

CHAPTER V

INTERNAL CONTROL MECHANISM AND INTERNAL AUDIT

SOCIAL WELFARE (TRIBAL WELFARE)/ LABOUR, EMPLOYMENT, TRAINING AND FACTORIES/ REVENUE (Commercial Taxes) DEPARTMENTS

5.1 Evaluation of internal audit system in Government departments

5.1.1 Introduction

Internal Control is an integral part of an organisation's operations and is the principal focus of the Internal Audit's attention. Internal audit system of the department aims to safeguard against errors, prevent the occurrence of irregularities in operational and financial matters besides ensuring sound accounting and financial reporting.

Unlike statutory audit, internal audit is not independent of the management control. Hence, debilities in internal control system would have to be seen as debilities in the administrative accountability structure. Greater effectiveness of internal audit by implication would ensure greater efficiency of Administration systems and procedure would be corrected on an ongoing basis providing a concurrent support system of administration. In response to the growing concerns of the society at large in regard to the debilities of internal control system in governance structure, increasing attention is being paid by Audit to the efficacy of the internal control system.

In the State, Internal audit existed only in 40 out of 87 Commissionerates/Directorates under the 28 administrative departments.

It has been considered useful to evaluate effectiveness of internal control system of one or two Government Departments every year. Review of internal audit arrangement in the Directorates of 'Tribal Welfare', 'Insurance Medical Services' and 'Commissionerate of Commercial Taxes' was taken up as the first step in this chain.

5.1.2 Organisational set up

The Director of Tribal Welfare is assisted by one Accounts Officer supported by four Junior Accounts Officers (JAOs) for internal audit of the Department. The Director, Insurance Medical Services is assisted by an Audit Officer supported by three Superintendents and five Senior Accountants for conducting internal audit of the Department. Internal audit of Commercial Taxes Department (21 divisions and 182 circles under the divisions) is conducted by the Assistant Commissioner (Audit) under the supervision of the Joint Commissioner (Audit). Concurrent audit of the Department, focused on record keeping and remittance of revenue, etc., is conducted after every six months.

While the Accounts personnel of Tribal Welfare were deputed from Treasuries and Accounts Department, in respect of Insurance Medical Services Directorate they were from their own Department.

5.1.3 Audit coverage

The functioning of the internal audit system arrangements were reviewed in the Directorates of Tribal Welfare¹ and Insurance Medical Services² by test-check of the records in the State Secretariat and in the respective Directorates for the period 1998-2003. In Commercial Taxes Department audit coverage was for 1999-2002. The results of the review are mentioned in the succeeding paragraphs.

5.1.4 Absence of relevant provisions in Departmental Manuals for Internal Audit

No standards set by Government for internal audit

Departmental Manuals and Functionary Manuals did not contain any provisions regarding internal audit of the department. No internal auditing standards have been issued by the Government. Internal Audit in the departments was conducted based on the Financial/Treasury codes and Government Orders issued on financial and administrative matters. This indicated absence of serious concern over the vital aspect of internal audit.

¹ Expenditure per year ranged from Rs 189.06 crore (1999-2000) to Rs 337.23 crore (2001-02)

² Expenditure per year ranged from Rs 38.19 crore (1998-99) to Rs 53.19 crore (2001-02)

5.1.5 Staffing pattern

(i) The men-in-position vis-à-vis sanctioned strength in the Directorates as of March 2003 was as follows:

Name of the post	Tribal Welfare		Insurance Medical Services	
	Sanctioned posts	Posts filled in	Sanctioned posts	Posts filled in
Audit Officer/Accounts Officer	-	1	1	1
Superintendents (JAO)	5	4	3	3
Senior Accountants/ Assistants	6	-	5	5
Junior Accountants/ Assistants	-	-	3	-

Internal audit staff were used for other office works

(a) In Tribal Welfare Department though the posts of Senior Accountants were vacant since 2000-01, proposal for filling up of the posts were sent by the Director only in April 2002. Government sanction was awaited (September 2003). Even the services of JAOs earmarked for internal audit were diverted for other office works. As a result, internal audit of the subordinate offices was not at all conducted during 1998-2003 (except 2001-02).

(b) In Insurance Medical Services Directorate, the posts of Junior Accountants were vacant since 2000-01. Even the existing staff were diverted for other works during 1998-2003.

(ii) In Commercial Taxes Department 13 posts of Assistant Commissioner (Audit) and six posts of Commercial Tax Officer (Audit) were lying vacant.

Vacancies in the Internal Audit Wings and diversion of the internal audit staff to other works resulted in large arrears in internal audit in the Directorates/Commissionerate.

5.1.6 Non-maintenance/improper maintenance of watch registers

Watch registers not maintained in the two Directorates

In order to conduct internal audit effectively, watch registers, viz., (a) register of internal audit planning, periodicity and programmes (b) register of internal audit reports/paras issued and to watch receipt of replies and (c) register to watch various periodical returns relating to Budget proposal, surrender of funds, reappropriation and supplementary grants to be submitted to Directorate by their subordinate offices and by the Directorate to Government were required to be maintained.

Scrutiny revealed that the watch registers for internal audit planning and periodical returns, were not maintained in the two Directorates. In Tribal Welfare Department, watch registers for internal audit reports/paras though existed, the entries therein were not attested and checked by the higher authorities.

Due to non-maintenance/improper maintenance of the registers/returns, monitoring of audit effort would not have been possible. There was no assurance about the timely completion of the internal audit programmed for the year.

