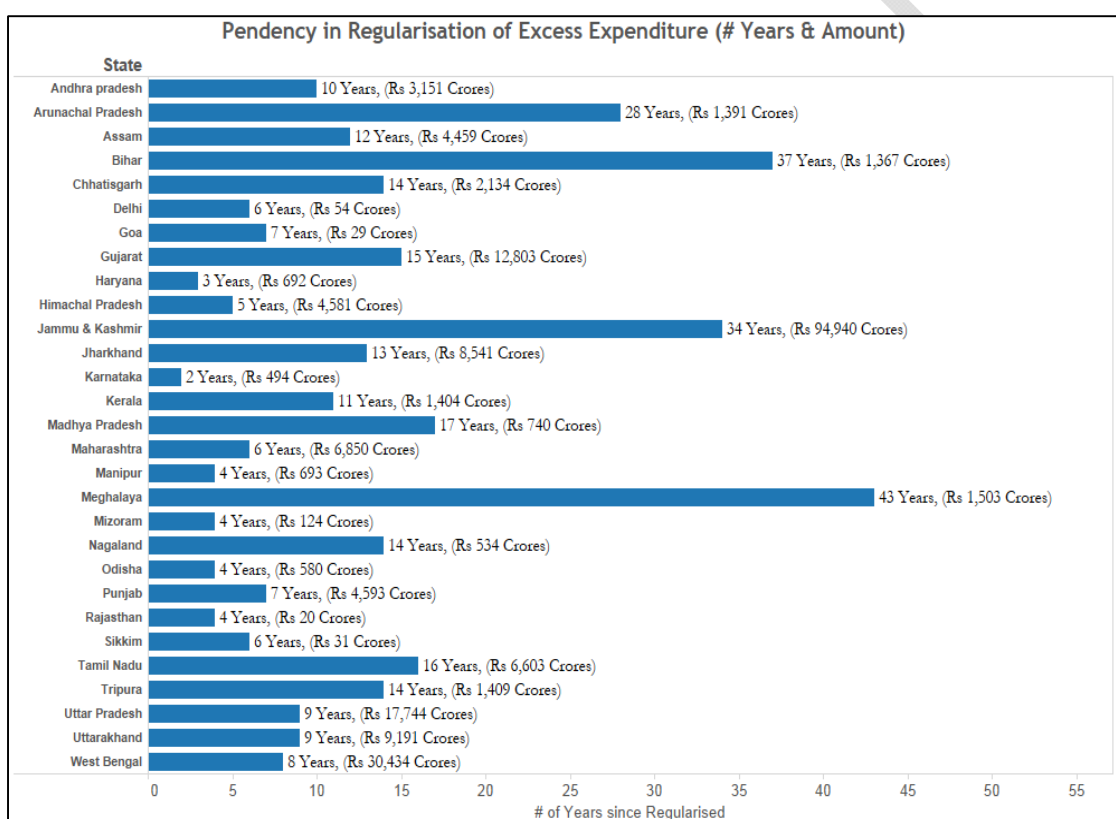


12. The then CAG Shri Gian Prakash had brought to the notice of the Chairman of PAC (Sh. P.V. Narasimha Rao) the declining trend in the number of paras actually discussed by the PAC out of the increasing number of paragraphs included in the year 1977-78 Audit Reports of the Union Government. The then Dy. C&AG Sh. Y. Krishnan felt that the inability to examine all the paras included in the Audit Reports was a serious matter and it would abridge control of the Parliament over the Executive. He felt that this trend induced the Executive to think that after including a comment in the Audit Report, audit has shut its bolt and if the PAC chose not to examine it, it was the end of the matter. In his view, the matter was serious enough to write to the Speaker formally.

13. Of course, the arrears of PAC discussion have also to be seen in the context of some major issues like the 2G spectrum allocation pre-empting, and justifiably so, considerable time of the Committee. [For the 2G report picked up by the PAC in May 2010 the Report of the Committee is yet to be laid in the House after even after examining the subject in 23 sittings.]

14. Our examination of the PAs and Audit paragraphs selected by the PAC shows that certain category of reports, such as Report on State Finances is invariably not picked up for discussion in the States.

15. The PAC has an important role to play in the regularization of excess expenditure. If any money has been spent by the Government on a service in excess of the amount granted by the House for the purpose, the Committee examines with reference to the facts of each case, the circumstances leading to such an excess and makes such recommendations as it may deem fit. Such excesses are thereafter required to be brought up before the House by Government for regularization in the manner envisaged in Articles 115 (Union Government) and 205 (State Government) of the Constitution. To facilitate speedy regularization of such excess expenditure by Parliament, the Committee presents a consolidated report relating to all Ministries/Departments in advance of other reports. We examined the status of regularization of excess expenditure for all the states, which is shown in the chart below.



