

## **FMM 05.12 Audit Findings and Developing Recommendations**

### **12.1 Introduction**

Audit findings form the central result of internal audit work. They present what was discovered, how it differs from expectations, what risks arise, and what action should be taken. The development of findings must be grounded in evidence, tested against valid criteria, and framed in a way that drives positive change.

A poorly formed finding may be ignored. A well-framed one can trigger meaningful reform.

### **12.2 Mandated Policy**

#### **1. Internal audit units must:**

- a. Prepare findings in a consistent format grounded in audit evidence and criteria.**
- b. Use the 5-element method to structure audit findings (Criteria, Condition, Cause, Effect, Recommendation).**
- c. Rate the impact and risk of each finding.**
- d. Engage with management to verify factual accuracy and context prior to reporting.**

### **12.3 Non-mandatory Guidance**

#### **12.3.1 Communicating Findings**

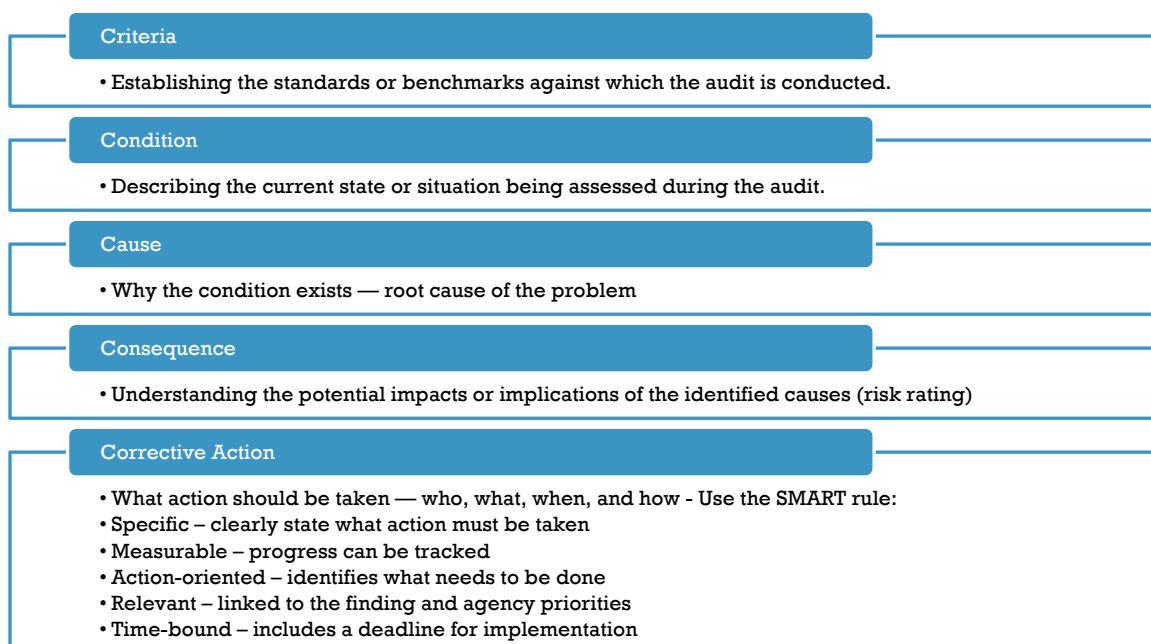
Audit observations and evidence are compared with the audit criteria and the difference is an audit finding. Findings of performance exceeding the criteria are good practice findings; these should also be reported. For example, in addition to the regular bank reconciliations, the cash operation area may prepare daily cashflows/reports of available cash to management.

The development and evaluation of audit findings take place throughout the various phases on an audit.

They may start at the planning stage as matters of potential significance. Potential findings identified during the audit planning are followed up on in the field work phase.

The detailed evaluation of audit findings is generally completed during the preparation of working papers/issues papers for distinct segments of audit work or near the completion of the audit field work. However, some evaluation may extend into the reporting phase, as findings are challenged and further evidence is obtained.

It is at the reporting stage that a final decision is reached of the findings and recommendations that will be reported.



Once an audit finding has been identified, two complementary forms of assessment take place - the assessment of significance of the finding and the determination of the causes of increased performance or lack of performance where performance is below that expected.

The auditor should identify the cause of the finding, as this forms the basis for the recommendation. The cause is that which, if changed, would prevent similar findings. The cause may be outside the control of the operational area under audit review, in which case the recommendation should direct attention

outside the operational area. This factor should also be taken into consideration while developing the timeline for reporting.

The effect of a finding may be quantifiable. For example KXOXO of claims were not approved by the correct delegate.

The effect should demonstrate the need for corrective action. The effect and also have occurred in the past, be occurring now or possibly occur in the future. To make a finding stand, be certain that, if the effect occurred in the past, the situation has not already been remedied to prevent it recurring.

The auditor may identify a cause-and-effect chain and have the option of reporting the findings at different points in the chain. In this situation the auditor should focus on the most critical deficiency in the chain. For example, claims are not approved by an appropriate delegate, there is no register of quotation and the supporting documentation is missing. The development of audit findings and the formulation of recommendations for improvement in administrative or operational performance are the important feature of the internal audits.

The recommendations made by internal audit have to be argued in a logical fashion. Some recommendations are based on unfavourable finding; other refer to wider employment of better practice. Detailed directions to the operational area are generally not appropriate, but the recommendation should indicate broadly what issues might be examined by management in seeking solutions. It is not sufficient that the management of a particular operational area requires improvement without indicating options for consideration in achieving this.

Recommendations require careful review to ensure that they are practicable and add value. The auditor should check, for example, that the recommendation addresses the objectives of the audit; i.e. efficiency, economy, administrative effectiveness or accountability as appropriate. A good test for the auditor is to consider how the recommendation would be followed up. How would we test whether the recommendation has been implemented? Are there specific actions that the operational area can undertake which can satisfy the recommendation?

When formulating recommendations, the auditor should estimate where possible the likely net savings arising from the recommendations. In this way the 'value added' of the audit and the benefits of internal audit will be identified. Without such estimates, implementation of change is much less likely.

### 12.3.2 Reporting of Findings

Findings must be presented to the operational area management for comment as they arise. In this way operational area responses can be documented and analysed. Where the operational areas disagree with the audit findings and recommendations, the reasons for such disagreement are fully analysed.

Before finalising findings:

- Discuss them with the operational area
- Invite feedback, context, or explanations
- Adjust only where factual errors are confirmed — not based on discomfort or disagreement

Engagement enhances acceptance. Do not weaken findings unless evidence supports it.

Each finding must be traceable to:

- A specific test or observation
- A document, interview, or calculation
- A working paper reference

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