

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 Reports of the Comptroller and Auditor General of India relating to the Government of NCT of Delhi for the years ended March 2004 and March 2005. An evaluation of the effectiveness and efficiency of the internal audit procedure in the Public Works Department as well as 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 Public Works Department

6.2.1 The Public Works Department (PWD) is the premier agency of the Government of Delhi engaged in planning, designing, construction and maintenance of government assets in the field of built environment and infrastructure development. Assets include hospitals, schools, colleges, technical institutions, police buildings, prisons, courts etc. as well as roads, bridges, flyovers, footpaths and subways. The department carries out its activities of asset creation on the basis of needs and requirements decided by the Government of Delhi and as assessed through its in-house technical expertise. Works are carried out after obtaining formal administrative approval and expenditure sanction from the Government of Delhi.

6.2.2 The PWD functions under the overall control of the Principal Secretary PWD who is assisted by the Engineer-in-Chief and four zonal Chief Engineers (Zone-I to Zone-IV). There are 20 Circles and 65 Divisions headed by Superintending Engineers (SE) and Executive Engineers (EE) respectively.

6.2.3 The budget outlay and expenditure of the department for the last five years was as under:

**Table 6.1: Budget Outlay and Actual Expenditure:
Buildings (Plan)**

(Rupees in lakh)

Year	Budget Outlay	Actual Expenditure	Savings (-) Excess (+)
2001-02	27568.50	25007.09	(-) 2561.41
2002-03	32381.00	28996.98	(-) 3384.02
2003-04	33258.50	30704.68	(-) 2553.82
2004-05	39530.00	34713.41	(-) 4816.59
2005-06	33456.00	30535.90	(-) 2920.10

Table 6.2: Buildings (Non-Plan)

(Rupees in lakh)

Year	Budget Outlay	Actual Expenditure	Savings (-) Excess (+)
2001-02	11012.81	11213.03	(+) 200.22
2002-03	11622.50	12608.70	(+) 986.20
2003-04	11551.70	12138.57	(+) 586.87
2004-05	13912.00	12992.46	(-) 919.54
2005-06	14751.00	13767.23	(-) 983.77

Table 6.3: Roads & Bridges (Plan)

(Rupees in lakh)

Year	Budget Outlay	Actual Expenditure	Savings (-) Excess (+)
2001-02	19860.00	16048.19	(-) 3811.81
2002-03	19255.00	18711.00	(-) 544.00
2003-04	20000.00	18885.00	(-) 1115.00
2004-05	49310.00	48634.00	(-) 676.00
2005-06	54400.00	53327.00	(-) 1073.00

Table 6.4: Roads & Bridges (Non-Plan)

(Rupees in lakh)

Year	Budget Outlay	Actual Expenditure	Savings (-) Excess (+)
2001-02	4500.00	4520.00	(+) 20.00
2002-03	4500.00	4434.00	(-) 66.00
2003-04	4500.00	4499.00	(-) 1.00
2004-05	6100.00	6048.00	(-) 52.00
2005-06	7000.00	7056.00	(+) 56.00

Table 6.5: Establishment Charges (Non-Plan)

(Rupees in lakh)			
Year	Budget Outlay	Actual Expenditure	Savings (-)/Excess (+)
2001-02	4584.76	4368.39	(-) 216.37
2002-03	4612.56	4377.66	(-) 234.90
2003-04	4800.55	4508.07	(-) 292.48
2004-05	5450.00	5382.08	(-) 67.92
2005-06	5752.50	5636.12	(-) 116.38

6.2.4 The department follows the provisions of the CPWD Manuals and Accounts Code in the execution of its works. These manuals provide for exercise of various checks and controls to ensure economy, efficiency and effectiveness in PWD projects. An evaluation of the level of compliance with these provisions indicated the following:

Administrative controls

- Section 10 of the CPWD Manual Vol.-I stipulates that each Executive Engineer (EE) should inspect each sub-division and a Superintending Engineer (SE) each Division under his charge once a year in order to ensure proper upkeep of accounts records, maintenance of service records, speedy disposal of claims and cases and methodical and systematic functioning of various sub-ordinate offices under their administrative control and send a report in the prescribed form to the SE and Chief Engineer (CE) respectively. During the period from 2001-02 to 2005-06, all the SEs were to conduct 325 inspections of the 65 divisions in their jurisdiction. A test check of inspections carried out in six circles during the period from 2001-02 to 2005-06 revealed shortfall in inspections ranging from 60 per cent to 100 per cent as follows:

Table 6.6: Extent of inspections in six circles

Name of circles	Total number of divisions in the circle	Number of inspection to be conducted	Number of inspections actually conducted	Shortfall in conducting inspections	Percentage of shortfall
Circle IV	4	20	8	12	60
Circle I	4	20	8	12	60
Circle VI	4	20	4	16	80
Circle II	4	20	Nil	20	100
Electrical Circle III	4	20	Nil	20	100
Project Manager DCEP	4	20	Nil	20	100

- The position of paras raised and settled in respect of the 20 inspections conducted in the above six circles was as under:-

Table 6.7: Outstanding observations arising out of inspections

Period	Number of inspections required	Number of inspection carried out	Number of paras raised	Number of paras settled	Number of paras outstanding	Percentage of outstanding paras
2001-02 to 2005-06	120	20	440	207	233	52.95

Thus, nearly 53 *per cent* of the paras were outstanding as on 31 March 2006. No control procedures or mechanisms had been prescribed for monitoring the settlement of the observations/irregularities pointed out in the inspection reports.

- No reports as prescribed in the manual were either being sent by the SEs nor was their receipt being monitored by the CEs.
- The CEs of the zones are also required to inspect two to three divisions under their charge every year in order to check and ensure the efficient functioning of offices under their administrative control. Accordingly, the CEs of all the four zones had to carry out 40 to 60 inspections during the period 2001-02 to 2005-06. However, no such inspection was carried out by any of the CEs during the five years covered in the audit. The CEs attributed (June-September 2006) the shortfall to shortage of staff and heavy load of work.

Quality assurance controls

- “Process control” is essential in construction works to ensure that the work is executed in the manner pre-determined and as laid down in the specifications. Para 54.7 of the CPWD Manual provides that the quality assurance team of each circle should inspect all the works at least one to three times during its execution depending upon cost of the work to ensure that it was being progressed in accordance with the prescribed specifications and norms. All works having tendered cost of Rs.70 lakh and above are required to be inspected at least thrice during currency of the works. Of the total number of 20 circles, only seven circles could furnish information relating to the number of inspections carried out by the Quality Assurance Teams during the period 2001-02 to 2005-06 as below:

Table 6.8: Inspections by Quality Assurance Teams

Year	Number of major works	Number of Inspections required	Number of inspections by Q.A Team	Number of observations	Number of observations complied with	Number of observations outstanding
2001-02	14	42	11	401	284	117
2002-03	13	39	9	282	189	93
2003-04	15	45	9	326	136	190
2004-05	14	42	12	230	84	146
2005-06	11	33	4	126	61	65
Total	67	201	45	1365	754	611

As against the minimum of 201 inspections required to be carried out in respect of 67 major works executed during the period 2001-02 to 2005-06, only 45 inspections were actually carried out by the Quality Assurance teams, i.e. a shortfall of 77.61 *per cent*. Further, in the 45 inspections carried out, the quality assurance teams made 1,365 observations of which 611 (i.e. 44.76 *per cent*) remained outstanding as on 31 March 2006. The remaining 13 circles could not even furnish any information in this regard.

- The CPWD Works Manual (paras 55.35 and 55.36) envisages the setting up of an internal audit organization in the department to check the initial accounts maintained in the executive offices with a view to ascertaining as to how far they are following the rules and regulations, systems and procedures regarding financial matters. The manual prescribes the quantum of audit as well as the nature of the checks to be exercised by the internal audit parties. PWD however did not have its own internal audit wing. The Directorate of Internal Audit of the department of Finance conducted only one internal audit of one division in June-July 2002 during the period of five years from 2001-02 to 2005-06. Only 22 internal audit paras were settled during the five years period leaving a balance of 276 outstanding paras as of 31 March 2006.

6.2.5 Thus huge shortfall in conducting the prescribed inspections, non-submission of periodical reports, non-maintenance of requisite records, lack of follow up action on pending inspection observations, lack of adequate quality assurance measures as well as lack of any internal audit mechanism in the department was indicative of the lack of seriousness and failure of the system of internal checks and control envisaged in the CPWD manual.

6.2.6 The Government (Public Works Department) stated in November 2006 that the shortfalls in inspection by SEs and the quality assurance teams have been noted and instructions were being issued for necessary compliance as per the norms prescribed in the CPWD Manual. They added that the matter of setting up of an internal audit wing in PWD would be examined for taking necessary action. The Finance department added that the PWD had been recently re-organized with more zones by creating posts at officers' levels and abolishing subordinate level posts. This would facilitate officer level scrutiny of matters and outsourcing of work of estimation, etc. A set of good management practices was also being proposed for adoption in PWD.