Excess expenditure amounting to Rs.2,17,090 crore is yet to be regularized by the States. Most of the States show pendency in regularization of around 8-10 years. Out of this, the State of J&K alone has not regularized excess over sanctioned appropriations aggregating to Rs.94939.74 crore from 1980-81 to 2012-13. Thus, the Constitution scheme of accountability of Executive to the Legislature stands whittled down.

Occasional delays in presentation of Audit Reports in the Legislature

16. The accountability loop is activated once the subject matter is taken up for examination by the PAC after the Report is laid in the Legislature. Article 151 (2) of the Constitution lays down that the reports of the C&AG of India relating to the accounts of a State shall be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The clause "cause them to be laid..." leaves the matter at the will of the Executive, i.e. the Finance Department/Ministry gets the agenda included in the list of

business of the House on a particular date. There have been instances where the Audit Reports have been laid in the Legislature belatedly. This has not only delayed the regularization of excess expenditure as per Article 205 (1b) of the Constitution, it also delays the publication of the Audit Reports in the public domain. There is a provision in the central PAC which states that the Committee may begin the examination of the Audit Reports before these are laid on the table of the House. We may consider impressing upon the State PACs to incorporate such a provision in their Rules of Business.

Delay in laying of PAC Reports in the House

17. Rule 25 of the Rules of Procedure of the PAC (Internal working) provides that there shall be *no minute of dissent* to the Reports of the Committee. This is unique to PAC as the Rules on Departmentally Related Standing Committees (DRSCs) permit a member to give a note of dissent on the Report of the Committee which has to be presented to the House along with the Report. The provision of mandatory consensus has led to non-finalization of PAC Reports on the Audit Report on 2G spectrum allocation. Even after examination in 23 sittings by the PAC, since reconstituted, the Report of the PAC is yet to be finalized and presented in the House.

Our interaction with the PAC

18. We are represented in the PAC at senior level both in the Union and the State Legislature. The first meeting of the new Committee is very crucial in which we have to brief the new members on the salient aspects of the new Audit Reports presented to the Legislature after the last selection by the predecessor Committee. The latter looks up to our institution for detailed briefing on the way we conduct audit and the significant findings which merit detailed examination. There is a case for IAAD's interaction with the PAC without a specific Audit Report being on the agenda. The State AsG can take the initiative for arranging a briefing session. During their visits to the States, the respective ADAs may seek to meet the Committee or call on the Chairperson PAC or participate in the inaugural briefing session, at least once annually. Of course, the actual business sessions involving departmental evidence should continue to be attended by the State AG concerned.

Managing the arrears of discussion on Audit Reports

19. In view of the limited number of subjects selected and examined by the PAC, one option is for us to recommend that a part of the work of these Committees may be given to the DRSCs which have replaced the earlier Subjects Committees. The DRSCs can be asked to look into the Reports or paragraphs relating to the Ministries under them. These committees would have to be endowed with the same privilege and powers so as to facilitate examination and reporting in the same manner as performed by the PAC. Of course, the convention regarding composition of the PAC do not apply to these committees. The Second Administrative Reforms Commission was of the view that in order to further strengthen the Parliamentary oversight mechanism, as many audit paras as possible may be examined by Parliamentary Committees. The PAC and COPU may like to decide in the beginning of the year itself, which paras would be examined by them and which by their sub-committees (to be constituted for the purpose). They may further consider assigning other paras for examination to the respective DRSCs. The objective would be to complete the examination of all paras within one year. Thus, the PAC and COPU and their sub-committees and the DRSCs (and their sub-committees) would be able to complete the examination of all paras within a year. If still

there is dependency, it is for the consideration of the PAC and COPU to refer such paras to the Departmental Audit Committees.

Issues for discussion

- i. Should we give priority to the issue of regularization of excess expenditure as it is a Constitutional requirement?
- ii. Should we impress upon the Speaker of the Assembly to incorporate a provision to ensure that the PAC is empowered to discuss Audit Reports even before these are laid on the table of the House?
- iii. The delay in presentation of the PAC Reports/ ATRs in the House frustrates the efforts of the PAC. Value of a unanimous report is undisputed but should we impress upon the Speaker, through the PAC, to remove the requirement of unanimity in exceptional cases?
- iv. Should we institutionalize ADAIs' interaction with respective State PACs/COPUs at least once in a year without Departmental evidence being on the agenda of the meeting?

