
Performance Audit

The development of Performance Auditing in India is closely related to the advent of planning which involved huge capital outlays and expenditure on plan programmes for socio-economic development. It is best to understand it in that context as the audit response to these momentous developments.

If one were to give a date to the introduction of performance audit concept in India, the safest bet would be to put it in early sixties. This was the time of initial Five Year Plans. Investments by Government on such a huge scale in five year plans and in building a very strong Public Sector required a new audit approach, which would look beyond regularity and financial audit and which could cope with the intricate questions of measuring the performance and results of these huge investments and expenditure. While the concept of propriety audit had already entered the lexicon of audit terminology, the overwhelming audit emphasis was still on compliance and regularity audit. The system of Receipt Audit had just started. It was necessary that Audit developed tools and skills to use them to study and understand the implementation and results of this vastly expanded role of Government and the huge Government expenditure in terms of value for money.

There is nothing better to understand the Audit thinking in early sixties on this subject than reading the following extract of the then C&AG A.K. Roy's speech in Shimla on 28th October 1961—this gives an idea of C&AG's comprehension of the concept at that point of time:

'The statutory audit which the Audit Department conducts is limited in scope and serves a limited purpose. It certifies that the accounts are arithmetically correct and within the appropriations made and also certifies about the legality and formality of the

expenditure. But under modern conditions with the rapid increase in the functions of the State this limited purpose is not enough. Parliament is more interested to know that the money has been wisely spent with due regard to economy, that accepted plans and programmes are being efficiently executed and their purposes achieved. This broader aspect of discretionary audit is being gradually evolved and in modern context has assumed considerable importance...’ And he went on further:

‘This leads to another important aspect of our duties, which is in reality a facet of the discretionary audit that we now conduct. This is performance audit. With the change in the pattern of governmental expenditure it is necessary that expenditure on different schemes should be examined in Audit to ascertain whether (i) such schemes are being executed and their operations conducted economically, and (ii) they are producing the results expected of them.’¹

EARLY DEVELOPMENTS IN PERFORMANCE AUDIT

In December 1962, the C&AG issued a set of instructions relating to the broad lines on which audit should be conducted for schemes selected for efficiency-cum-performance audit (ECPA), the term used those days to denote Performance Audit.

Meticulous planning was reflected in operationalising the concept of Performance Audit, when the C&AG decided in 1961–62 that a task force, consisting of hand picked persons, who showed special aptitude for such audit, be created, under the direct charge of the Accountant General. These persons formed, what was called Efficiency-cum-Performance Audit Sections.

In the Manual of Standing Orders (MSO) Vol-I, released by A.K. Roy in August 1962, the concept of Efficiency Audit found a place for the first time—one long paragraph was devoted to this which interalia, stressed upon the two broad objectives of such audit as enunciated by CAG in his speech cited above. The instructions also laid down the broad lines of audit examination.

The Manual also prescribed that at the end of each year, an overall appraisal of progress and efficiency of the plan expenditure upto the end of the year, be conducted, and suitably reported in the Audit Reports.

The period from 1962 (A.K. Roy) to 1972 (S. Ranganathan) was a period of consolidation of the systems and practices in Performance Audit. Initially, bulk of the audit studies on

Performance Audit related to schemes and projects in Power, Irrigation, Health and Agriculture sectors where quantification of results achieved was possible.

A look at the audit output as contained in the Audit Reports of this period would indicate that while bulk of auditing was still on regularity aspects, Performance Audit was mostly being used to assess the efficiency and effectiveness of Programmes/ Projects/ Schemes that had definite targets in quantitative terms to be achieved within a time frame, which made a commentary on achievements/ results possible. Mention may be made of the review entitled 'Purchase of foodgrains' which was included in the C&AG's Audit Report (Civil) of 1963, and covered the scheme of State trading in foodgrains which had started in 1943-44 and still continued with several changes.

The Union Government (Civil) Report for the year 1971-72 contained reviews of two public health programmes, namely, smallpox erradiation and filaria control, two village industry programmes (leather and palm gur) and a review on important social welfare institutions run by Delhi Administration. The 1972-73 Audit Report contained a review of expenditure on relief of Bangladesh Refugees which was funded by the Government of India. A supplementary report of C&AG for the year 1972-73 was brought out containing reviews of Emergency Agricultural Production undertaken in 1972-73 and Crash Scheme for Rural Employment implemented from 1971-72.

PERFORMANCE AUDIT OF PSUs

The Administrative Reforms Commission recommendation of appraisal of Public Sector Undertakings through the mechanism of an Audit Board, constitutes a big push in the march towards Performance Auditing. The Assistant C&AG (Commercial) at that time (A.N. Mukhophadhyay) meticulously built up a portfolio of PSUs whose Performance Audit (Comprehensive Appraisals) was conducted by the Commerical Audit wing of the department. These appraisals started in 1970—in this year there were 10 Performance Audit Reports presented to Parliament in separate volumes.

Similarly in Receipts Audit, Performance Audit was introduced early in the shape of system Appraisals and Reviews on Direct Taxes, Indirect Taxes .

ALL INDIA REVIEWS (A. BAKSI'S PERIOD AS C&AG 1972-78)

During the tenure of C&AG A. Baksi a new dimension was added to Performance Audit when he introduced the concept of All India Reviews on various programmes, schemes of the Government for socio-economic development, for infrastructure developments and other Central or Centrally sponsored schemes executed under the five year plans. The concept of All India Review was unique in the sense it would involve Audit department carrying out a simultaneous study and examination of records across various States in the country who were beneficiaries of the concerned centrally sponsored scheme relating to these development programmes. Such a horizontal study was of immense benefit to all the stake holders because it would convey a comparable picture of the programme implementation and success across all the States and at the same time it would afford the Union Government a kind of status report of the nature which a comprehensive monitoring mechanism would provide.

In the preparation of All India Reviews, C&AG inducted two very senior and experienced IA&AS officers to draw up the shelf of the schemes and prepare the guidelines to be followed by all the Accountants General involved in the review-these two officers were D.N. Ghosh and A.C. Bose. Their designations conveyed exactly what they were doing 'officer on special duty (reviews)'.

The initial All India Reviews presented to Parliament during the period provided a very wide coverage across various sectors.

In his report for the year ending 1973-74 Union Government (Civil) the C&AG brought out a separate volume containing reviews on (i) Relief of distress caused by natural calamities and (ii) Road Development. This report, signed by the C&AG (A. Baksi) in January 1976, contains an account of the expenditure incurred on relief works in States affected by natural calamities. The Report carried an analysis in respect of nine States who spent the largest amount on relief measures. Apart from the Central Report each concerned State AG also prepared a report which contained detailed findings regarding the State relief works and these reports were submitted to the Governors of the concerned States by the C&AG in the usual manner.

The above separate report also contained C&AG's Review on two other programmes namely, Drought Prone Area Programme in respect of 13 States and Drought Relief Production Programme

in the State of Uttar Pradesh (the review covered the implementation of the programme for the year 1973–74).

In the Audit Report 1974–75 of the Union Government, C&AG brought out reviews on central schemes like Haldia Dock Project and Delhi Milk Scheme. A Supplementary Audit Report on Union Government for the year 1975–76 (presented to Parliament in December 1977) contained a review on Irrigation² Potential in 20 Irrigation Projects in the country including 12 selected command area projects. This review brought out, probably for the first time in the public domain, the information that while on paper these gigantic projects were creating big irrigation potential in the concerned command areas of the projects, in practice the utilization of this potential was far below the potential created. The Audit Review analysed the reasons for these shortfalls which were indicative of the deficiencies in the planning, designing and suggested cropping pattern in the concerned command areas. As a middle level officer in the Ministry of Irrigation at that time, the author had seen the tremendous impact which this Review produced on the top officials of the Ministry and the Secretary took extensive meetings with the Secretaries of the concerned State Governments along with their technical officers on how to get over the problems and increase the irrigation potential utilization. While it is true that a lot of such preparation was done with a view to sending replies to the PAC, there was also a genuine effort produced by the Audit Reports to improve matters in light of the very informative analysis of the C&AG's Review.

