

CHAPTER – IX

INTERNAL CONTROL/INTERNAL AUDIT

SECTION-A – REVIEW

FINANCE DEPARTMENT/DIRECTORATE OF AUDIT & PENSION/DIRECTORATE OF ACCOUNTS & TREASURIES

9.1 Internal control/internal audit system in Arunachal Pradesh

9.1.1 Introduction

Internal audit is an independent appraisal of the activities within the organisation for review of accounting, financial and other business practices and it works as a protective and constructive arm of the management. It evaluates the sufficiency and effectiveness of other types of internal controls. Internal audit works as the ‘eyes and ears’ of the management.

For effective management and internal control, the Finance Department in October 1985 created the Directorate of Accounts and assigned Director and his staff, the job of internal audit. His jurisdiction extends over all Government departments and their branches in the State. Subsequently in June 1999, the Directorate was bifurcated into Directorate of Accounts & Treasuries and Directorate of Audit & Pension. The latter was given the responsibility of conducting internal audit besides the payment of pension, group insurance scheme, *etc.* The charter of duties and responsibilities assigned to internal audit requires it :

- to inspect the accounts of all the DDOs, grants-in-aid institutions, *panchayat raj* and CPOs located in districts and suggest ways and means to improve the working procedure, and effectively pursue the Inspection Reports issued to heads of offices;
- to assist DDOs in preparation of draft replies to external auditor (Accountant General) and help in settlement of outstanding audit objections;
- to ensure that rules and orders issued by the Government are being followed by the DDOs and bring to the notice of the higher authorities any serious irregularities, losses of cash/stores *etc.*, detected during their inspection; and
- to bring to the notice of the authorities any working system prevalent in any office which may invite audit objection in future.

9.1.2 Audit coverage

Test check of records maintained by the Director of Accounts and Treasuries, Director of Audit & Pension and Finance Department of State during September 2003 revealed the following:

9.1.3 Structure of the Government

The Government of Arunachal Pradesh comprises 57 heads of departments (HOD) under the control of 42 administrative departments.

9.1.4 Manpower

The men-in-position for internal audit system and internal control management as of August 2003 against sanctioned strengths and their deployment are as follows:

9.1.5 Internal audit arrangement

Table 9.1

Posts	Sanctioned strength	Men-in-position	Deployment
Assistant Audit Officer (AAO)	22	22	12 AAOs in 10 districts of Tawang, Bomdila, Seppa, Ziro, Daporijo, Along, Pasighat, Anini, Tezu, Changlang and Khonsa. 9 in the Directorate (Audit & Pension) remaining 1 in STS, Naharlagun.
Assistant Auditor (AA)	15	8	6 in 6 district (Bomdila, Seppa, Along, Pasighat, Tezu and Changlang) and remaining 2 in the Directorate.

Source : Department

Out of 22 AAOs, services of 12 AAOs are placed in 10 out of 15 districts for conducting audit of the departmental offices in the concerned districts. Thus, there are no IA staff in the remaining five districts. Out of 15 posts of AAs, seven (47 per cent) are vacant. Out of these eight AAs, six have been placed in six districts and thus nine districts (60 per cent) are without any AAs. Eight AAOs and two AAs are in the Directorate for regular checking of initial pay statement, etc., and also to cover offices under Papumpare district as and when a request is made by any office/department.

9.1.6 Internal control system

Table 9.2

Sl. No.	Posts	Sanctioned Strength	Men-in-position	Deployment
1.	Financial Advisor	1	1	Finance department contract basis (fixed pay)
2.	Financial Consultant	1	1	-do-
3.	Directors	2	2	In the individual Directorate of (i) Audit & Pension (ii) Accounts and Treasuries
4.	Joint Directors	2	1	In the Directorate of Audit & Pension
5.	Sr. Finance and Accounts Officer	5	4	Deployed under CE, PWD (E/2), CE, PWD (W/8) CE, RWD and CE (Power)
6.	Finance Accounts Officer	59	40	12 in Treasuries as TO, 14 in DC's office, 14 in the Directorate and others.

Source : Department

9.1.7 Independence of internal audit

For an effective IA system it is mandatory that the functional independence of the group has to be ensured so that it is able to function in an objective manner. It should report to and work under the direct control of the head of the organisation. Functional independence also ensures that IA acts as the eyes and ears of the head of the organisation.

According to the prevalent administrative arrangement audits are taken up with the prior approval of the respective DCs and not the head of the IA organisation. The performance of the AAs is also monitored by the DCs at district level offices. The DCs also act as the Reporting Officers for writing of Annual Confidential Reports (ACRs) of IA staff, thus compromising the independence of IA staff.