Reports/Paragraphs not selected by the PAC

20. Till 1981, there was no follow up on the action taken on those Audit Reports/ paragraphs which were not selected for detailed examination by the Committee. In 1982, the Committee decided that the Audit Reports for the year 1980-81 be referred to the ministries for furnishing notes, vetted by audit, showing remedial/ corrective action taken on all the paragraphs contained therein. This process has been further streamlined. These ATNs are to be submitted to the Committee within four months of laying of the respective Audit Report in the Parliament. Within the span of four months, the ministries are to send the *remedial/ corrective action taken notes* to the PAC Secretariat after these are duly vetted by audit. After the PAC receives the ATNs, the Committee sends these to our office for categorization into (i) Accepted (ii) Partially Accepted and (iii) Not Accepted and based on this categorization the Committee may select Audit Paragraphs for detailed examination. The latter often does not take place.

21. Though a subcommittee (Subcommittee-4 "Noncompliance by the Ministries/ Departments in timely submission of ATNs") has been constituted for the follow up on ATNs, this largely concentrates on the quantitative progress of the ministries/ departments on the timeliness of furnishing the ATNs. Though the last subcommittee (4; PAC 2013-14) has been very active and often summoned the defaulting ministries and held them accountable. Even the Results Framework Document (RFD) of the Ministries/ Departments give weightage to the timely submission of ATNs on Audit Paras of C&AG and does not acknowledge the changes made in compliance to audit observations/ recommendations included in the Audit Reports. Besides, there is no uniformity in the format of the ATNs across the States. Finally, the ceiling of four months becomes meaningless when the Audit Reports are not laid in the House. Thus, by the time these are laid, the product becomes stale and neither timely ATNs would be ensured nor the Committee show any interest in the product which has passed the expiry date.

22. Thus, the rigour of examination and qualitative follow up is not available for the audit products not selected by the PAC, with the focus primarily being on timeliness of

response rather than corrective action on the observations and recommendations. This makes for a compelling case for instituting suitable follow up procedures in this area.

23. Even at the level of response in the form of ATNs which are currently being monitored in statistical terms, the position is not encouraging. As of 31.07.2014, ATNs in respect of 563 audit paragraphs (non-selected paragraphs, ranging from 1991 to 2013) were pending for submission to the PAC at the Union level. Out of these 563, ATNs in respect of 91 paragraphs have not been received even for the first time within the time frame of four months. Even when these are submitted to the PAC, there is no follow up on the commitments made in these ATNs either by the PAC or our field offices. Sh. RK Chandrasekharan, ex Dy.CAG, rightly observed that *“Non pursuance of paras not selected for examination in a regular and effective manner virtually left them out in the cold which perhaps, unwittingly, encourages the administration to play the game of ‘wait and see’ until the natural demise of the para.”*

24. The situation in the States is similar, if not worse. At the end of March 2013, 10,476 ATNs were awaited at the State level.

25. A review of the ATNs received in some field offices in Delhi has shown that response to the CAG paras is qualitatively different from the response to the PAC paras. It is not unusual to find that vague commitments and evasive replies are given by the management to review the deficiencies by appointing a committee, forming a task force, issuing guidelines and circulars, promises to hold regular meetings and implementing new IT systems etc. For example, the ATN on our PA Report # 3 of 2000-ICDS stated that all the deficiencies have been taken care of to a large extent by revamping the scheme. Due to time constraints and our focus on producing the next years' Audit Report, our offices are forced to accept such vague, unverifiable promises in the ATNs without detailed verification at that particular point of time. After the vetting remarks are given by the field office on the ATNs, the details of remedial action taken are neither compiled nor followed up by that office. We bury the half dead!

26. There is no uniformity in the format of ATNs between Centre and States. Additionally, there is no separate format for ATNs for Audit paragraphs and Performance Audit reports. As a result, the format neither ensures any specific focus on the recommendations nor entail any response of the ministry on these recommendations contained in Performance Audits. We noted that the ATNs from the ministries are not in keeping with the detailed format for ATN specified by the PAC¹ in 1995-96.

Issues for discussion

- i. Can we seek uniformity in the format of the ATNs?
- ii. Should we seek different formats for PAs and Compliance Audit paragraphs?
- iii. Most importantly, should we not review the ATNs in greater detail and compile the information in a database? What is the implication in terms of HR requirement?

The case for follow up

27. We follow up the objections and observations in our Inspection Reports (IRs) every time the entity is subject to subsequent audit. There are institutionalized mechanisms

¹ 10th Lok Sabha

such as Audit Committees, six monthly reports to the Government on the pendency of paragraphs, objection book, monthly arrear reports etc. The PAC follows up the Audit Reports which are selected for detailed examination and the PAC Reports/ ATRs are available in the public domain.

