

Executive Summary

Internal control system encompasses the policies and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, orderly and efficient conduct of business, including adherence to management policies, safeguarding of assets, prevention and detection of fraud and error, accuracy and completeness of the accounting records, executing orderly, ethical, economical, efficient and effective operations.

The massive size and scale of Government operations call for effective internal controls over its operations. Internal controls help strengthen public accountability of Government and help balance the competing demands of delivering responsive and quality services to the community whilst recognizing fiduciary responsibilities and maintaining standards of probity, prudence and ethics. Internal Controls are, therefore, closely aligned with good governance. The existence of internal controls and risk management framework and its vibrant and honest operationalization can lead to better service delivery, more efficient use of resources, better project management and promote innovation.

During the course of regular transaction audit through test check of 15¹ departments (out of a total of 49 departments), number of cases were noticed which raises question on the adequacy and effectiveness of the internal control systems existing in these departments. An audit analysis revealed serious inadequacies impacting the financial discipline in the departments. These deficiencies noticed were due to both overt and covert disregard for compliance of the internal control systems as prescribed in the Laws, Rules, Codes and Manuals guiding the operations of the Government departments. Ineffective internal audit coupled with lack of effectual monitoring by the Controlling Officers and Drawing and Disbursing Officers to oversee that the intended objectives of the controls in place were met through diligent discharge of their duties and responsibilities, aggravated the risk of misappropriation.

There were violations of the Government's policies and its Acts, Rules, Statutes and Regulations which resulted in misappropriation, defalcation and waste of Government funds. Absence of proper documentations and evidencing of transactions involving large sums of money, controls relating to handling of cash were rendered ineffective, as the prescribed control measures were being overlooked. Often, accountability was not being fixed. Execution of the works in total disregard of the operational controls viz. an orderly, ethical, economical, efficient and effective manner led to wasteful and excess expenditure including loss of Government funds. Public resources were not being conscientiously safeguarded against loss and misappropriations by the Controlling Officers and Heads of the Offices.

Significant issues highlighting the failure of the departmental functionaries and Heads of Offices/departments to exercise effective controls are summed up as under:

¹ (1) Animal Husbandry and Veterinary Department, (2) Commerce and Industries, (3) Dairy Development, (4) Education, (5) General Administration, (6) Health and Family Welfare, (7) Home, (8) Irrigation, (9) Panchayat and Rural Development, (10) Power, (11) Public Health Engineering, (12) Public Works, (13) Revenue (General), (14) Revenue (Reforms) and Disaster Management, (15) Urban Development

- Despite elaborate and explicit provisions in the General Financial Rules (GFR); Assam Financial Rules (AFR); Assam Treasury Rules (ATR) and Subsidiary Orders for effective cash management, violation of codal provisions resulted in misappropriation/suspected misappropriation/embezzlement/ double payment/ doubtful payment.
- Failure to physically ensure the actual receipt of materials by the departmental authorities resulting in fraudulent payment against fictitious certificates of receipt of materials.
- Weak system for ensuring statutory deductions from pay bills exercised by the Head of the Office/DDO.
- Weakening of internal controls for checking the nature of claim, amount claimed, correctness of claim, period of claim, expenditure sanction etc, over the proof of payment.
- Non-adherence to controls prescribed to safeguard the resources by ensuring that no departmental receipts are kept out of government accounts and used for meeting its own expenses without authorization, resulting in incorrect reflection of Government revenue and expenditure.
- Issuing supply order without budget provision by Departmental authorities resulting in avoidable expenditure and showing fictitious utilization of material indicating failure of operational controls and raising doubts of business ethics of the executing authority.
- Payment without work to contractor; payment against unauthorized and improper recordings in the measurement book; and payment for a work relating to non-existent part of the asset resulting in fictitious payments.
- Huge pendency in submission of Detailed Countersigned Contingency bills in respect of Abstract Contingency (AC) bills in violation of Contingency Manual is fraught with the risk of misappropriation.
- Huge funds were drawn on last day of the financial year and kept in 'Civil Deposit' to avoid lapse of budget grant. Funds were drawn in advance of requirements and retention for long periods in the form of DCR/Banker's cheques/Bank drafts/Cash.
- Utilisation Certificates amounting to ₹5,769.83 crore in 16,760 cases pending for submission as on 31 March 2010.

Recommendations

- In view of the weakened internal controls resulting in instances of missing assets/inventory, pilfering, inflated claims, double payments, false claims, payroll fraud in various State Departments; the Government should urgently asses the risk associated with these controls to ensure the efficacy of internal control system.

- The Government needs to review the existing control mechanism prevalent in its departments to remove the flaws in design, errors of judgment or interpretation, misunderstanding, carelessness, fatigue, distraction, collusion, abuse or override.
- Organizational changes and management attitude can have a profound impact on the effectiveness of internal control and the personnel operating the system. Therefore the higher management (Chief Controlling Officers/Heads of Departments) needs to continually review and update controls and communicate the changes to personnel. Monitoring mechanism and operational controls should be strengthened and accountability fixed promptly for failure to exercise controls leading to frauds, loss to exchequer and pilferage etc.
- A close and rigorous oversight mechanism should be put in place to adjust the Abstract Contingent Bills within the prescribed time schedule from the date of drawal of the amount. No AC bills should be allowed to be drawn till settlement of earlier outstanding bills.
- Internal Audit wings should be established in all the Government Departments so as to provide assurance for adequacy of control systems.