While some of the above mentioned reports containing the Performance Reviews of these schemes/ programmes were confined to a time frame to the year relevant to the Audit Report, the merit of All India Reviews was that these covered generally a time frame of five years or thereabout conforming to the relevant plan period. As mentioned by R.K. Chandrasekharan in the 'history', C&AG held discussions with the AGCR and AGCWM and other principal AsG for selection of schemes for reviews—like crash scheme for rural employment, emergency agricultural production programme, scarcity or drought relief, irrigation projects and road development.

1990s AND THEREAFTER

New approach to performance audit: 1990s mark qualitative changes and a paradigm shift in C&AG's approach to Performance Audit. Here, a closely related area of application was performance analysis of macro level management of finances by Government and an analysis of financial health indicators with their impact on national economy. The trend was set by C&AG C. G. Somiah when in 1994 he brought out a standalone Report containing results of Audit of Public Debt and it was rated as a significant contribution to Audit Literature on performance analysis of finances. As the Preface to this Report stated 'This Review of the Public Debt offers a perspective view of the overall position of Public Finance highlighting the trends in and linkages between receipts, expenditure, borrowings, exports and budgetary measures of the Government of India.' However, significant changes first in the format of Chapter-I and II of Audit Report and later bringing out a separate volume on the accounts of Union Government that included a comprehensive appraisal of Government's Financial Management was one of the most important developments in C&AG V.K. Shunglu's time. This document underwent a thorough revision in 2001³ which enhanced enormously its quality of analysis and with a new orientation. In State Audit Reports too, performance analysis of State finances and measuring their vulnerability, sustainability and flexibility was essentially setting up a performance index of State Government finances. It presented a picture of States' financial health in macro economic terms and also their financial management practices.

Apart from giving a new orientation to audit analysis of finance accounts and appropriation accounts and bringing out a separate volume on accounts of Union Government, the Performance Audit Reviews, both All India Reviews and the State Reviews or Central Sector Reviews, acquired a new approach. The All India Reviews were brought out as a separate volume from the Audit Report for the year 1995-96.

Performance Audit Reports produced in C&AG Shunglu's period had following special features:

- (i) Beneficiary Surveys through reputed agencies in some Reviews to assess the impact of the programme through beneficiary perception.

- (ii) Engaging experts—for specific Performance Audit Reports—these yielded wonderful results in Defence Audit and Civil Audit Reports⁴.
- (iii) The system of All India and regional workshops for better quality of Report—these workshops generated a good deal of guidance for improving quality and content of All India Reviews and other performance audit reviews.
- (iv) Beginings were made in application of techniques like Risk based approach in Planning and selection of auditee units

Some Performance Audit Reports brought out during this period will rank as some of the best produced by C&AG in terms of impact they made. These would include the Performance Audit Reports on Member of Parliament Local Area Development Scheme (MPLADS), National Drinking Water Mission, Public Distribution System, Rural and Urban Employment Generation Programme, Integrated Child Development Scheme, Family Welfare Scheme, Implementation of Environment Act relating to Water Pollution, Administration of Prevention of Food Adulteration, National Disease Control Programme and Animal Husbandry Scam case in Bihar.

On Receipt Audit, several trend setting Reviews were brought out like on PAK-Indo –Lanka joint Management Committee (PILCOM) to conduct World Cup for Cricket, Summary Assessment Scheme, Functioning of Investigation Circles, Assessment of Lottery Business, Voluntary Disclosure of Income Scheme 1997, Kar Vivad Samadhan Scheme and Implementation of Selected judgments of Supreme Court etc. In respect of Indirect Taxes, important ones were Invoice based system, System Review on Modvat Scheme, Provisional Assessment, System Appraisal on Service Tax, Valuation of excisable products etc.

It is noteworthy that in C&AG Shunglu's time apart from All India Reviews and Revenue Audit Reviews some very forceful Performance Audit Reviews were brought out on Central Sector programmes. Notable amongst these were, Growth Centre Scheme, Border Security Force, Modernisation of Prison Administration, National Renewal Fund, Issuance of Photo Identity Card to Electors, Calamity Relief Fund, Functioning of Land and Development Office and Infrastructure Development in Mega cities etc.

In Performance Audit Reports, there was a renewed emphasis on sharpening the audit techniques—some unorthodox methods

were used in National Disease Control Programme. The Chapter on Audit Reports describes some other important Performance Audit Reports of the 1990s.

Provision in the Manuals: According to Manual of Standing Orders issued in 1991 ECPA was directed to examination of the systems, procedures, planning, implementation and operational performance of programmes, activities, etc. bringing out among other things weaknesses and deficiencies as also lapses of various types. The standing orders stated that selection of the projects/ schemes to review should be done with utmost care after a preliminary study taking into account various factors apart from financial outlays involved. Active Cooperation of concerned Department and their proper appreciation of the review undertaken by audit was stated as essential for a meaningful review. Mention was made of pre-review discussion with departmental authorities regarding areas to be taken up for study and assistance in making available records and data. Preparation of an Audit plan indicating guidelines for investigation, offices/ field units to be visited, strategy for collecting data and time frame to review, adequate and fair sample selection for detailed checking, formats and Questionnaire for collection of data for ease of consolidating and processing the review report were also covered in the Manual.

Manual of Standing orders issued in 2002 reiterated the active co-operation of the Departments concerned and holding of not only Entry conference but also Exit Conference to discuss audit findings and obtain further clarifications, if any, from the Department. It was brought out that as many criteria as possible should be developed for each component of audit and where there was no agreement between audit and the Department regarding criteria evolved by audit, audit should clearly mention this fact. It was further stated that review is not a narration of instances of aberrations/ shortcomings in the execution of the programme but an 'appraisal' intended for expressing an opinion on the quality of internal control, information system, achievement of objectives, quality of execution and realisation of value for money. A specific pattern of shortcoming should lead to the audit opinion. Sample should be defined in the scope of audit and all observations should relate to the sample and it should not be necessary to use expressions like 'test check revealed', 'test check disclosed', etc. 2002 Manual laid emphasis on Recommendations stating that any observation or opinion not strengthened by appropriate

recommendations would render a review incomplete to a reader in general and to the ministries, departments and PAC in particular. The drafting was to be done after detailed and analytical discussion of the results of preliminary study, consolidated data, mid course appraisals of the schemes/ programme and remedial measures taken as a sequel. A suggested layout for reviews was also mentioned in the Manual.

The foregoing instructions which constituted a big leap forward in the Performance Audit area, were applied in patches, since a structured integrated Performance Audit System was not prescribed. This task was fulfilled by the present C&AG V. N. Kaul.

2004—A PARADIGM SHIFT IN IA&AD APPROACH TO PERFORMANCE AUDIT

C&AG, V.N. Kaul made an assessment of the existing Performance Auditing Practices and systems in the IA &AD in the context of the recommendations made by the NAO Consultants who, in their Report (2003) had stated that:

‘The IA&AD should reexamine its current audit methodology and, in particular, consider merging the various audits it undertakes into two categories—Financial and Performance Audit. Clear objectives for each should be established which reflect the new vision and mission of the organisation’.

The Consultants, further, advocated undertaking a series of pilot studies and development of training courses to introduce the new approaches—and to test their practicality across different parts of the organisation. They also advised for making greater use of risk based and statistical sampling techniques and develop additional approaches to gathering audit evidence. Also, pilot study results were to be evaluated to ensure that the new approach provided real benefits before any changes were fully introduced.

The Consultants desired that ‘IA&AD should establish Finance and Performance Audit methodology teams to assist in the development of the new approach.’

Apart from the above, C&AG was also guided by his desire to align the Performance Auditing Practices and systems of IA&AD with the best global practices—this has been in fact his objective in other facets of auditing also.

He, therefore, decided to get the prevailing performance audit systems overhauled and put in place a completely revamped system

which was in line with internationally accepted best practices. For this purpose, he entrusted the job of preparing a new set of guidelines for Performance Audit which should reflect the current best practices globally to an officer of the rank of Principal Accountant General⁵ incharge of newly created Performance Audit Wing. This led to a set of Performance Auditing guidelines which was released by the C&AG in May 2004. These Guidelines were shared with auditable entities in May 2004. The highlights of the new guidelines, as the C&AG has stated in his prologue to the publication, is that these clearly distinguish between Performance Audit and Financial Audit and further, had been formulated keeping in mind international best practices. These guidelines replaced all existing instructions in so far as they related to the principles and procedures of Performance Audit.