28. However, in our present system, no perceptible review is done for the actual changes made or proposed to be made as a result of the observations/ recommendations of Audit contained in the Audit Reports/paras not selected by the PAC for discussion. Due to time constraints inherent in the scheme wherein we have to vet the remedial action taken within a fortnight/ month, we cannot devote sufficient time and resources for follow up. The field offices generally accept the ATNs perforce without detailed verification at that point of time. There is an urgent need to flag issues at this stage for verification during the follow up programme. *Thus, if we intend to capture the impact of audit, a follow up audit is the logical course of action.* This would also induce the departments to pursue implementation of the recommendations post haste.

29. Under the directions of Sub Committee 4 of the PAC (" Follow up on Audit Reports and Civil Ministries related paras") Ministry of Finance has recently operationalized a portal called the APMS (Audit Para Monitoring System) which facilitates on line vetting of the ATNs by audit. This facility enables easy access to information on the paragraphs and provides quick MIS reports. After all Departments/ Ministries are on board, the issue of timeliness in furnishing ATNs vetted by us would no longer be relevant. The next logical step for the Committee would be to monitor the action taken on the observations/ recommendations given in our Audit Reports. Needless to say that we have to brief the Committee on the follow up action in near future.

30. Our Audit product, as selected by the PAC, can be classified into two categories- Performance Audit reports and Audit Paragraphs. Each topic selected by the PAC is either a PA, or 1 single Audit paragraph. A separate report is prepared by the PAC for each selected topic. The number of audit paragraphs far outnumber the Performance Audits. To decide upon the scope/coverage of follow up, we examined a few sample Audit Reports, which confirms our preliminary assessment that follow up may be done initially, only in case of Performance Audit recommendations. Follow up of Audit paragraphs may be made only in selected cases where there is an implicit or explicit recommendation on instituting a control or other remedial action by the government.

31. Follow up in case of Performance Audits may essentially concentrate on the status of implementation of the accepted recommendations contained in these reports. The purpose of doing follow-up is to identify how well auditee has implemented the changes they promised to do when they responded to recommendations in Audit Reports and subsequent commitments made in the ATNs.

The *Implementation Guidelines for Performance Auditing* (ISSAI 3000) states that follow up may serve four main purposes:

1. Making audit reports more effective;
2. Assisting the government and the legislature;
3. Evaluating SAI performance; and
4. Creating incentives for learning and development

32. The significance of follow up has been recognized by us, embedded in various instructions laid in the Standards, guides and manuals. Yet, these have not been formalized and acted upon systematically. C&AG Auditing Standards (Chapter 4, paragraph 2.1 and 2.2) states that adequate, prompt and proper follow up action by the entity on and in the light of audit conclusions will enhance the effectiveness of audit and promote public accountability. It further states that in subsequent audits and otherwise, the auditor should examine and report whether satisfactory action was taken on the audit reports.

33. The Performance Audit Guidelines 2014 (Chapter 8) has a separate chapter on Follow up of Performance Audits. It recommends an annual follow up programme with the results being reported individually, or as a consolidated report.

34. Para 8 (vii) of the Audit Quality Management Framework issued by Hq. states that there should be an assessment of action taken by the auditee in response to audit findings.

35. Extant instructions require that each PAG/AG should prepare a database of the significant Audit findings and recommendations along with the action taken thereon for the ARs of last three years and a compendium containing the findings and the action taken should be presented to the Government or PAC. Also, two separate compendiums are required to be published highlighting the status of follow up by the Union Government and the State Governments. Important cases reported to Parliament and not acted upon need to be brought to the notice of concerned Secretaries.

Follow up audits in some SAIs

36. The Australian National Audit Office (ANAO) conducts four types of audit under Performance Audit.

- a. Audit of a programme or activity in a single entity
- b. Protective security audits (examines security arrangements)

- c. Cross entity audits (akin to our thematic audits)
- d. Follow up audits which involve review of the implementation of recommendations from a previous audit.

37. The follow up audit programme is included in the ANAO Annual Work Plan (AWP) to assess an entity's progress in implementing the recommendation of earlier audits. These audits serve as a self-evaluation of the value added concept pursued by the audit office. This impact measurement is undertaken through issue of questionnaires to each agency directly involved in audit, other major agencies that could have been affected by or have benefitted from recommendations contained in across the board audits and the Parliamentarians. The criteria used for assessing successful implementation and impact of performance audit are that the level of acceptance and implementation of recommendations on the later audits should maintain or exceed those in the previous follow up study. The progress on recommendations include analysis of accepted and rejected recommendations during the period of the first follow up report as against the second follow up report. The accepted recommendations during the two periods are compared on whether they are (i) Accepted (ii) Accepted and Implemented (iii) Accepted and Being Implemented and (iv) Accepted and Not Yet Implemented and (v) Partly Accepted.