5.1.7 Huge arrears in internal audit

There were huge arrears in internal audit in the two Directorates as detailed below:

Year	Tribal Welfare			Insurance Medical Services		
	To be Audited	Audited	Percentage of shortfall	To be Audited	Audited	Percentage of shortfall
	Number of Units			Number of Units		
1998-99	32	-	100	150	20	87
1999-2000	32	-	100	150	39	74
2000-01	32	-	100	150	5	97
2001-02	32	4	88	150	23	85
2002-03	32	-	100	150	16	89
Total					103	

Only four units in Tribal Welfare Department audited in five years

In Tribal Welfare Department, internal audit was not at all conducted during 1998-2003 (except in 2001-02 where only four out of 32 units were audited) resulting in huge arrears. Scrutiny of three out of four internal audit reports issued during 2001-02 for the periods relating to 1994-2001, revealed apart from routine audit observations, certain serious financial irregularities such as non-remittance of beneficiary contribution (Rs 1.46 lakh) by Agriculture Officers under Seed distribution programme, non-remittance of unspent Demand Drafts under mid-day meals scheme (Rs 1.45 lakh), unauthorised diversion of schemes funds including Special Central assistance, non-adjustment of advances (Rs 17.39 crore) for long periods, non-recovery of beneficiaries contribution under energisation programme (Rs 1.12 lakh), excess expenditure on maintenance of Ashram schools/hostels (Rs 31.70 lakh), etc. Had the internal audit been conducted annually these irregularities would have surfaced early and remedial action could have been taken. In Insurance Medical Services Directorate, out of 150 to be audited, 111 to 145 units escaped internal audit every year. In Commercial Taxes Department, shortfall in annual audit ranged from 5.5 to 30 per cent during 1999-2002. No Internal audit mechanism existed in the Secretariat Departments.

The Directors of Tribal Welfare and Insurance Medical Services attributed huge arrears in internal audit to administrative reasons and insufficient Budget provision for TA respectively.

5.1.8 Huge pendency in Internal Audit Reports and Paras

Large number of internal audit reports/paras were outstanding

Internal audit reports were to be issued to auditee units for carrying out remedial action. The Units were to submit the compliance reports promptly. Heads of Departments were to pursue the pending paras. It was observed that in both the Directorates, a large number of Internal Audit Reports/Paras were outstanding as of March 2003 as detailed below. In Commercial Taxes Department, opening/closing balance of the pending IRs and paras were not furnished to Audit.

Year	Inspection Reports			Paragraphs		
	Issued	Cleared	Outstanding	Issued	Cleared	Outstanding
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Tribal Welfare						
Up to 1997-98	103	1	102	1972	164	1808
1998-99	No audit was conducted					
1999-2000						
2000-01						
2001-02	4	-	4	51	6	45
2002-03	No audit was conducted					
Total	107	1	106	2023	170	1853
Insurance Medical Services						
Up to 1997-98			Nil			Nil
1998-99	20	19	1	NA	NA	7
1999-2000	39	36	3	NA	NA	18
2000-01	5	5	---	NA	NA	---
2001-02	23	15	8	NA	NA	12
2002-03	19	6	13	NA	NA	81
Total	106	81	25			118
Commercial Taxes Department						
1999-2000	172	122	50	1986	1350	636
2000-01	134	77	57	1238	868	370
2001-02	127	49	78	1324	569	755
2002-03	Information not furnished to Audit					

NA : Not Available

The pace of settlement of the Audit Reports/Paragraphs in Tribal Welfare department was very slow while in the Directorate of Insurance Medical Services, details regarding the number of paras issued and their settlement were not available with the Internal Audit Officer. The shortfall in Commercial Taxes Department was attributed to shortage of staff.

There was no proper mechanism in these Directorates to ensure timely rectification of the deficiencies pointed out in the internal audit reports.

5.1.9 Special Audits conducted by the Internal Audit wing

A special audit was conducted (December 2002) by the internal audit wing (IAW) of the Directorate of Tribal Welfare on a complaint about mis-appropriation of funds reported by the Project Officer, ITDA, Eturunagaram (Warangal District). The report was issued by the Director of Tribal Welfare in December 2002 confirming the misappropriations of Rs 20.35 lakh during 1999-2001. The persons were identified and responsibility fixed. Action taken by the Project Officer, ITDA was awaited (September 2003). The misappropriation could have been avoided had the Directorate conducted the internal audit regularly.

5.1.10 Conclusions

Government failed to recognize the importance of Internal Audit and its efficacy on the performance of the executive. No internal auditing standards have been issued by the Government. The Directors of Tribal Welfare and Insurance Medical Services as well as the Commissioner of Commercial Taxes ignored the key aspect of internal audit as evidenced from lack of audit planning/programming and diversion of internal audit staff to other works. The usefulness of the audit effort to the organisation can be gauged by the action taken as a result of the audit reports. Huge pendency in clearance of paras, indicated that the internal audit was inadequate and ineffective in both the Directorates/Commissionerate.

5.1.11 Recommendations

- Government need to review the internal audit arrangements in all the departments, set the internal auditing standards and ensure strict compliance of these by all the departments for ensuring sound accounting and financial reporting.
- A mid-term audit plan along with annual action plan should be prepared so as to cover each functional unit in a span of 3-5 years based on risk analysis done, importance of the programmes/ schemes and periodicity of audits to be undertaken.
- The IAW should normally report to the Head of the Department so as to ensure speedy action on the internal audit findings.
- The vacant posts in IAWs should be filled in to strengthen the Wings and the personnel should be imparted adequate training for upgradation of their skills.

The Secretary, Tribal Welfare (TW) stated (November 2003) that necessary steps were being taken on the points raised by Audit and the internal audit system is being strengthened. Reply has not been received (November 2003) from the Government in respect of Insurance Medical Services Department.

**Hyderabad
The**

**(C. V. AVADHANI)
Principal Accountant General (Audit I)
Andhra Pradesh**

Countersigned

**New Delhi
The**

**(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India**