There was a plan to bring out a series of supplementary guidelines—in fact 17 subjects were approved by the Coordination Committee on Performance Audit Management and Review in September 2004. The Accountants General Conference held in September 2005 also recommended the issue of Supplementary Guidelines to facilitate due implementation of Performance Auditing Guidelines. The Co-ordination Committee decided (December 2005) that the supplementary guidelines should be developed in phases. Five subjects were selected for development in the first phase. In 2007 a Supplementary Guideline was issued on 'Evidence Gathering, Analysis and Evaluation Techniques in Performance Audit' to help Audit teams to collect evidence and analyse and evaluate the same in a manner that meets the prescribed standards laid down namely, competent, relevant and reasonable evidence to be obtained in support of auditors' judgment and conclusions.

A second Supplementary Guideline was issued in October 2007 on 'Development of Audit Conclusions and Recommendations Arising out of Performance Audits'. This provides detailed instructions about the manner in which professional judgement is to be applied in framing audit conclusions from facts and how recommendations are to be framed in the light of these findings.

Apart from this, the Performance Audit Wing at Headquarters also brought out a series of practice guides on specific subjects of audit. Four practice guides have so far been issued under this series. Three practice guides have been issued for framing audit objectives and sub-objectives on some common auditing topics useful for all field offices. Another practice guide covers the process of planning individual performance audits. These were also to

'provide a framework to ensure that audits conducted across the country follow the same methodology'.

The 2004 Performance Auditing Guidelines and the subsequent build up of the Performance Audit system has meant a paradigm shift in the approach of the IA&AD towards Performance Audit. Before discussing its main features, it will be appropriate to deal with a question of C&AG's mandate on Performance Audit that arose during the period.

AUDIT MANDATE FOR PERFORMANCE AUDIT

As already brought out elsewhere, the C&AG's mandate for Audit is derived from the Constitution and the C&AG's (Duties, Powers and Conditions of service) Act, 1971. The scope, extent and nature of audit is again the prerogative of the C&AG and has been established over the years. Performance Audit which started in early 1960s also derives its authority from the above and C&AG's unfettered right to determine the nature and scope of his audit.

The instructions to the State Accountants General were issued as early as December 1962 to take up Efficiency-cum-Performance Audit of schemes and this probably marked the beginning of the Performance Audit in the Department. The right of C&AG to conduct Performance Audit since then has not been questioned by any State/ Union Government, leaving aside the infamous instructions of 1976 when Government issued instructions to bar certain records to the C&AG. Only one instance has been found in old records which points to initial doubts being raised by one State Government, namely Rajasthan, about C&AG's jurisdiction in the realm of Performance Audit. The State Government put it thus 'Indian Audit Department has no legal status to audit Efficiency and Performance of the Government' (1969). As a result the concerned department started withholding production of records relating to the projects on the plea that these could not be furnished for Performance-cum-Efficiency Audit. In this case, however, after 'vigorous pursuance' with the Government and discussions held between the Chief Secretary and the Accountant General, Government accepted the position that Accountant General can carry out Efficiency-cum-Performance Audit of schemes undertaken by various departments of the Government 'according to the instructions issued by the C&AG of India in this regard'. The Finance Department of the State Government issued an office memorandum on 6 June 1969 on the above mentioned lines to clarify the position.

The Performance Audit, conducted by Audit Department since those days has undergone a sea change in its approach and reach—it started evaluating performance of various socio-economic development programmes of the Government of India and State Governments, it undertook performance appraisals of public sector enterprises, it conducted system studies on various exemption schemes, etc of the Central Excise and Customs Department and similar notification on the Income Tax side. It carried out comprehensive review on the management of taxes—both at Central level and State level. All these were well received, appreciated and, most of all, never questioned as regards C&AG's power to do this till a couple of years back when the Ministry of Urban Development questioned C&AG's right to carry out Performance Audit of 'out of turn allotment of Government quarters' on the plea that the subject did not have any financial aspect and hence was beyond the scope of C&AG's Audit; similarly, recently, about two years back, the Ministry of External Affairs also raised the issue of C&AG's power to conduct Performance Audit of Economic and Commercial Wings of the Indian Missions abroad on the plea that an Inter Ministerial Group which was set up by foreign Secretary was looking into the aspect of Performance Audit and Ministry of External Affairs would like both the Performance Audits to be postponed till recommendations of the Inter Ministerial Group and till a view was taken based on the recommendations of Inter Ministerial Group and the likely introduction of outcome budgeting (the details of these cases are included in Chapter-4—Developments in Auditing). Eventually in both these cases the matter was settled when the incumbent C&AGs C.G. Somiah and V.N. Kaul addressed the Prime Minister on the subject. An outcome of the Ministry of External Affairs case was that the Ministry of Finance issued clarificatory instructions in June 2006 reiterating beyond any doubts the power of C&AG to conduct the Performance Audits and secure all the records and documents required by him in connection with such audits. Through this clarification, the Finance Ministry has acted, as often in the past, as a 'natural ally' of the C&AG to reiterate the position always taken by the C&AG in regard to his powers to carry out the performance audits.

Provision in Regulations: Regulations on Audit and Accounts issued by C&AG in November 2007 have now made the position absolutely clear by providing that Audit 'includes performance audit or any other type of audit determined by the Comptroller and Auditor General of India'.

PERFORMANCE AUDITING GUIDELINES

Performance Auditing Guidelines lay considerable emphasis on Strategic Planning, in planning for such audits, the selection of the subject for Performance Audit is based on risk perception of the entity. A more scientific system of sampling is to be used for selection of auditee units. The new guidelines place considerable importance on interactions with the auditee and in that context entry and exit conferences assume significance. The new guidelines also emphasise a lot on documentation at every stage of auditing and quality assurance measures. Outsourcing and consultancies are now part of formal guidelines subject to the conditions laid down.

One of the highlights of the new system is that recommendations are now mandatory requirements in the Performance Audit Reports of the C&AG. The guidelines have prescribed how the recommendations emerge i.e. a recommendation development process has been explained and, more important, the recommendations are to be shared with the head of the auditable entity. Further, recommendation should be practical and add value to the objective of the audit i.e, economy, efficiency, effectiveness, governance or accountability. In case the entity disagrees with recommendations and Accountant General is unable to secure the acceptance for his recommendations, the recommendations that have not been accepted by the entity could be retained in the Audit Report along with the reasons for disagreement by the entity and further, giving reasons for retaining them despite reservations of the entity.

The new performance audit system has enabled audit to do an objective assessment of the programmes, entities or schemes of Government by framing clearly the objectives of Performance Audit as also sub-objectives for each objective. Then the performance criteria for these are drawn up with the help of reliable data. A detailed issue analysis is also prepared followed by a design matrix which provides criteria, source of evidence and methods of analysis while dealing with detailed audit questions. The guidelines prescribe risk based approach to planning and use of sampling techniques. These are further fortified by the Beneficiary Surveys wherever necessary thereby enabling Audit to form definitive conclusions about the outcome of a programme or scheme.

In the audit process also, there are now substantial changes. The involvement of subject specialist or experts has been brought

on formal footing by not only clearly stipulating that they can be associated whenever there is a need for them, but also by issuing detailed instructions regarding the manner of their selection and the criteria for their selection. Evidence gathering has been strengthened by allowing certain new techniques like physical inspection, photographic evidence and interviews with the auditee organisations- there are safeguards built into all these techniques to eliminate any accusation/ bias on the part of audit while gathering such evidence.

In a nutshell, the new system of Performance Audit is a self-contained well integrated structured system that ensures that no part of the system is neglected. It culminates in framing a suitable design matrix from which other audit processes follow.

The new Performance Audit methodology is very clearly explained by the practice guide⁶ as below:

'The Performance Audit methodology adopted by us has underlined logical flow commencing with the selection of a topic by each Performance Audit which is primarily on the basis of a risk analysis but also dependent upon other factors that go into the framing of strategic and annual audit plans. Once a topic is selected it is necessary to determine its scope not only in terms of the period and locations to be covered but also in terms of the segments of an entity or programme that we seek to cover. This is followed by framing of audit objectives, the identification of issues and the subsequent analysis of the issue leading to the framing of a study design matrix that leads to framing of questions that form the basis of the audit process as also the identification of criteria and the corresponding evidence, the identity comparison of which leads to an audit finding.'⁷

PERFORMANCE AUDIT AND PROGRAMME EVALUATION

A question often raised is about the relationship between the Performance Audit and Programme Evaluation. Essentially, programme evaluation is a part of Performance Audit. The one basic difference would be that while performance audit addresses many issues which are also detailed within evaluation, the Performance Audit should stop short of questioning the policy or embarking on suggesting policy alternatives. This limitation, however, is observed more because of the institutional constraints of the C&AG since he is to act within the contour of the Constitutional and legal mandate he has. The normal programme

evaluation which had been done by agencies' evaluators would have no such constraints unless they are barred for that by the terms of reference of the agency engaging the evaluator.