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 one Deputy Controller of Accounts and 22 Senior Accounts Officers/Accounts officers. The sanctioned strength of the Directorate was 170 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 16 internal audit parties as on 31 March 2006.

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 Government of Delhi. 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 2006. 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 unit is inspected at least once in a period of 18 months. The units actually covered during the period 2001-02 to 2005-06 were as below:

Table 6.9: Audit coverage by Directorate of Internal Audit

Year	Target Number of units to be audited	Units audited	Units remained un-audited	Percentage of un-audited units
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
2005-06	335	295	40	11.9
Total	1742	1512	240	

There was a continuing shortfall in units covered with reference to targets set every year during the period 2001-02 to 2005-06 except in 2003-04 which ranged from 11.4 *per cent* to 24.7 *per cent*. The Directorate stated (July/September 2006) that the backlog of coverage was due to shortage of staff, deputing of a majority of their parties for special audits and reduction in the number of units as the pending audit years of some of the units were more than 10-12 years.

The Government had stated in response to the observations included in the Audit Report for the year ended March 2005 that the distribution of staff was being worked out and that the audit parties would be re-organized accordingly. It was evident that this assurance given to audit was yet to be reflected in terms of improved coverage of the units due for internal audit.

The Government stated in November 2006 that efforts were being made to improve the coverage of the units.

6.3.2 Non-compliance of internal audit paras

The year wise break-up of outstanding paras as on 31 March 2006 was as under:

Table 6.10: Outstanding audit objections

Year	Paras outstanding as on 1 st April	Number of paras raised	Number of paras settled	Number of paras outstanding as on 31 st March	Percentage of paras outstanding
2001-02	38051	1609	903	38757	97.72
2002-03	40440	1704	1291	40853	96.94
2003-04	40853	2249	1711	41391	96.03
2004-05	41391	1410	1557	41244	96.36
2005-06	41244	1529	1521	41252	96.44

The number of outstanding paras has steadily increased from 38,757 in 2001-02 to 41,252 during 2005-06. Some of the paras were outstanding since 1976-77. About 96 to 98 *per cent* of the paras remained outstanding at the end of each financial year. Hence, settlement of paras during the year was insignificant ranging between two to four *per cent* only. The departments with the maximum number of internal audit objections pending as on 31 March 2006 were:

1.	Directorate of Education	23,253
2.	Directorate of Social Welfare	3,913
3.	Directorate of Trg. & Tech. Education	1,105
4.	Directorate of Higher Education	763
5.	Divisional Commission Office	671
6.	Irrigation & Flood Control	619
7.	Directorate of Health Services	503
8.	Hospitals	431

The outstanding recoveries also increased from Rs.3.48 crore as on 31 March 2002 to Rs.7.19 crore as on 31 March 2006 as under:

Table 6.11: Outstanding recoveries

(Rupees in lakh)

Year	Outstanding recoveries pertaining to period prior to 2001-02	Total Amount of recoveries detected by Internal Audit wing	Amount realized	Total recoveries outstanding
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
2005-06	665.99	196.72	43.67	719.04

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

Table 6.12: Departments with pending recoveries
(Rupees in lakh)

Sl. No.	Name of Department	Amount outstanding for recovery as on March 2006
1.	Dte. of Education	399.15
2.	Dte. of Higher Education	104.02
3.	Dte. of Social Welfare	30.43
4.	Public Works Department	30.13
5.	Flood Control & Irrigation	32.01
6.	Divisional Commissions	17.04
7.	Delhi Police	16.96

The Directorate could not furnish the year-wise break-up of the pending recoveries. It however informed (September 2006) that some of these recoveries were pending since 1976-77.

Such huge number of pending internal audit paras was indicative of the lack of seriousness on the part of the auditee units and the administrative departments in dealing with the findings of internal audit and the ineffectiveness of the procedures and mechanisms adopted to expedite compliance with the pending internal audit observations thereby undermined their very purpose.

The Government stated in November 2006 that meetings of the State Level Audit Committee to pursue these outstanding paras were being convened at least once a month and it was expected that the outstanding paras and recoveries would be considerably reduced.