9.1.8 Auditing standards

To ensure quality audit, auditing organisations frame either their own auditing standards or adopt some accepted auditing standards. The work done by the auditors should continuously be compared to the adopted standards. It was noticed in audit that the Directorate had neither framed nor adopted any auditing standards and no internal audit manual had so far been brought out by the Directorate/Government and the internal auditors are still following the instructions issued in 1971 for conducting audit.

9.1.9 Audit planning

It is accepted that for efficient and optimum utilisation of the limited manpower and financial resources, audit planning is required to be done every year. This ensures coverage of all required units over a period of time, prioritisation of auditee organisations in audit according to need, finalisation of time schedule for audit, distribution of audit resources among various audit aspects, *etc.* Audit planning includes creating financial and functional profile of the auditee organisations, capturing their main activities in terms of finance and objective of the department, identifying important sources of revenue, assessment and distribution of audit manpower, *etc.* The audit plan leads to formation of an annual calendar of audit that contains targets in terms of number of offices to be audited, time schedule, *etc.*

It was noticed that the concept of audit planning is prevalent neither at the Directorate nor at district level. No targets in terms of number of units to be audited, financial value of audit observations, *etc.*, were found fixed. Audit is conducted only when a request is received or is desired by the DCs concerned.

9.1.10 Reporting, issuance and monitoring of inspection reports

It was noticed in audit that the Directorate had not fixed any time limit for issue of inspection reports, with the result remedial action if any to be taken might get delayed.

It was also seen that the audit was conducted both from Directorate as well as district level. The IAs at district level after conducting audit send a copy of the

inspection report to the Directorate for record and pursuance. But at the Directorate no records of such inspections reports and their details as well as progress register, objection book, monthly/quarterly report on settlement of old paragraphs were maintained. In the absence of these records follow-up action taken for pursuance of the inspection reports was neither on record nor could be made available to audit. The Directorate had no record to even ascertain the number of units audited during the last five years or objections raised and replies received, paragraphs settled, *etc.*

9.1.11 Training

Staff training is one of the important aspects of manpower development. It was noticed that internal auditors were given training only once on accounts for six months by the Administrative Training Institute at Naharlagun. No other training for improvement of the quality of the audit, adopting new auditing techniques, refresher course, *etc.*, was imparted. Even the training of six months on accounts was also not given to two out of 22 AAOs.

9.1.12 Failure of the internal control/internal audit system

The internal control/ internal audit system is an independent appraisal of the activities within the organisation for review of accounting, financial and other business practices. Though the system has been functioning from 1985 onwards the same has not gathered momentum in terms of financial management of the State. A few instances are given below:-

Supplementary provisions of Rs.304.49 crore obtained during 2002-03 proved unnecessary as the expenditure of Rs.1396.10 crore fell short of even the original budget of Rs.1405.33 crore. This indicated that estimates of expenditure prepared by the various department of the State for supplementary budget were defective and the internal control/internal audit arrangement run by the State failed to point out the defective preparation of the estimates of expenditure for supplementary budget.

Further, according to rules framed by Government, the spending departments are required to surrender the grants/appropriations or portion thereof to the Finance Department as and when the savings are anticipated. It is seen that out of the total savings of Rs.313.72 crore under 65 grants/appropriations during 2002-03, Rs.255.51 crore (81 *per cent*) in respect of 46 cases were not surrendered by the different Controlling Officers (COs) of the State. As a result, Finance Department was not able to re-allocate such savings to other departments.

This was indicative of ineffective monitoring and control over expenditure. Consequently, a large number of schemes remained incomplete for want of funds.

During the period from 1998-99 to 2000-01, 28 drawing and disbursing officers (DDOs) drew Rs.2.38 crore through 46 abstract contingent bills (AC bills) but detailed countersigned contingent bills (DCC bills) for the same had not been submitted to Accountant General (A&E), Shillong as of June 2003. These drawals remained unadjusted for periods ranging from two years to five

years though the rule provides that drawal in AC bills requires presentation of detailed countersigned contingent bills (DCC bills) to the Controlling Officers (COs) and transmission to the Accountant General along with a certificate to the effect that for every AC bill, DCC bills have been submitted to the CO in respect of all AC bills drawn more than a month after the date of that bill. Due to non-submission of DCC bills for the period ranging from two years to five years, the actual expenditure against these drawals remained unassessed by the Government which indicated a serious deficiency in control over expenditure.

9.1.13 Evaluation/conclusion

The internal control/internal audit system in the State needs to be substantially improved to fulfil its stated objective. Its control and independence is to be ensured, work has to be planned, additional and skilled staff needs to be provided, reporting and monitoring system need strengthening so that it can work as a better control tool that evaluates and reports on the efficiency and effectiveness of the functioning of various Government departments.

The matter was reported to Government/departments (September 2003); reply is awaited (September 2003).

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