Significant issues in follow up audit

38. Following-up on and measuring the impact of audit recommendations is not an easy task. We need to think about several aspects of this work when building a follow-up system:

- a. **Mandate** (Is the follow-up mandatory or voluntary?);
- b. **Scope** (How many audits should be followed-up? Which audits?);
- c. **Resources** (What resources are available?);
- d. **Timing** (When will the follow-up be done?);
- e. **Methods of measurement** (How will the follow-up be done?); and
- f. **Reporting** (When will reporting be done? To whom will reports be made?)

39. **Mandate:** Many SAls come out with separate follow up reports which are presented to the legislature/ Committees. In our case there is no prohibition either in the Act or in the Regulations. Under the Act, the C&AG is empowered to make regulations in so far as they relate to the scope and extent of audit. Section 13 of the Act lays down that it shall be the duty of the Comptroller and Auditor-General- (a) to audit all expenditure from the Consolidated Fund of India and of each State and of each Union territory having a Legislative Assembly and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it *and in each case to report on the expenditure, transactions or accounts so audited by him.* The separate follow up report may be enabled under this section. In any case,

if the departments do not respond and take action on CAG reports, *"it virtually amounts to obstructing the duty he is required to perform under the law"* (Advisory Panel on Legal Control of Fiscal and Monetary Policies; Public Audit Mechanism; Standards in Public Life, 2001, headed by ex-Dy.CAG Sh. M. Narasimhan).

40. We may consider coming out with follow up reports on the recommendations contained in the Performance Audit Reports after a span of 3 to 5 years. GAO reviews the status of implementation of recommendations after every 5 years. The Queensland Auditor General presents follow up report after 2 years of the Performance Audit. A separate report titled as Volume 2 (Follow up Audit Report) may be appended with the main Audit Report (Volume 1) and laid in the Parliament. If not a separate concise report, a separate chapter, preferably the last Chapter may be devoted to capturing the action taken on the recommendations/ observations made in the last 3 to 5 years Audit Reports. The Group may deliberate and decide the time span.

Issues for discussion

- i. How far should we go to select areas for follow up- 3 years, 5 years, One year?
- ii. What should be the criteria for selection- quality of recommendations, PA on a similar topic (highly relevant for State Receipt Audit), or sectoral reporting?
- iii. What fraction of manpower can we spare for this product?

41. **Scope:** Scope has two aspects: width and depth. A wide and shallow scope means that nearly all audits are followed-up, but follow-up is limited. A deep and narrow scope allows for a more thorough follow-up of a small number of reports. We may want to combine the two approaches by following-up all audits in the short term and following-up a smaller number of audits in more depth over the longer term. When a more limited approach is chosen, the basis for the sampling needs to be clear and robust. However the choice is best left to the field office to choose between the two aspects.

42. **Methods of measurement:** There are two main ways to measure the impact of audit reports and recommendations: using a qualitative approach or a quantitative approach.

a. **Qualitative approach:** The qualitative approach could be an appropriate first step. The impact could be described as actions that ministries and agencies have taken. Some countries use a reporting system where auditees must report to the legislature actions that they have taken or planned. This is similar to our system of ATNs. The documents the auditees provide in such a system can offer a useful source of information for the SAI's own follow-up. More information may be collected directly from the auditee during conduct of next audit. Questions should focus on how many of the actions that the auditee has planned or taken, and the impact of such actions, are the result of the audit report and recommendations. It is usually easier to create a cause-and-effect connection between the Audit Report and recommendations and the actions planned or taken than to make this connection with final outcomes, such as improvements or savings.

b. **Quantitative approach:** Some SAIs measure the impact of a report in quantitative terms. The number or percentage of recommendations implemented, and the savings in monetary terms (financial impact), are two indicators to use. A certain amount of

qualitative judgment is needed to decide whether a recommendation has been fully or partially implemented, since some criteria are assessed qualitatively. When the SAI is trying to find out how many recommendations have been implemented, the auditee must have time to react. It can be useful to build a time frame into the measurement. For example, auditee could be given two, three, or four years to implement a recommendation. Our PA /Compliance Reports on Central Receipts capture the impact in terms of money value of objections accepted and recovered by the assessing officers along with changes in the Act / Statute effected on account of our observations/recommendations.