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 period 2001-02 to 2005-06 on the directions of Principal Secretary (Finance) and money value involved therein was as under:

Table 6.13: Special audits

Year	Number of special audits conducted	Money value detected	Amount recovered	Balance (outstanding as on 31 March)
Prior to 2001-02	-	11000	-	11000
2001-02	12	27	-	27
2002-03	21	40	-	40
2003-04	08	-	-	-
2004-05	14	344	-	344
2005-06	15	262	28	234
Total	70	11673	28	11645

Though the money value involved in the audit findings was to the tune of Rs.1.16 crore, there was no recovery except for a marginal recovery of Rs. 28,000/- during the period 2005-06.

The Government stated (November 2006) that two Senior Account Officers are being nominated exclusively for follow up of these paras and to pursue the recoveries.

6.3.4 Training

The Reports of the Comptroller and Auditor General of India from the year ended March 2003 onwards have repeatedly 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. Further, the Manual of Internal Audit had not been updated since 1989.

The Government stated in November 2006 that training programmes had been started and that the Manual of Internal Audit was being updated.

6.3.5 Compliance to statutory audit

Response of the department 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 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 the Inspection Reports and audit observations pending due to lack of compliance as on 31 March during the last five years was as follows:

Table 6.14: Civil Audit Observations

Sl. No.		2001-02	2002-03	2003-04	2004-05	2005-06
1.	Number of Inspection Reports pending settlement.	1,315	1,331	1081*	997*	1045*
2.	Number of outstanding audit observations.	6,333	5,995	5248*	4080*	4210*
3.	Money value of objections (Rupees in crore)	87.31	104.84	170.96*	198.99*	241.59*

*Includes paras relating to the Delhi Jal Board.

Table 6.15: Department-wise details of outstanding audit observations

Sl. No.	Name of Department	Number of outstanding paras as on 31 March 2006
1.	Public Works Deptt.	992
2.	Irrigation & Flood Control	144
3.	PAOs	92
4.	Health Deptt.	534
5.	Education Deptt.	303
6.	Social Welfare	277
7.	Police	248
8.	Delhi Jal Board	312
9.	Other Deptt's (Misc)	1308
	Total	4210

Table 6.16: Revenue Audit Observations

	2001-02	2002-03	2003-04	2004-05	2005-06
Number of Inspection reports pending for settlement	1,022	1,115	811	580	433
Number of outstanding audit observations	9,290	9,947	5,364	4,354	3,885
Amount of revenue involved (Rupees in crore)	662.82	835.82	1,206.08	930.98	1,022.5

Table 6.17: Commercial Audit Observations

	2001-02	2002-03	2003-04	2004-05	2005-06
Number of Inspection reports pending settlement	37	49	28	34	31
Number of outstanding audit observations	120	132	88	72	75

At the instance of Accountant General (Audit), Delhi, the NCT Government had activated the ad-hoc State Level Audit Committee in September 2003. As a result of the functioning of these committees, there was a net reduction of 3,254 outstanding audit objections as on 31 March 2006 as compared to 31 March 2005.

Given the huge number of 8,170 paras (civil, revenue and commercial) which are still pending for want of compliance, efforts need to be intensified by both the Finance department as well as the various departments themselves to submit the compliance to audit observations expeditiously in a time bound manner.

The Government stated (November 2006) that it had now been decided to hold at least one meeting of the State Level Audit Committees every month for speedy settlement of the pending paras.

6.3.6 *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 departments 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/performance audit reports forwarded to various departments between April 2006 and November 2006 was as follows as of November 2006.

Table 6.18: Replies to Audit Paragraphs/Performance Audit Reports

	Number of paragraphs/ Performance audits sent		Replies received from Management/ Government	
	Paras	Performance audits	Paras	Performance audits
Civil Department	17	3	6	3
Revenue Department	25	1	21	1
Government Companies/Corporations	11	1	11	1

6.4 Recommendations

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

- *Steps should be taken by the PWD to ensure compliance with the frequency and periodicity of inspections stipulated in the CPWD Manual. Given the huge expenditure of more than Rs. 1,100 crore incurred by the PWD every year, the Government should consider setting up of an internal audit wing in the PWD as well as increasing the frequency of the internal audit conducted by the Directorate of Internal Audit.*
- *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 compliance. Every head of department must be held accountable for the settlement of audit paras within a stipulated time frame that should be monitored by the Finance department at an apex level.*

Government stated (November 2006) that efforts were being made to improve the effectiveness of the internal audit by re-orienting the audit officials. The reports of internal audit would also be utilized for systemic improvements, administrative reforms and preventive vigilance.

New Delhi

(R. K. GHOSE)

Dated:

Accountant General (Audit), Delhi

Countersigned

New Delhi

(VIJAYENDRA N. KAUL)

Dated:

Comptroller and Auditor General of India