

## **Chapter VI: Internal Control System in the Government**

### **Internal Control System in the Government of NCT of Delhi**

#### **6.1 Introduction**

An effective system of internal audit is essential to safeguard against errors, irregularities and wastages in functioning of departments and its subordinate formations. Greater effectiveness of internal audit often translates into greater efficiency and more effective utilization of resources by the administrative agencies. The Directorate of Internal Audit in the Department of Finance is responsible for internal audit in the Government of NCT of Delhi. The functioning of the Directorate was reviewed in the Report of the Comptroller & Auditor General of India relating to the Government of NCT of Delhi for the year ended March 2004. An evaluation of the effectiveness and efficiency of the internal audit procedures in the Directorate of Social Welfare and the functioning of the Directorate of Internal Audit was carried out this year. The findings are in the succeeding paragraphs.

#### **6.2 Internal control/ audit system in the Directorate of Social Welfare**

The Directorate of Social Welfare consists of a number of welfare institutions and administers a number of schemes aimed at upliftment and protection of socially disadvantaged and vulnerable sections of the society such as children in need of care and protection, juveniles in conflict with law, the physically disabled and mentally challenged, women in distress, beggars, old and infirm persons, etc. The Directorate functions under the overall control of the Secretary who is assisted by Director (Social Welfare), two Joint Directors and six Deputy Directors, one Planning officer, a Research Officer and other staff. It has ten district officers, 28 Child Development Project Officers (CDPOs) and 28 Superintendents as on 31 March 2005 for manning the various ashrams, homes, training cum production centers, blind schools, day care centers, crèches, rehabilitation centers for leprosy patients, medical care units and for providing nutrition to the needy persons and children.

The budget outlay and actual expenditure of the department for the last five years from 2000-01 to 2004-05 is as under:-

**Table 6.1: Budget Outlay and Actual Expenditure**

(Rupees in lakh)

Year	Budget Outlay	Actual expenditure	Savings(-)/Excess(+)
2000-01	4,699.00	3,867.32	(-) 831.68
2001-02	4,473.47	4,092.60	(-) 380.87
2002-03	4,117.46	4,202.18	(+) 84.72
2003-04	4,422.02	3,859.03	(-) 562.99
2004-05	4,437.27	2,998.75	(-) 1,438.52

The Directorate also provides grants-in-aid to 20 NGOs<sup>1</sup> under Plan and Non-Plan heads for discharging various welfare activities. The grants released during the last five years were as below:-

**Table 6.2: Grants-in-aid to various NGOs**

(Rupees in lakh)

Year	Plan	Non-Plan	Total
2000-01	8.60	134.99	143.59
2001-02	8.17	116.58	124.75
2002-03	--	129.08	129.08
2003-04	--	111.10	111.10
2004-05	--	90.57	90.57
<b>Total</b>	<b>16.77</b>	<b>582.32</b>	<b>599.09</b>

**6.2.1** The Directorate of Social Welfare falls within the audit jurisdiction of the Directorate of Internal Audit of the Department of Finance. The grants-in-aid to NGOs are audited by the Examiner Local Fund Accounts who is part of the Directorate of Internal Audit. As its internal auditors, it was the function of the Directorate of Internal Audit to examine and evaluate compliance to rules and regulations existing in the Directorate of Social Welfare and the adequacy of extant systems and procedures regarding accounting and financial matters. Out of the total 113 units under the Directorate, the Director of

<sup>1</sup> Non Government Organisations

Internal Audit has audited only 28 units during the last five years. However no audit has been conducted of the headquarters of Directorate of Social Welfare since 1994 and of 74 centers/homes/ institutions for over five years. An appraisal of the efficacy of internal audit in the department revealed lack of any internal controls in release of grants to NGOs as detailed below:

**6.2.1.1** Rule 7 of the Notification dated 20 September 1975 relating to release of grants-in-aid to NGOs envisages that the quantum of grants to institutions/organisations should be reviewed every third year and the quantum progressively reduced with a view to making the grantee institutions gradually self-sufficient. Such review was done only once in 2004-05 and a cut imposed. There was no periodic review as envisaged in the notification and the NGOs continued to remain dependent on government grants for their functioning.

**6.2.1.2** Rule 13 (iii) of the notification stipulates that the pay scales, qualifications and general terms and conditions of the appointment of staff in the NGOs shall be subject to the approval of Delhi Administration and appointment of staff should be made through approved channels. Further, a representative of the Directorate of the Social Welfare of the Delhi Government shall be co-opted on the staff selection committee. It further stipulates that no grant shall be payable in respect of additional staff, if any, appointed without the prior concurrence of the Delhi Administration in disregard of the prescribed procedure. However no effort was made to enforce this stipulation while releasing grants to NGOs. The department confirmed in October 2005 that NGOs had never informed the Directorate about selection and appointment of their staff and no member of the Directorate was ever nominated in an NGO's staff selection committee.