43. **Timing, resources and reporting:** It usually takes time before actions are carried out, and even more time before effects of the actions are visible and measurable. The more time that has passed since the report was published, the more difficult it will be to find out whether the effects are the result of the report's recommendations. The issue of resources is closely related to issues of scope and depth in the follow-up process. In some cases, part of the resources the SAI receives may be set aside for follow-up activities. During our regular audit, an appropriate fraction of the time, as per need and based on the AG's assessment, may be allocated for collecting information on follow up during field audit.

What are we currently doing?

44. We have a system of highlighting the impact of audit/ follow up through various channels. Apart from the Annual Performance Report, the status of follow up on Audit Reports features as a separate paragraph, either in Chapter 1 or the last chapter of the Audit Report. For example, there is a chapter on follow up on Audit Reports (Chapter XVII, General) in Report number 19 of 2013 (Union Government Civil- Compliance Audit Observations). However, this contains only the issue of non-furnishing of ATNs within the time limit prescribed by the PAC. Similarly, in case where a PA is taken up on a topic covered earlier, we see a mention of the past audit findings and the ATNs. For example, the ICDS scheme was earlier audited in 1999-2000 (Report no. 3 of 2000) and in the repeat PA conducted in 2011-12 (Report no. 22 of 2012-13) we have given a summary of the previous audit findings and reported the commitments made in the ATNs without any evaluation of the degree of implementation of the promises made. It is interesting to note that the ATN was given in September 2010 for a performance appraisal conducted 10 years back. Similarly, our PA Report on Exemptions to Charitable Trusts and Institutions (DT, no. 20 of 2013) referred to the past reviews on a similar topic, yet it stops short at that. On the other end, we have an example of a PA report where the audit office has not only elicited response of the Department on every recommendation in each chapter (PA on Procurement of Stores and Inventory Management, DoAE; no. 13 of 2010-2011) but also taken a commitment on the timeline by which the recommendations would be acted upon. This arrangement facilitates an objective follow up.

45. A review of the latest Audit Reports (General and Social Sector, 2012/2013) of 27 States shows that 21 state reports had a small paragraph on follow up containing the number of ATNs which were due either in Chapter 1 or the last Chapter. Four states (Arunachal Pradesh, Goa, Tamil Nadu and Meghalaya) did not have even this paragraph in Chapter 1 of their Audit Reports for the General & Social Sector while 2 States (UP and Nagaland) though had a section on follow up, there is no mention of the number of pending ATNs. However, there is no separate follow up report/ chapter on the status of

implementation of recommendations or the qualitative changes made in systems pursuant to our audit.

Audit recommendations

46. Since follow up would be conducted on the recommendations given by us in the PA Reports, the recommendations should be monitorable as well as referenceable. We reviewed the recommendations for all the PAs included in 5 State Reports for the year 2012-13. The following pattern emerged.

Observation	Impact on Follow up
Recommendations are not numbered. These are invariably written as bulleted lists.	Recommendations cannot be easily identified uniquely. Without a separate reference number for the Audit recommendation, the department often does not respond specifically to the recommendation, confining the reply to the audit observation. They often give an omnibus reply without responding to specific paras/issues.
Recommendations are mostly given at the end of the PA and not with every significant audit observation. Even where the recommendations are seen included along with the audit observation, these are not separately numbered.	Departments reply in the ATN is usually structured around individual numbered paragraphs. Where the recommendation is not included along with the main comment to which it relates, its readability gets compromised and often it remains un-responded in the Departmental reply. There is a case for considering juxtaposition of our recommendation with the Audit comment to which it relates, unless it is of a general nature at macro level that covers many different audit comments.
Many of the recommendations are not specific and hence difficult to monitor.	A follow up of non-specific recommendation cannot be done effectively. General recommendations in the nature of reiteration of existing instructions or non-compliance with existing controls/instructions typically responded with 'noted for future compliance' are indeed difficult to monitor.
Some recommendations are addressed at higher level of government beyond the control of the department giving the ATN. Recommendation that do not factor external constraints to compliance are difficult to monitor.	Only such recommendations, where it is reasonably possible for the entity, within its mandate and constraints, to implement the recommendation should be included in our audit reports. In case the recommendations are addressed to higher levels in the government or to other departments, these should be specifically mentioned in the recommendation. Any Audit recommendation which cannot be reasonably expected to be implemented dilute the response to other important recommendations contained in the same report.