PERFORMANCE AUDIT DEFINITIONAL ISSUES

The new guidelines endorse the definition of Performance Audit as laid down in the INTOSAI Auditing Standards which has the three essential characteristics namely: Performance Audit is concerned with the audit of economy, efficiency and effectiveness of a programme or activity or investment/ expenditure or resources. The guidelines have explained the three Es i.e. economy, efficiency and effectiveness. However, while this traditional definition of Performance Audit is retained, the new guidelines have added two more attributes namely equity and ethics while assessing the effectiveness of a programme or activity. The guidelines stipulate that Audit findings on ethics and equity should be included in the Performance Audit Report only when the infringement of the standards of equity and ethics impacts the Performance adversely. It goes on to explain that equity and ethics issues in Performance Audits add value only if audit findings against these two standards affect one or more of the three that is economy, efficiency and effectiveness.

The scope of Performance Audit does not normally include policy evaluations. Some notable exceptions however there have been particularly in the Receipt Audit where questions of policy were analysed in Audit Review from the revenue generation aspect. Refer to C&AG's Review on Service Tax (Report No.11 of 2000) which is discussed in Chapter 6.

Over the past 40–45 years since the Performance Audit was introduced in IA&AD, it has covered a wide range of themes, schemes/ projects/ programmes. Often Performance Audit Reports are in the nature of follow up of earlier such Reports. C&AG has done this in several cases. For example, he reviewed MPLADS in the year 1998 and again in 2001. Similarly, C&AG had reviewed Employment Generation Programmes (by whatever names) about 7 times since 1990; same applies for the Performance Audit Reports on Primary Education (in his Reports for the years 2000 and 2001) and Drinking Water Scheme (1998). The one common thread that runs across all these Reports is the number of repetitive points concerning deficiencies, etc. One obvious conclusion this would give is that executive is not sensitive to Audit findings.

SELECTION OF THEMES: GUIDELINES REGARDING

The Comptroller and Auditor General's MSO (Audit) had laid down the criteria⁸ for selection of subjects for the audit reviews or performance audit. Subjects for All India reviews as also other reviews were selected on the criteria of materiality, coverage and impact on the life of the people. To this were also added factors like topicality from the contemporary public policy angle and its relevance for the policy makers. The selection process actually was to be preceded by a thorough scrutiny of data bank of major government programmes, activities, schemes and projects. The Performance Audit guidelines have identified factors that would guide the selection of subjects. While risk perception is an important constituent of topic selection exercise, the guidelines detail the further risk areas and issues within the topic to focus on key issues. The sourcing of the material for selection of topics would be, amongst others, from the five-year plan and annual plan documents, budget for the concerned years, and related performance budgets of departments/ ministries. The audit plan containing the proposals of the concerned Pr.AG/ AG (Audit) would be examined at HQrs by the DG (PA)/ ADAI (Report Central) for Union Government reports.

In the case of All India Reviews which normally used to number about 3 or 4 each year, the subjects were suggested by the Report Central Wing to the Additional Dy. C&AG/ Dy. C&AG (Report Central) who would then finalize the selection of topics after deliberations with his counter parts in Report groups at HQrs. This used to be a broad based meeting where the concerned field Principal Directors (Audit) as well as Principal Director (Report Central) and Principal Director (Report State) from HQrs participated. On the basis of these discussions, a consensus was arrived at for number of topics to be attempted for Audit Report for All India Reviews and also the specific themes or topics on which these reviews will be done. Till the year 2004-05 when the new systems bifurcating the Audit Report into two streams namely Transaction Audit and Performance Audit was not in vogue (this system came into being from Audit Report for the year 2004-05), the selection of Central Reviews was mostly done along with the concerned Audit Plan discussion. Most of the Central/ Civil Audit Offices would send the topics for Central Reviews as part of their Audit Plan. These were often discussed in the HQrs by the ADAI (RC) with concerned PD and on the basis of decisions taken in that

meeting the final plan which will include the list of topics/ schemes on which the reviews will be conducted were decided. The final approval thus was from the ADAI/ DAI (Report Central). The audit plan would also contain the number of Draft Paragraphs which the concerned Principal Director of Audit proposed for the Audit Report concerned in respect of Civil Report as well as for Report on Autonomous Bodies. However, this system was more or less thoroughly overhauled in the year 2006 and presently the selection of topics is made at the HQrs by a detailed Budget and Plan document analysis specially of the flagship programmes (mostly CSS schemes) and on the basis of this analysis, programmes have been identified for Performance Review for the next three or four years in the Perspective Plan. Other than flagship programmes and other major programmes, there are smaller plan programmes also for which suggestions are given by the field offices along with justification and on the clearance of the HQrs are taken up by the concerned field offices for inclusion in their report. The entire proposal for selection of topics or themes for Performance Review is finally put up to the C&AG for his approval.

The current procedure for selecting themes or subjects for performance audit is that Additional Dy. C&AG (Report Central) prepares a shelf of projects containing flagship programmes and other central plan programmes. The performance audit proposals are put up for a three-year cycle e.g., in November 2006, C&AG approved performance audit proposals for a three-year period 2007–2010. The proposals were submitted after discussion with the Principal Audit Officers and on the basis of a data bank of 32 key plan schemes of the Union Government which included flagship programmes also the selection was made. The C&AG also desired that the proposals should be in consonance with strategic audit plan and additionally, suggested four more programmes to be accommodated in the 2007–2010 programmes, if possible.

It would be seen that the foregoing approach is radically different from the previous times and in a way perhaps it is appropriate that the subjects are decided at the HQrs who are in the know of total picture of the activities in the Union Government and Planning Commission domain. The fact that the shelf of three to four years has been created, also affords an opportunity to the concerned offices to be in preparedness about the topics that are to be taken up in subsequent years; this would definitely help better collection of material and better planning for the audit.

The above system also ensures to a large extent compliance to the basic criteria that the themes for Performance Audit should be selected on risk based analysis rather than conventional analysis. In fact even with regard to the Transaction Audit, the HQrs has on the basis of their selection of 10 or 12 high spending ministries suggested to the field offices to give adequate representation to these Ministries in their Audit plan for Transaction Audit.

PERFORMANCE AUDIT AT WHAT STAGE?

The guidelines make it clear that even though Performance Audit is a post facto exercise 'there is no bar to conduct Performance Audit of programmes concurrently, or at the initial stages of the implementation of the programme'. Similarly, it advocates that concurrent Performance Audit of long term ongoing schemes should be undertaken at appropriate intervals. In detailing the implementation plan for performance audit, there are detailed instructions on operational planning for individual Performance Audits which include Audit objectives to address the Performance Audit concerns. The recent examples of such Performance Audits are NHAI Scheme of Golden Quadrilateral (C&AG Audit Report Commercial No.7 of 2005), Rural Employment Generation Programmes (C&AG's Report, Civil—No.3 of 2000), M.P. Local Area Development Scheme (C&AG's Report No.3 of 1998 and No.3A of 2001 again contemplated in 2010), Consumer Protection Act Implementation in Report No.14 of 2006, Sarva Siksha.Abhiyan (SSA) (C&AG Report No.15 of 2006). The advantage of such intermediate audit is that based on the Audit observations and recommendations, mid-course correction can be done by the Administration. For example, in the cases quoted above course correction measures were taken by Government in the case of NHAI's Golden Quadrilateral Scheme; in response to Consumer Protection Act Implementation, the Government stated that the survey findings could be used as a benchmark during future evaluation of the impact of the consumer protection measures. In the case of SSA, the Audit Report was considered by the Governing Body Meeting chaired by the Prime Minister where the contents of the Report were taken as inputs for further improvements in the programme implementation.