**6.2.1.3** Grant of Rs. 43.97 lakh during 2003-04 and Rs.44.37 lakh during 2004-05 were released to an NGO 'Prayas' without renewal of its Memorandum of Understanding (MOU) which expired on 1 January 2003.

**6.2.1.4** There was no register of grants to monitor receipt of statements of accounts, utilization certificates, unspent balances, etc. and to guard against the possibility of double payment of grant-in-aid as stipulated in the General Financial Rules.

**6.2.1.5** The Directorate remitted the following amounts under the old age pension scheme during the last five years through banks and post offices without any verification of the pensioners physical existence:

**Table 6.3: Remittances through Banks and Post Offices**

(Rupees in lakh)	
Year	Amount
2000-01	2,086.03
2001-02	2,836.00
2002-03	4,019.00
2003-04	4,919.21
2004-05	4,349.99
<b>Total</b>	<b>18,210.23</b>

The remittance of the pension by the department was stopped from the month of January 2005. A verification conducted through anganwadi workers during 2004-05 revealed that pension was being released to banks and post offices in respect of 10,131 persons who had passed away. The department was not aware of the exact date of death in these cases and hence could not assess the excess amount lying with banks/ post offices. The department received back approximately Rs. 69 lakh (Rs. 49 lakh in 2004-05 and Rs. 20 lakh in 2005-06) as undisbursed amount from the banks/post offices. No internal audit had ever been conducted of the old age pension.

**6.2.2** There were 3,809 outstanding internal audit paras involving Rs. 30.38 lakh pending settlement. Out of these paras, 3,130 paras involving Rs. 28.31 lakh pertained to the period prior to 2000-01 i.e. were more than five years old as on 31 March 2005. The position of settlement of old paras and the amounts recovered during the last five years is given below:-

**Table 6.4: Position of settlement of Old objections/paras**

Sl.No.	Year	No of paras settled	Recovered (Rs.)
1	2000-01	12	170
2	2001-02	67	41,540
3	2002-03	Nil	Nil
4	2003-04	6	30,356
5	2004-05	18	5,281
	<b>Total</b>	<b>103</b>	<b>77,347</b>

It was evident that the department lacked any effective internal check to ensure compliance to rules and procedures relating to release of grants to NGOs. The pace of settlement of paras and the petty amount recovered

during the last five years indicates extremely poor compliance and further underlined the need to strengthen the internal audit mechanism in the department.

Government stated (December 2005) that 23 NGOs under the Directorate of Social Welfare were presently being audited by the Directorate of Internal Audit. Audit of 20 NGOs had been completed up to 2003-04 and for five NGOs upto 2004-05. However, no comments were offered as to the specific discrepancies brought out in audit.

### **6.3 Directorate of Internal Audit**

The Directorate of Internal Audit is headed by the Principal Secretary (Finance) who is the ex-officio Director of Audit. He is assisted by two Deputy Controllers of Accounts and 23 Senior Accounts Officers/Accounts Officers. The sanctioned strength of the Directorate was 173 out of which 144 posts were filled-up. Out of these 144 staff members, 14 were working in the Finance Accounts and Budget Section of the Finance Department. The Directorate operated 22 internal audit parties as on 31 March 2005.

The Directorate of Internal Audit is responsible for the internal audit of the Principal Accounts Office, the Pay and Accounts Offices, Drawing and Disbursing Officers as well as all the departments of the Delhi government. The Directorate also carries out special audits as may be directed from time to time by the Principal Secretary (Finance).

#### **6.3.1 Audit coverage, periodicity and planning**

There were 1,985 units under the audit jurisdiction of the Directorate of Audit as on 31 March 2005. As per para 3.1.2 of the Manual of Internal Audit of the Directorate, an annual plan is to be drawn up in a manner so as to ensure that each auditee is inspected at least once in a period of 18 months. The units actually covered during the period 2000-01 to 2004-05 were as below:-

**Table 6.5: Audit Coverage by Directorate of Internal Audit**

Year	Target No. of units to be audited	Units audited	Units remaining un-audited	Percentage of un-audited units
2000-01	430	298	132	30.7
2001-02	400	301	99	24.7
2002-03	320	259	61	19.1
2003-04	337	347	-	-
2004-05	350	310	40	11.4
<b>Total</b>	<b>1,837</b>	<b>1,515</b>	<b>332</b>	

The Directorate could cover only 1,515 units (inclusive of the units repeated in successive years) during the five years period from 2000-01 to 2004-05 leaving out at least 470 units, viz. 24 per cent of the total number of units altogether. Though there was a marked improvement in the coverage of units with reference to those targeted for audit, there remained a shortfall in units covered with reference to the targets set in every year except 2003-04. Moreover, planning of audits was done in a routine manner considering only the number of units in arrears and the requests for audit being received from various units. The Audit plan was not based on any risk analysis.