<p>There is little evidence to assure whether these recommendations have been accepted by the department.</p>	<p>Follow up is best done for recommendations that have been accepted by the department. Specific recommendations recording their acceptance by the Department and the time frame by which corrective action would be taken would greatly ease the follow up process.</p>
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47. For the reasons tabulated above, only a few of the recommendations may be amenable to a follow up audit.

48. **Issues for discussion**

i. For making more specific recommendations, we require more time to ascertain the auditee's constraints. Thus, can we argue for less number of PA Reports or more time to conduct the PA?

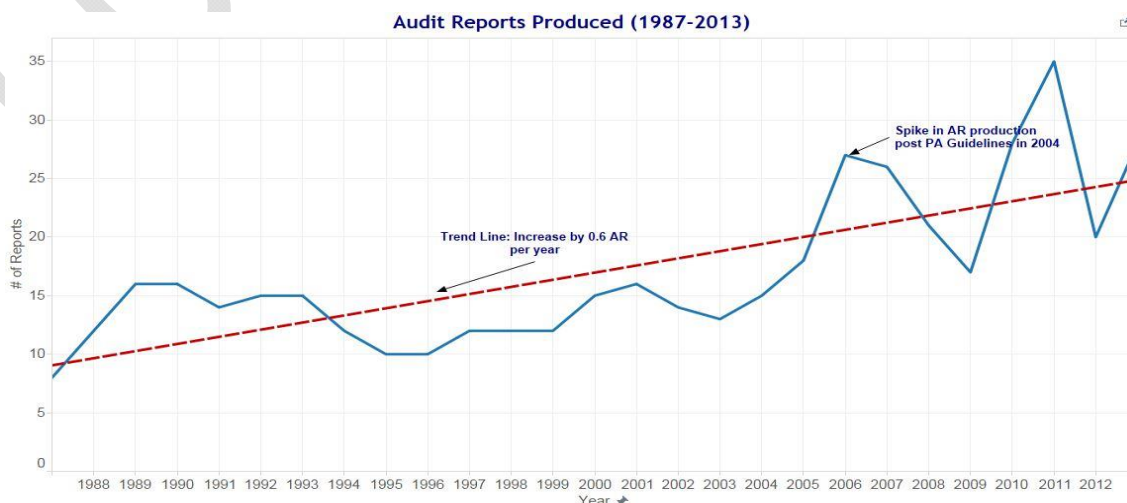
ii. Should we persuade the auditee to give clear acceptance or denial of our recommendations?

iii. Can we argue for a time limit within which the auditee agrees to implement the recommendation?

iv. Do we stop short of commenting on the non-implementation or we go a step further and hold a mirror to the risks involved in non-implementation?

Are we producing too many Audit Reports?

49. At the Central level, we produced 226 Audit Reports from 1947-48 to 1987 at an average of around 6 every year. If we see the production figures after 1987, we see a spike after 2004. This is most likely due to the rise in the number of PAs hived off in standalone Reports after the issue of new guidelines in 2004. On an average, we have produced 26 Union Audit Reports annually in the last five years. Given the average number of PAC sittings during the 15th Lok Sabha (an average of 30 sittings per year, including an average of 5 sittings by one subcommittee which only examines the ATNs), we can only expect one current Audit Report per sitting of the PAC, if the Committee is not saddled with arrears. This needs deliberation.



The trend of Audit Report production since 1987 shows that we are producing an additional 3 reports every 5 years (0.6 reports per year).

This raises the following questions:

- Can we be as effective by producing fewer reports?
- Is the increased production rate indicative of improved efficiency?
- Provision of standalone reports has given us more reporting space to say what we need to say in great detail in covering highly technical subjects. Does it in any way impact the quality of residual Reports from which standalone reports are carved out?

Creating a database of observations/ recommendations

50. Year wise database of the recommendations (for PAs) and observations (for compliance audits) needs to be created. The inventory should contain all recommendations appropriately grouped under critical, significant and important. Apart from the year of the Audit Report and the recommendations along with the status of selection by the PAC/ COPU, this database may also report on the status of acceptance of the recommendations (Accepted, Partially Accepted, Not accepted, Not Replied) and the risk associated with the non-implementation of specific recommendations (prioritized into High, Medium and Low) to reflect our assessment of risk associated with the control weaknesses. The inventory would serve as an important repository for planning future Performance Audits and evaluating the quality of our recommendations.

Issues for discussion

i. We may discuss whether the database of audit observations/recommendations, along with their follow-up status needs to be suitably exposed on the CAG's/ AG website.