OPERATIONALISING NEW PERFORMANCE AUDIT

To operationalise the new Performance Audit Guidelines, elaborate and detailed planning was done. This reflects the total care taken to introduce the new system.

While the Guidelines contain comprehensive implementation standards on Performance Audit, the real merit lies in the preparation of Subject Specific Detailed Performance Audit Implementation Guidelines. These are framed by the concerned Audit office and initially presented in a workshop. These guidelines typically contain issues relating to audit objective, sub-objective, criteria and evidence. The workshop discusses these and also interacts with teams that carried out the pilot study. The final draft Guidelines are framed after this which includes inputs received in the workshop and sent to HQrs office for their approval. The Performance Audit Implementation Guidelines include the study design matrix that co-relates audit objective with audit criteria, evidence, sources of evidence, data analysis method, etc.

A distinguishing feature of the new Performance Audit system is that it has been designed to take care of the human resources management related activities that is vital for its effectiveness. For example training of a 'Core Group' in Performance Audit techniques etc was an important element of the Performance Audit System, to ensure development of highly skilled manpower in this difficult audit area. The Project meant to give training to all the Group officers in Performance Auditing has been completed as on 31 March 2006. Similarly, training for the members of the Core Groups consisting of SOs/ AAOs/ AOs/ Sr. AOs has mostly been completed. This is reminiscent of the steps taken by A.K. Roy in operationalising in the early years of Performance Audit, when he posted handpicked persons to ECPA Sections in AG offices.

The C&AG took special care to not only produce a best practice guide on Performance Auditing but also to set up the related structure for conducting these audits efficiently. At the HQrs he posted a senior officer to look after this function exclusively. Called Director General (Performance Audit) his job includes, providing technical guidance and support relating to Performance Audit, monitoring progress of Performance Audits both for Central Audit Reports and State Audit Reports, processing upto the Bond Copy Stage all India Performance Audit Reviews and all stand alone Performance Audit Reviews for the Union Civil Report [the Bond Copies will be submitted to ADAI (RC) for submission to C&AG].

His functions for Performance Audit relating to other wings are also defined—as an Ex-officio Member of Audit Board he will be associated with Performance Audits finalised by Central Commercial Wing under Chairman, Audit Board; in relation to Performance Audits relating to Ministry of Defence, Postal, Telecom and Scientific Departments and locally selected Performance Reviews by State Accountants General he would be associated by concerned ADAIs in the process of selection of topics as well as at the time of finalising the study design matrix and issue analysis. Similarly, he would be involved in the conduct of Performance Audits by Central Revenue Audit Wing at the stage of selection of topics as well as finalisation of study design matrix and issue analysis but this association is restricted to reviews that pertain to expenditure related activities of the Revenue Department. He is also responsible for devising training programme for Performance Audit and finally he is also involved in the Peer Review of Performance Audit by field offices. One of his jobs is to prepare a general appreciation note of the progress made in achieving standards as laid down in the departmental Auditing Standards and also application of Performance Audit Guidelines. The output of this Note was to be circulated as a guidance note to all wings at HQrs and through them to field offices to ensure ongoing improvements in the quality of Performance Audit Reports. 'The results of quality assurance reviews may be placed before SAI top management annually or on demand during the course of the year.'⁹

Some other important components of this structure are a Coordination Committee¹⁰ on Performance Audit Management and Review, constitution of Task Force for setting up criteria in Performance Audit and formation of Core Groups in various offices for Performance Audits. Prior to formation of such 'Core Groups', extensive inputs were received from field offices. For example, Pr. Director (Report States) at HQrs was asked in January 2004 'to examine the need for specialization in Performance Audit, particularly audit of outcomes and the feasibility of establishing specialist value for money teams at State level with responsibility for specific objectives and audit areas identified in the Strategic Plan'. He gave his inputs in the form of a detailed 'Note' to Dy. C&AG Sudha Rajgopalan in February 2004 after interacting with Pr. Accountants General/ Accountants General of five major States. The Principal Director had also drawn extensively on the draft implementation guidelines for Performance Auditing standards

issued by INTOSAI, such guidelines issued by ASOSAI and value for money hand book issued by National Audit Office, UK. Special care was taken to impart training to Core Group members both inhouse and in RTIs.

Another method adopted for dissemination of knowledge about the new system of Performance Audit was convening workshops on Performance Audit meant for various levels of officers. Thus there was a workshop meant for Principal AGs held in May 2006. Similarly, workshops were held for the benefit of Group Officers. Dissemination has also been done through distribution of literature on Performance Audit from other SAIs for the use of field offices. To further facilitate the auditor's job and provide a quick guideline for setting up Audit objectives, issue analysis, Study Design Matrix etc. a check list of 60 points was issued in May 2005. A revised abridged check list was issued in December 2005. These check lists provide a facility to carry out a quick check regarding general quality features, Audit objectives, evidence, Audit conclusions/ highlights, recommendations, language and presentation. The Check list serves as a self – evaluation of the quality of the Performance Audit Report.

Check list also provided for submission of an assurance memo by AG or the equivalent audit authority signing the Audit Report for the purpose of ensuring that the performance audit was conducted in terms of the Performance Auditing Guidelines. The ADAIs of respective functional wings have prescribed, accordingly an Assurance Memo which is to be sent alongwith the Bond copy of the Audit Report to Headquarters.

Guidelines also advocate that if in the selection of the Team Members for the audit competency gap is noticed in the inhouse personnel, expert advice and outsourcing can be done, albeit in transparent manner according to the established policy and procedures and subject to the orders of the Competent Authority.

The Guidelines also explain the role and importance of criteria in Performance Audit at length, including the sources from which these can be developed. The merit of the new Guidelines is that it would ensure that planning, the process and the audit product are consistent with Department's Auditing Standards and generally accepted auditing practices. To achieve these things, the guidelines have laid down detailed instructions on various aspects of Performance Audit plan and its implementation, on evidence and documentation and reporting process. It has also prescribed structure of supervision and review as also quality control measures.

Seperately, it deals with aspect of quality assurance in Performance Audit as also audit management issues.

The guidelines have detailed instructions on Strategic Planning i.e. setting long term goals of the institution and the best approach for attaining them. It has also suggested the criteria for selection of issues or programmes for Performance Audit. The guidelines also clarify that a Performance Audit need not go into the totality of activities of the entities but can also be restricted to a few selected subjects or activities of that organisation.

According to the gudelines, good audit planning will ensure a focussed field work by audit team and facilitate monitoring and review of the progress of audit.

ENTITY INTERACTION

A significant aspect of the new Performance Auditing Guidelines is the emphasis it puts on entity cooperation. It has advocated involvement of such entities as are able to give suggestions to audit regarding the proposed Performance Audit. These suggestions could come from Secretary of the concerned Department to be audited and other Departmental Agencies who can add to this amongst them being Planning Commission, Plan Finance Division of the Finance Ministry, Ministry of Environment and Forest and Department of Expenditure and Budget Division of the Ministry of Finance.

The new guidelines place considerable importance on the meetings and interactions in the auditable entities at the commencement of audit (Entry Conference) and subsequently, at the end of the audit to discuss the audit findings with the head of the concerned auditable entity (Exit Conference). The idea is to have a more inclusive assessment of the entity where the views of the entity can also be understood and used in the Performance Audit of that entity.

CONCLUSION

The expectations of C&AG from the Performance audits conducted by IA&AD can best be gathered from his speech given to the participants in the workshop on Performance Audit for Pr.AG Level officers held on 4 May 2006. He stated that the observance of Performance Audit guidelines should result, amongst others, in organising the entire audit process so as to ensure that all relevant issues were identified and audited against objective criteria, resulting in a report that is relevant, non-partisan and reformative.

He went on to say that a 'systematic and meticulously documented audit process supported by relevant criteria, valid evidence and resultant conclusions', will establish the Department's credentials 'as the central player in the entire gamut of institutions that exist... on the national scene for ensuring transparency and accountability of Government.'

In summary, therefore one can view that the new Performance Audit system is more inclusive, intensive, participatory, transparent and is based on as much objective assessment as possible.

As regards submission of Performance Audit Reports, they need not be Annual Reports presented only once a year. In fact, they flow throughout the year in a staggered manner. For example, during the year 2006, C&AG submitted 20 standalone Performance Audit Reports relating to Union Ministries spread over all the 3 sessions of Parliament.

