

CHAPTER VII INTERNAL CONTROLS AND INTERNAL AUDIT

7.1 Internal controls

Internal controls are intended to provide reasonable assurance of orderly, efficient and effective operations, safeguarding resources against irregularities, adhering to laws, regulations and management directives and developing and maintaining reliable data. Effective internal control system both in the manual as well as computerised environments are a pre-requisite for the efficient functioning of any department. We noticed the following deficiencies in the internal control mechanism.

7.1.1 Maintenance of registers in the Commercial Tax Offices

We noticed that the commercial tax circles were not maintaining any records to monitor the filing of the return/revised return, rejection of the return etc., due to lack of mandatory provisions, as commented in paragraphs 3.5 and 5.1.2.1. They are also not recording, issue of notice for best judgment assessments and its follow up. The details of the total turnover, taxable turnover, out put tax, ITC, tax payable/creditable etc., of a dealer can only be retrieved from the assessment records which are not kept systematically in the circles. There is no record similar to the assessment register under the KGST to record such details.

7.1.2 Improper maintenance of files

We found the following deficiencies at special circle, Thiruvananthapuram.

- Monthly/quarterly returns, annual returns, form 13 A and P&L account were not found in any of the files produced to us. The office did not maintain any record to ascertain whether the dealers filed these documents or not. Also, there was no record to show whether a dealer had filed any revised return.
- Though we called for all the files pertaining to refunds made during the review period, the office could make available only three files. Of these, form 13 A and P&L account were available only in one of the files.

The above deficiencies point towards lack of a system for recording the receipt of the return from a dealer and systematic maintenance of the return and connected enclosures.

We recommend that the Government may consider issuing early direction for proper maintenance of basic records in the circles.

7.1.3 Provisions for compilation of reports/returns received from circles and submission to the Commissioner for monitoring

As per the circular of the CCT in September 2005, the DC in-charge of the district and the DC (AA) is required to submit to the CCT monthly diary of performance of each officer under them before 10th of every month. The diary of the DC is to include the details regarding the issue of registrations to TIN, PIN, compounded tax and casual dealers, details of collection under VAT, demand, collection and balance under VAT containing both old and current/stages of arrears, details of return scrutiny etc. The diary submitted by the DC (AA) is to show the details of audit of monthly/quarterly return, audit of refund cases, audit visit and internal audit of KGST files etc.

We found that there was no system in the commissionerate for consolidation of the returns received from the field offices. Also, whenever we sought any information, they forwarded our demand to the DCs who in turn had to collect it from their subordinate officers. As such, it can be inferred that the monthly diaries were not serving the intended purpose of monitoring the progress achieved in the activities assigned to each wing. However, at present the performance of the AAs are monitored daily by DC (A&I), DC (IA) etc., and the consolidated reports are available in KVATIS software. But, the database does not cover the information relating to the period prior to introduction of e-filing which the Government needs to look into. Also, we are yet to verify the correctness of the MIS reports generated from the KVATIS.

7.2 Internal audit

Internal audit is one of the most vital tools of the internal control mechanism and functions as the 'eyes' and 'ears' of the management and evaluates the efficiency and effectiveness of the mechanism. It also independently appraises whether the activities of the organisation/department are being conducted efficiently and effectively.

7.2.1 Existence of internal audit

As per the circulars of CCT in September and November 2005, the department had dispensed with the internal audit wing. However, they have entrusted audit of assessments completed under the KGST, KVAT and CST Act to the audit assessment wing. The CCT also directed that a group of CTOs headed by the AC (AA) should audit each and every file with reference to connected registers. The DC (AA) should inspect the sub-offices of all the wings of the department including the check post and conduct the concurrent audit of the assessments.

We are of the opinion that an internal audit wing is required to inspect the entire departmental activities including the assessments conducted by various officers. Hence, by dispensing the internal audit wing, the department has restricted the scope to detect anomalies/irregularities in the department some of which had been pointed out in this review.

We recommend that the Department may ensure periodic internal audit of the entire departmental activities to reduce the loopholes and lacunae in the system and for rectifying them.

The Government stated that at present Audit Wing of the department is strengthened by four ACs and five CTOs under the supervision of DC (Internal Audit).