51. A suitable matrix can be devised to show the level of response of the various ministries/departments to the audit observations/recommendations. While this will serve as a name and shame proposition for the audited entities, the database would have the additional beneficial effect of making our audit product easily accessible even for internal use. The second Administrative Reforms Commission went a step ahead and argued that each office (department and ministry) should make an annual public statement regarding pending audit queries.

Follow up audits for Performance Audits

52. Accountants General may prepare annual operational plan for follow-up programme in relation to the Performance Audits conducted in the past (the time line may be deliberated during the discussion) in keeping with the manpower requirements. The annual operational follow-up programme should be incorporated in the annual audit plan prepared by each field office under distinct section. The annual follow-up programme should be supported by data on major recommendations made in the past, recommendations stated to have been implemented but not tested through follow-up audit and recommendations not implemented by the entity. This should be supplemented by the feedback received from other field audits, including regularity audits suggestive of persistence of the programme weaknesses, which should have been addressed with the implementation of the recommendations. Similar information may be available from other sources; viz. media, legislative debates, academic research, etc. suggesting shortcomings in the areas that were

expected to have been addressed through the Performance Audit. AsG may follow two models. Either the same audit party conducts the follow up on past recommendations by allocating some percentage of the audit time or a through a separate party created exclusively for follow up on all the recommendations of selected Performance Audit reports. This annual follow up programme embedded in the annual audit plan may be communicated to the Government and hosted on the web site of the AG office.

53. The following procedure may be considered:

a. Choose a group of audit staff members to be responsible for tracking, monitoring, and get the auditee response to the recommendations.

b. Conduct a desk review based on the commitments made in the respective ATNs which involves more detailed analysis of the implementation status. This may involve meetings and presentations but not extensive field work.

c. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed may be one of the following:

Implemented (I):	Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
In progress (IP):	Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
Partially implemented (PI):	Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
Not implemented (NI):	Auditee has not implemented the recommendation and indicates that it will not do so.
Obsolete (O):	The recommendation has become antiquated in view of changed circumstances or implementation of new systems.

54. A detailed follow up review involving comprehensive field work which would cover not only quality but the effectiveness of the results of the implementation of the recommendations. This product, which may be selective depending upon the significance of the topic, may be reported to the Legislature. This detailed follow up should be mandatory in cases where our offices either do not receive the ATNs at all or not received in time.

55. We may also allocate the degree of risk (High, Medium and Low) associated with the status described as PI and NI above and communicate this to the department. Further, instances where positive steps have been taken (I), this can be disseminated as best practices to other similarly placed entities. Audit teams may find it helpful to keep in touch with key auditee staff members after the audit is finished. This approach will make it easier to find out whether auditees have implemented the recommendations. It can also be valuable to investigate why certain recommendations were not followed-up. When developing further recommendations, lessons can be drawn from the reasons for non-implementation. It could

be that the recommendations were not useful, would not solve the problems or were not feasible.

56. The results of the SAI's follow-up exercise may be reported widely. The Ganapathi Committee Report on measuring audit effectiveness (2003) recommended that a document may be periodically released for external dissemination containing the following;

- a. Recoveries of public money carried out at the instance of audit
- b. Audit observations/ recommendations accepted by Government and their financial implication
- c. Changes in law, procedures or schemes attributable to observations by audit and their financial implication
- d. Acceptance of audit observations/ details of remedial action taken notes of audit paras not selected by PAC.

57. We can think of a Follow up Cell in every Audit Office reporting directly to the AG/PD akin to the PAC Cell and Report Sections. This cell would be the custodian of the database referred above, track the ATNs, plan the areas for follow up depending upon the significance, conduct desk review and if required, plan field visit to ascertain the status of implementation of the accepted recommendations contained in some selected PA Reports. It would also prepare the annual follow up report.

Follow up audits for Compliance Audit

58. In the compliance audit paragraphs, the follow up exercise may concentrate on whether the identified weaknesses have been corrected, money recovered that was due, responsibility fixed, assessments conducted properly, review of similar cases conducted in the light of findings of test audit etc. We can also collate information on the percentage of repeat audit findings in the subsequent audits. A study conducted by Department of Legislative Services and presented to the Maryland General Assembly Joint Audit Committee revealed that the percentage of repeat audit findings declined significantly in 2012 after the follow up process was originally implemented in 2002. As part of the annual follow up audit report we can publish the statistics of repeat audit findings and assess the impact of our follow up action. Here too, a database of the paragraphs and the action taken in compliance to the observation/ recommendation contained therein which is communicated through the ATNs requires to be prepared to monitor the progress. The follow up on the compliance audits may be re-formulated after the initial experience gained through follow up on the recommendations contained in the Performance Audits.