These reports received wide media coverage and drew the attention of Parliamentarians and Ministers in many cases.

Performance audit reports now deal exclusively with systemic points and points relating to VFM aspects. The acceptance has just begun and an evaluation of the system will probably take place a couple of years later. It will be worthwhile for audit to carry out an assessment of this new system, at an appropriate time.

The question is whether the new Performance Auditing System will improve Government performance. C&AG, V.N. Kaul identified the requirements of this very clearly when he wrote to the Finance Minister in March, 2005. He said improving Government Sector performance through better accountability demands three assurances; 'firstly that there are clear performance expectations from departments; secondly, a result based monitoring and evaluation system is set up with clear performance indicators supplemented by a vigorous programme of C&AG's performance audits; and thirdly, ... Organisations audited by C&AG fully co-operate with external auditors in the conduct and completion of performance audits'.

He also offered to have a 'Meaningful collaboration with Government and with the Programme Evaluation Organisation of the Planning Commission to provide timely reports on outcomes of selected Government programmes against key performance indicators'. He, of course, made it clear that these will be in addition to the usual financial and compliance audits being conducted by C&AG.

NOTES: CHAPTER-12

¹ Speech by Shri A.K. Roy at Shimla on 28 October 1961 to All India Association of Class-II officers of the IA&AD.

² Supplementary Audit Report (Civil) 1975-76: a brief discription of the contents of the audit review and related matters is available in R.K. Chandrasekharan's book.

³ Report of the Comptroller and Auditor General of India for the year ended March 2000, Union Government (Civil), Accounts of the Union Government, No.1 of 2001

⁴ Public Distribution System, Rural Employment Generation Programme and Inventory Management in Ordnance Services

⁵ AK Thakur who drafted this Performance Auditing Guidelines first as OSD and subsequently as DG (Performance Audit) was responsible for its implementation.

⁶ Practice Guide Series # 4—Planning Individual Performance Audit C&AG of India

⁷ Introduction in Practice Guide Series

⁸ Para 3.8.10 page 109, Chapter-8, C&AG's Manual of Standing Orders (Audit) 2002 Edition

⁹ Para 9.12—Performance Auditing Guidelines

¹⁰It has since been decided to wind up this Committee.

LIST OF KEY EVENTS

| | |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 28 October 1961 | C&AG A.K. Roy delivered inaugural speech at Shimla wherein he highlighted the need for performance audit due to change in pattern of Governmental expenditure. |
| 6 June 1969 | Government of Rajasthan (Finance and Investment Department) issued instructions to all secretaries, to Government, etc that AG can do efficiency-cum-performance audit. |
| 23 June 1969 | AG Rajasthan intimated Headquarters office that during discussion on 24 April, 1969, Chief Secretary accepted that Accountant General can do efficiency-cum-performance audit of schemes. |
| May 2004 | C&AG issued performance auditing guidelines |
| July 2004 | Performance Audit Group wrote to field offices to form Core Groups for performance audit. |
| 11 August 2004 | C&AG established a Co-ordination Committee for Performance Audit Management and Review. The Committee was also to serve as Peer Review Board. |
| 30 May 2005 | A check list of 60 points was issued by C&AG for assessment of Performance Audit Reports. |
| December 2005 | Abridged check list was issued for Performance Audit Reports. |
| 13 June 2006 | Ministry of Finance Department of Economic Affairs Budget Division clarified that Performance Audit for which guidelines drawn by C&AG exist, is within the scope of Audit by C&AG. |
| 2007 | Supplementary Guidelines on Evidence gathering, Analysis and Evaluation techniques in Performance Audit and four practice guide series on specific subject of audit were issued by C&AG. |

DOCUMENTS

1

Inaugural speech delivered by Shri A.K. Roy, Comptroller and Auditor General of India All India Association of Class II Officers of the Indian Audit & Accounts Department at Shimla on 28 October, 1961

I am happy to be in your midst to inaugurate the annual session of the Class II Officers' Association of the Indian Audit and Accounts Department. Our Constitution has placed on the Comptroller and Auditor General onerous duties and responsibilities in regard to the financial transactions of the Union and the States. In the discharge of these duties and responsibilities you play a very significant role. The training you receive and the atmosphere in which you grow up enable you not only to acquire high technical ability but also instill in you a high sense of financial integrity and public duty. It is no wonder, therefore, that trained personnel like you are in demand in all the departments of the Governments and Public Enterprises. You are one of the pillars on which the edifice of the Indian Audit and Accounts Department with its lofty traditions has been built and I have no doubt that your deliberations will aim at making the Department more efficient and useful in the service of the country.

2. In this age of almost bewildering scientific and technological developments, no institution can remain static. Every institution has to change and adapt itself to the changing conditions and needs of the social environment in which it functions. If it resists changes which become necessary due to changing social conditions, that would only lead to decay. It is, therefore, always necessary to examine our tools and techniques and see how far they are effective in the changing conditions of our country. We should not take it for granted that the procedure of accounting and audit that was evolved when the maintenance of law and order was the main function of the State would prove completely adequate in a Welfare State which has set itself to transform agricultural, industrial and social institutions and practices. It is now firmly established that maintenance of law and order is but one of the essential functions of the State : the State should and must organize its affairs in such a way that the resources of the country are suitably harnessed and exploited to maximize the net national product and secondly that the distribution of the national product be so arranged as to maximize the welfare of the Society as a whole. In order to achieve this end the State has necessarily to undertake multifarious activities with the result that efficient financial administration has become a matter of supreme importance. The re-orientation of State activities has been reflected in the rapid expansion of the State budgets and this has made it essential to devise an efficient system of control of expenditure. Broadly, this involves three types of control. The first is aimed at ensuring that the budgetary allocations are in fact spent on the purposes for which they are made available. The second aims at seeing that an allocation for an approved purpose is used as efficiently as possible. The third and broadest control seeks to ensure that the total available resources are put to the best possible use—in other words to find criteria for choosing between one purpose of allocation and another. Our Five Year plans

aim at formulating schemes and programmes keeping these objectives in view. If the Audit Department is to play a significant role in the matter and ensure that these controls are efficiently applied to serve the interest of the community as a whole, we shall have to adapt our techniques to the needs of the situation. There is no ready made answer and we shall have to feel our way through, perfect our tools on the basis of experience gained so as to find out the correct answers to all the problems which the multifarious financial transactions of a Welfare State pose.

3. The statutory audit which the Audit Department conduct is limited in scope and serves a limited purpose. It certifies that the accounts are arithmetically correct and within the appropriations made and also certifies about the legality and formality of the expenditure. But under modern conditions with the rapid increase in the functions of the State this limited purpose is not enough. Parliament is more interested to know that the money has been wisely spent with due regard to economy, that accepted plans and programmes are being efficiently executed and their purposes achieved. This broader aspect of discretionary audit is being gradually evolved and in modern context has assumed considerable importance. It is in this respect that the audit conducted by our Department differs very substantially from the audit conducted by the Public auditors. For our Department it is not enough to see that the expenditure is legal and regular; it is even more important to see that it has been incurred with wisdom, faithfulness and economy. It is not only necessary but essential that we should always keep in view the broader aspect of audit responsibility which is no less important—probably it is more important than the statutory audit that we conduct. We should not be bogged in more technicalities and should not miss the wood for the trees.

4. This leads to another important aspect of our duties, which is in reality a facet of the discretionary audit that we now conduct. This is performance audit. With the change in the pattern of governmental expenditure it is necessary that expenditure on different schemes should be examined in Audit to ascertain whether (i) such schemes are being executed and their operations conducted economically and (ii) they are producing the results expected of them. Delay in the execution of plans and programmes cost the nation much more than, for instance, an increase in the cost of execution by a few thousand rupees. It is not that the interest of economy should be sacrificed but it has to be balanced against other factors. It is the overall picture that really matters and not the individual components. It has to be seen how far the target dates have been achieved, how the final costs compare with the results obtained in respect of similar schemes in other fields in the public sector or the data available from the private sector or the landed cost of similar imported articles, how far the physical targets have been achieved and how far the financial returns which had been anticipated have been actually realized. Thus in the case of Irrigation-cum-Power projects it should be ascertained in the estimated supply of water for irrigation purposes and power has actually become available as a result of the completion of the Project and whether the actual utilization is to the extent anticipated. Similarly in respect of any training scheme it is relevant to see whether the anticipated number of persons are being trained every year in a technical centre and getting absorbed in the trade concerned to the extent

anticipated. Though the broad principles of performance audit can be laid down, the detailed technique will have to be evolved having regard to the nature of the scheme and the purpose which it is designed to serve. It will require some new thinking and initiative and its effectiveness will depend not only on the direction which comes from the top but also on the men who would be in intimate and day to day touch with the audit of the transactions of the various schemes and programmes. I have no doubt that the members of your Association with their varied experience and technical competence will make valuable contributions in evolving an efficient system of performance-cum-efficiency audit.