The Directorate stated in August 2005 that backlog of units was due to shortage of staff, conducting of special audits and diversion of staff to other wings of the Finance department. It added that it had started selecting units for internal audit after systematic risk analysis and audit of one scheme has already been taken up.

Government stated (December 2005) that the distribution of staff was being worked out and the audit parties would be reorganized accordingly. It added that an annual audit plan was being drawn up to ensure that each department was inspected at least once in a period of 18 months.

### 6.3.2 Non-compliance to internal audit paras

The number of outstanding audit paras steadily increased from 38,051 as on 31 March 2001 to 41,244 as on 31 March 2005. This included recoveries of Rs. 6.66 crore to be effected by different departments of the Government. The year-wise break-up of outstanding audit paras was as under:-

**Table 6.6: Outstanding Audit Objections**

Year	Opening Balance of outstanding paras as on 1 <sup>st</sup> April	Number of paras		Number of outstanding paras as on 31 <sup>st</sup> March	Percentage of paras settled
		Raised during the year	Settled during the year		
2000-01	37,067	1,560	576	38,051	1.55
2001-02	38,051	1,609	903	38,757	2.37
2002-03	40,440	1,704	1,291	40,853	3.19
2003-04	40,853	2,249	1,711	41,391	4.18
2004-05	41,391	1,410	1,557	41,244	3.76

Some of those paragraphs were outstanding since 1976-77 and were more than 27 years old. The position of settlement of paras remained poor at 3.76

per cent of the total pendencies during 2000-05. The departments with the maximum number of audit objections pending as on 31 March, 2005 were:

Directorate of Education	23,439
Directorate of Social Welfare	3,809
Directorate of Trg. & Technical Education	1,108
Directorate of Higher Education	851
Divisional Commissioner Office	671
Irrigation & Flood Control	619
Directorate of Health Services	492
Hospitals	436

The year-wise position of outstanding recoveries of Rs.6.66 crore was as under:

**Table 6.7: Outstanding recoveries**

(Rupees in lakhs)

Year	Opening balance of pending recoveries on 31 <sup>st</sup> March	Total amount of recoveries detected	Amount realized	Balance amount outstanding for recoveries
2000-01	155.37	158.33	22.74	290.96
2001-02	290.96	96.93	39.48	348.41
2002-03	348.41	160.27	35.61	473.07
2003-04	473.07	130.75	54.03	549.79
2004-05	549.79	214.01	97.81	665.99
<b>Total</b>		<b>760.29</b>	<b>249.67</b>	

The main institutions/departments from where recoveries were pending are as follows:

**Table 6.8: Departments with pending recoveries**

(Rupees in lakhs)

Sl. No.	Name of Department	Amount outstanding for recovery as of March 2005
1	Directorate of Education	299.13
2	Directorate of Higher Education	115.54
3	Directorate of Social Welfare	30.39
4	Public Works Departments	30.16
5	Flood Control & Irrigation	32.01
6	Divisional Commissioners	17.04
7	Delhi Police	17.89

The Directorate stated in August 2005 that the pendencies were due to lack of response from the various departments concerned despite regular pursuance by it through reminders.

Such huge pendencies were indicative of the lack of seriousness on the part of the auditee units and their administrative departments in dealing with the findings of internal audit which undermined the very purpose and effectiveness of the internal audit exercise.

Government informed (December 2005) that an Internal Audit Committee for internal audit paras had been constituted to settle the paras.

### **6.3.3 Special audits undertaken by the Directorate of Internal Audit**

The year-wise position of special audits conducted by the Directorate during the five years period 2000-2005 on the directions of the Principal Secretary (Finance) was as under:-

**Table 6.9: Special audits undertaken**

<b>Year</b>	<b>No. of special audits conducted</b>
2000-01	7
2001-02	12
2002-03	21
2003-04	8
2004-05	14
<b>Total</b>	<b>62</b>

The Directorate stated in May 2004 that after approval by the Principal Secretary (Finance), the Inspection Reports were sent to the respective Principal Secretary/Secretary of the department or the Vigilance department for taking further action and that the progress of compliance of audit paras was being watched by it through letters and reminders. It added in August 2005 that recoveries amounting to over Rs. 1.15 crore were detected but only Rs. 531 could be recovered upto 31 March 2005.

Government stated (December 2005) that a State Level Committee had been set up for settling the paras.