5. Till recently almost the entire attention and effort of our Department were concentrated on the audit of expenditure. The audit of receipts did not receive the attention that it deserves. There was also some constitutional limitation on the Comptroller and Auditor General in this regard. Non-assessment or under-assessment of revenue, however, affects the financial position of the Government in the same way as loss incurred in wasteful expenditure. Audit of receipts is thus as important as audit of expenditure. We have recently undertaken the audit of two main heads of receipts of the Central Government—Central Excise and Income-tax. Receipts under Customs are already subjected to audit for a pretty long period. In the State field action has been initiated to take up the audit of receipts of Sales Tax. This is an important new field of our activity and we shall have to build up our organization and perfect our tools. The members of your Association will no doubt make their valuable contributions to the matter.

6. In regard to our payment and accounting functions, it is necessary that we show human sympathy while dealing with personal claims of Government employees. It is not that in settling personal claims the rules that govern them should be thrown over board and settlement made without having regard to them. The rules whatever they may be are to be followed; if they are anachronistic as some of them are and serve no useful purpose, that should be brought to the notice of appropriate authorities for making necessary changes. But in many cases, within the ambit of the present rules, claims can be settled more expeditiously if we apply ourselves to the task with a little imagination and human sympathy. I know that in the majority of the cases the Audit Department is not responsible for delay in the settlement of personal claims and the fault lies somewhere else but, there is no doubt that in some cases the responsibility for the delay, at least for a part of it, can certainly be laid at our door. These cases of delayed settlement, however few, cast a shadow over the fine traditions of the Department. Before raising any objection to a case of personal claim—be it a case of pension, payment of provident fund money, issue of salary slip—the officer should ask himself : Is it imperative that the objection should be raised? Is it not possible to finalise it with the materials and information available? Supposing you were the claimant; would you be satisfied that Audit has validly rejected your claim? In the case particularly of a person retiring from Government service it should be remembered that he has a number of commitments to meet; if he does not get his pension and provident fund money quickly, he and his family might be put to great hardship. It is our bounden duty, so far as it lies in our power, not to cause avoidable hardships.

7. Though the role and functions of audit in a Democracy are of fundamental importance, unfortunately this position is not always appreciated by the Executive. Audit is sometimes treated as extraneous, hampering executive initiative and action, a necessary evil that is to be tolerated but not welcomed. This attitude has resulted in the unfortunate situation wherein audit queries and objections do not receive the attention they deserve leading to a continuation of the irregularities for long periods. The aim of audit is not one of fault finding; its criticisms are not merely directed to show up the deficiencies of departments. The criticisms are made so that irregularities of a similar nature may be avoided in future and where negligence, carelessness or dishonesty is proved, firm even ruthless action is taken against delinquent officers. The aim of audit scrutiny is to see that departments keep to the path of financial rectitude, that resources of the State are efficiently utilized with due regard to the consideration of economy. The aim of any clean and efficient administration must be the same and as such it should welcome audit and give due considerations to its suggestions. The role of audit and administration is complementary to each other and this should be recognized and acted upon if administration is to function smoothly and efficiently. The more faithfully and correctly we discharge our functions, the greater the chance that correct traditions will be established.

8. In your Conference, you will no doubt discuss, in addition to technical problems relating to your work, problems of personal nature as well—i.e. matters relating to conditions of service etc. In a dynamic society matters relating to conditions of service of the employees will need periodical examination so that the necessary adjustments can be made to keep pace with the changing requirements. The entire question regarding pay scales and other allied matters has been thoroughly examined only recently by the Pay Commission and almost all its recommendations having a financial bearing have been or are being implemented. There can therefore be no occasion now for reconsidering any major issues afresh. It may, however, be that some small adjustments here and there are necessary and on such matters any suggestions made by you will always receive sympathetic consideration.

9. The task that the Audit Department has to perform requires not only a high degree of technical skill but it requires that its members should be inspired by a high sense of duty and possess disciplined minds capable of sustained effort and concentrated attention in analyzing complicated financial transactions. This sense of discipline should assiduously be fostered and the members of your Association play a very significant role in the matter. One trouble with us today is that so many people who stand up vigorously for their rights are not equally conscious of their duties and obligations. The members of your Association come into daily contact with the staff of the department in the discharge of audit and accounting functions. By the guidance you provide and the example you set, you have immense opportunities of building up a body of men and women who would take pride in their work and feel that they are doing something very useful for the community and the country. Let it not be said of the Audit Department that its Officers and Staff failed to serve the country devotedly, conscientiously and to the best of their abilities.

10. I have done. It remains only for me to thank you for inviting me to inaugurate this annual session and to wish you all success. I shall take note of your deliberations with interest and I have no doubt that they will be conducted in a spirit worthy of the Department to which you belong.

2

No. F. 24 (1)/E.P.A./Vol. III/1672

3 June, 1969

The Accountant General,
Rajasthan,
Jaipur

The Comptroller & Auditor General of India,
Bahadur Shah Zafar Marg,
NEW DELHI.

Sub.: Efficiency-cum-performance audit of Schemes.

Sir,

I am to invite a reference to your office Circular letter No. 65-Codes/68-61.II dated 1.12.62 on the above subject.

In pursuance of the instructions contained therein heads of departments in this State were asked to furnish an annual review of the Schemes undertaken by them. On a doubt being raised by the Agriculture Department whether the efficiency-cum-performance audit of schemes came within the purview of Audit, Finance Department in consultation with Law Department, held that Indian Audit Department had no legal status to audit efficiency and performance of the Government and advised the Director of Agriculture accordingly in September 1964, who in turn started withholding production of records relating to Projects on the plea that these could not be furnished for purposes of efficiency audit. The matter had since then been under vigorous pursuance with the State Government. As a result of the discussion held between the Chief Secretary (Shri R.D. Mathur) and Accountant General on 24 April 1969, the Government have now accepted the position that the Accountant General can do efficiency-cum-performance audit of schemes undertaken by various departments of the Government according to the instructions issued by the Comptroller and Auditor General of India in this regard. A copy of the office memo issued by the Finance Department in this connection is sent herewith for information and record

Yours faithfully,

SD/-

(Kulwant Singh)

Accountant General
Rajasthan,
Jaipur

GOVERNMENT OF RAJASTHAN
FINANCE (ACCOUNTS & INVESTMENT) DEPARTMENT

No. F.15(31) FD/A&I/63

Dated Jaipur, the 6 June, 1969

OFFICE MEMORANDUM

Sub.: Efficiency-cum-Performance Audit of scheme.

The matter whether Accountant General, Rajasthan, Jaipur can do efficiency-cum-performance audit or not had been under consideration of the Government for some time. It has been examined at length and it has been decided that Accountant General can do efficiency-cum-Performance Audit of schemes undertaken by various departments of Government according to the instructions issued by the Comptroller and Auditor General of India in this regard.

It is therefore enjoined upon all concerned authorities to send the annual reviews regularly to the office of Accountant General.

SD/-
(ARUN KUMAR)
Deputy Secretary to the Government

Copy forwarded to:-

1. All Secretaries to Government
2. All Private Secretaries to Ministers/State Ministers and Deputy Ministers.
3. All Heads of Departments.
4. Accountant General, Rajasthan, Jaipur with 100 spare copies.
5. O&M (Codification) with 5 spare copies.
6. All Departments/Sections of the Secretariat.
7. All Treasury Officers.