### **6.3.4 Training**

The Report of the Comptroller and Auditor General of India for the year ended March 2003 had highlighted the need to equip the staff posted in the Directorate with the necessary skills so as to enable them to discharge their



duties effectively. This was again reiterated in Report of the Comptroller and Auditor General for the year ended March 2004.

Government stated (December 2005) that training was being imparted by the Directorate of Union Territory Civil Services. It added that a specific training programme with thrust on audit would also be organized.

### ***6.3.5 Compliance to statutory audit***

#### ***6.3.5.1 Response of the departments to Inspection Reports***

One of the essential functions of an internal audit wing is to monitor compliance to observations of external audit. Each department, office and undertaking of the Government of NCT of Delhi is audited by the Accountant General (Audit) Delhi who functions under the auspices of the Comptroller and Auditor General of India. Audit observations raised during audit and not settled during the course of audit are communicated to heads of offices through inspection reports. The heads of offices are required to furnish replies to the inspection reports within four weeks. The position of inspection reports

and audit observations pending due to lack of compliance as on 31 March during the last five years is as follows:-

**Table 6.10: Civil Audit Observations**

Sl. No		2000-01	2001-02	2002-03	2003-04	2004-05
1	Number of Inspection Reports pending settlement	1,114	1,315	1,331	1,081*	997*
2	Number of outstanding audit observations	5,299	6,333	5,995	5,248*	4,080*
3	Money value of objections (in crores of Rupees)	78.95	87.31	104.84	170.96*	198.99*

\* Includes paras relating to Delhi Jal Board

**Table 6.11: Department-wise details of outstanding audit observations**

Sl. No.	Name of Department	No. of outstanding paras as on 31 March 2005
1	Public Works Department	989
2	Irrigation and Flood Control	141
3	PAOs	134
4	Health Department	241
5	Education Department	214
6	Social Welfare	237
7	Delhi Jal Board	177
8	Other Departments	1,947
	<b>Total</b>	<b>4,080</b>

**Table 6.12: Revenue Audit Observations**

	2000-01	2001-02	2002-03	2003-04	2004-05
Number of inspection reports pending settlement	943	1,022	1,115	811	580
Number of outstanding audit observations	8,544	9,290	9,947	5,364	4,354
Amount of revenue involved (in crores of Rupees)	418.98	662.82	835.82	1206.08	930.98

**Table 6.13: Commercial Audit Observations**

	2000-01	2001-02	2002-03	2003-04	2004-05
Number of inspection reports pending settlement	15	37	49	28	34
Number of outstanding audit observations	69	120	132	88	72

At the instance of the Accountant General (Audit), Delhi, the State government had activated the ad-hoc State Level Audit Committee in September 2003. As a result of the functioning of the Committees, there was a net reduction of 4,846 outstanding audit objections pending in the office as on 31 March 2005 as compared to 31 March 2004.

Government stated (December 2005) that three meetings of the State level committee had been convened for early settlement of the paras.

Given the huge number of 8,506 paras (civil, revenue and commercial) which are still pending compliance, efforts need to be intensified by both the Finance department as well as the various departments themselves to expeditiously submit compliance to audit observations in a time bound manner.

**6.3.5.2 Response of the Departments to Draft Paragraphs**

Draft paragraphs and performance audits proposed for inclusion in the Audit Reports are specifically forwarded to the Principal Secretary/Secretary of the administrative department concerned through demi-official letters seeking confirmation of facts and their comments within a period of six weeks. The position of receipt of replies to draft paras/reviews forwarded to various departments between April 2005 and November 2005 was as follows as of February 2006.

**Table 6.14: Replies to Audit Paragraphs/Reviews**

	No. of Paragraphs/ Reviews sent		Replies received from Management/ Government	
	Paras	Reviews	Paras	Reviews
Civil Department	17	6	7	6
Revenue Department	26	1	23	1
Government Companies/ Corporations	10	2	9	2

#### **6.4 Recommendations**

The following steps could be considered by the Government to strengthen the internal audit mechanism and the internal controls in operation in the Delhi Government.

- *The frequency and intensity of the internal audit in the Directorate of Social Welfare needs to be strengthened, particularly in respect of releases made to NGOs.*
- *Given the large number of units, efforts need to be made to enhance coverage and ensure selection of units based on documented risk analysis.*
- *There is a need for more effective pursuance of observations of both internal as well as external audit to reduce the pending paras and improve accountability. Every head of department must be held accountable for settlement of audit paras within stipulated time frame.*

Government informed (December 2005) that the recommendations had been noted for compliance.

**New Delhi**  
**Dated:**

**(R. K. GHOSE)**  
**Accountant General (Audit), Delhi**

**Countersigned**

**New Delhi**  
**Dated:**

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