Copy also forwarded to:-

1. The Secretary, Rajasthan Legislative Assembly, Jaipur
2. The Secretary, Rajasthan Public Service Commission, Ajmer.
3. The Register, Rajasthan High Court, Jodhpur

SD/-
(ARUN KUMAR)
Deputy Secretary to Government

3

Office of the
Comptroller & Auditor General
of India
Date 30 May, 2005

Sub.: Checklist for assessment of Performance Audit Reports

Sir/Madam

Please find enclosed a checklist for assessment of performance audit reports. These parameters would assist self-assessment of the quality of performance audit reports. The parameters are almost entirely product (report)-focused. The assurance for appropriate procedures applied to the performance audits is to be provided in the form of an assurance memo accompanying all performance audit reports. The checklist is consistent with the Performance Auditing Guidelines.

2. Detailed quality management and control features to promote high quality performance audit have been incorporated in the Performance Auditing Guidelines. These quality management features cover the procedures, viz selection of subjects, audit implementation guidelines, field audit procedures, evidence –gathering and analysis techniques, documentation standards, besides audit management process etc. as well as for the product viz. performance audit reports and the outcome (value addition) of performance audit(s). Most of them are under consolidation with help of supplementary guidelines on ‘quality management framework of performance audit’, various ‘assurance memo forms’ and ‘value-addition –estimation and evaluation’.

3. The standards for assessment of the performance audit reports have been grouped under (A) Content; (B) form; and (C) assurance memo for adherence to the Guidelines. Some of the parameters may not be relevant for certain types of performance audits (for example, revenue audit), which may be ignored as ‘not applicable’ or explained; as the case may be. Flow chart (s), if not made for the performance audits undertaken hitherto, may be used in future.

4. It has been decided that all performance audit reports will be put up to C&AG by the report controlling wings in the headquarters office for approval along with the checklist-duly filled in and reasons for deviations, if any, on the file.

It is requested that acknowledgment of this letter along with the enclosure consisting of six pages be confirmed on e-mail address senP@cag.gov.in/ojhaak@cag.gov.in or through fax.

Yours faithfully

Encl: As above

Sd/-
(A.K. Thakur)
Director General (PA)

Copy (along with enclosure):

PD(SCS), PD (RS), PD(INDT), PD(RC), PD (Railways), PD (Comml), PD (AB), PD (DT), Director (R.A. Wing), AC (C) , Director (PRI Audit), Director (DT-I), Director (RS), Director (DT-II), Director (CX), Director (SRA), Director (Customs), Deputy Director (CS-II).

Sd/
Director General (PA)

Copy for information (along with enclosure)
Directors General, NAAA & iCISA/PDs(RTI)

Director General(PA)

Copy(along with enclosure) for kind information
DAI (C) /ADAI (RC)/ADAI (RS)/ADAI (C&SCS)/ADAI(RA)

Director General (PA)

RECOMMENDATIONS OF XXIII ACCOUNTANTS GENERAL
CONFERENCE
20-22 SEPTEMBER 2005

GROUP -I

Sub-theme (ii) Implementing performance audit guidelines Performance Audit

1. Development of audit criteria

- ❖ Broad audit criteria based on performance indicators need to be developed upfront.
- ❖ For this purpose, groups should be constituted at the headquarters level by associating field AsG and persons experienced in the formulation, implementation and evaluation of governmental schemes sector-wise both from within the Government and outside.
- ❖ Based on such broad criteria, individual offices could develop more detailed or refined criteria taking into account regional or schematic/programmatic specifics once a particular topic is selected.
- ❖ Audit criteria developed by field offices could be shared with other field offices perhaps through the department's intranet.

2. Definition of parameters

- ❖ Performance audit is not a random assortment of various financial and regularity audit findings but a comprehensive assessment of the economy, efficiency and effectiveness of an activity.
- ❖ It may not always be possible to pre-define conclusively the parameters of Performance Audit.
- ❖ Once guidelines including Issue Analysis and Study Design Matrix are prepared by the field office and approved by headquarters, the field offices should be allowed complete flexibility to accommodate relevant aspects which may come to light during the course of the audit exercise.
- ❖ There could be a peer assessment mechanism involving not only departmental officers but also outside experts and /or representatives

from other concerned branches of government to appraise an ongoing performance audit both midway so as to indicative correctives as well as its conclusion to assess its findings.

Techniques of evidence gathering

- ❖ Performance audits require evidence gathering beyond mere scrutiny of records and documents. Techniques of impact evaluation, beneficiary surveys, physical inspection and expert guidance may be encouraged to arrive at a realistic assessment.
- ❖ It may thus be necessary to engage outside experts or consultants to assist the audit exercise depending on the subject chosen for the audit appraisal. There may be need for agencies to conduct surveys to collect supporting data to assess beneficiary impact.

Simplification of procedures

- ❖ As the level of documentation required in a performance audit process may be something new for our audit parties, it is necessary that procedure are introduced keeping in view their capacities to understand, absorb and implement them.
- ❖ It is also essential that assessments of performance audit are based not just on theoretical precepts but take full cognizance of actual operational environment.
- ❖ Procedures and documentation prescribed for the purpose of assessment of Performance Audit need to be simplified. Issue analysis and design matrices should be kept simple and the checklist prescribed should be kept to the minimum necessary to gain an assurance as to the quality, credibility and sustainability of the audit findings.
- ❖ It could be left to the field AG to assess the quality of the performance audit conducted with reference to the check list. It need not be reported to Headquarters.
- ❖ At this stage, there is no need for any further guidelines. The existing Performance Audit Guidelines are comprehensive enough and serve the intended purpose. The need today is for the audit parties to internalize the guidelines in their functioning.

Interaction with Auditee

- ❖ To enable an effective performance audit, it is necessary to ensure production of records
- ❖ MOS Finance in his inaugural address stated that the Finance Ministry is open to addressing any limitations in the rules and procedures for securing compliance to C&AG's Audit para or to his request for documents and information.
- ❖ We could propose amendment of the C&AG's (DPC) Act to prescribing a time frame for production of records and information requisitioned by audit.

- ❖ We may take up with Government the issue of non-production of records by departmental authorities. Such non-production amounts to a violation of statutory provisions and should constitute an actionable offence under the Conduct Rules. v Regular interaction should be organized by field offices with the higher executive with the participation of headquarters to sensitize them as to requirements of performance audit.
- ❖ Compliance to audit observations should also constitute a parameter for annual appraisals of all expenditure incurring and revenue collecting authorities.

Reporting of Performance Audit

- ❖ Each and every performance audit need not necessarily be a stand alone report. This should depend upon the volume of material and the contemporary relevance or importance of the topic.

Allocation of time for Performance Audit

- ❖ It may not be feasible to devote 50 per cent of audit time to performance audits. However, as we shift to CO-wise audit from DDO audit, the emphasis would in any case be more on overall appraisals rather than on detection of individual aberration.
- ❖ The number of performance audits to be taken up should be decided on the basis of availability of trained manpower and time and increase gradually as requisite resources become available.
- ❖ Timing of the All India performance audits need to be tailored into with the Audit Plans as well as time schedule of finalization of State Audit Reports. They have to be decided and guidelines approved well in time.

Pursuance of findings of performance audits

- ❖ Through organized inter-actions with Chairpersons of PACs/COPUs, we should attempt to see that performance audits are discussed on priority basis.
- ❖ Copies of performance audit reports could be sent demi-officially to the Chief Minister, Finance Minister and the Minister of administrative department concerned so as to bring the audit findings to their personal attention.

Training of personnel

- ❖ Training efforts should be linked with actual taking up of performance audits. Workshops on conduct of performance audits could be organized as a prelude to the taking up of a particular performance audit
- ❖ Training exercise should not be in isolation but be linked to the taking up of performance audits.

Encouraging good Performance Audits

- ❖ Quality standards should be recognized and the performance audits which are well done and meet quality standards audit party concerned applauded. The audit party could be recognized by headquarters on the recommendations of Pr. AG/AG concerned.
- ❖ Personnel management practices should be such as to send clear messages that while good work will be recognized, failure to discharge assigned responsibilities may attract deterrent administrative or disciplinary action.

GLOSSARY OF ABBREVIATIONS

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| AGCWM | Accountant General, Commerce, Works & Miscellaneous |
| CSS | Centrally Sponsored Scheme |
| ECPA | Efficiency-cum-Performance Audit |
| MPLAD | Member of Parliament Local Area Development Scheme |
| NHAI | National Highways Authority of India |
| PSU | Public Sector Undertaking |
| RTIs | Regional Training Institutes |
| VFM | Value for Money |