

Chapter VII: Internal Audit System in the Government

7.1 Introduction

An effective system of internal audit is essential to safeguard against errors, irregularities and wastages in the functioning of departments and their subordinate agencies. Internal auditors function independently to help enforce accountability and propriety in financial matters. They are to examine and evaluate the level of compliance to departmental rules and procedures and provide an independent assurance to the senior echelons of the department as to the adequacy of risk management and the internal control framework in the department. Greater effectiveness of internal audit often translates into greater efficiency and more effective utilization of resources in administration.

7.2 Organisational Set-up

The Directorate of Audit in the Department of Finance is responsible for internal audit in the Government of NCT of Delhi. It is headed by the Principal Secretary (Finance) who is the ex-officio Director of Audit. He is assisted by two Deputy Secretaries and 24 Senior Audit Officers/Audit Officers. The Directorate operated 22 internal audit parties as on 31 March 2003.

7.3 Mandate of the Directorate of Audit

The Principal Accounts Office, the Pay and Accounts Offices and Drawing and Disbursing Officers and all the Departments of Government fall within the jurisdiction of the Directorate. In addition, institutions receiving grants-in-aid from any of the Departments of Government also fall within the purview of the Directorate.

The Directorate is responsible for test check of the initial accounts records and subsidiary registers maintained in the accounting formations of the Department and in its executive offices to see whether the rules and regulations are being followed correctly and whether the extant systems and procedures regarding accounting and financial matters are adequate. The internal inspection covers check of all accounts records including those relating to fund accounts, loans and advances, purchases, civil works and physical verification of stores, equipment, tools and plant.

In addition, the Directorate also carries out special audits as may be directed from time to time by the Principal Secretary (Finance).

7.4 Audit Coverage, Periodicity and Planning

There were 1,985 units to be audited under the jurisdiction of the Directorate of Audit. As per paragraph 3.1.2. of the Manual of Internal Audit of the Directorate, an annual plan is to be drawn up in such a manner 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 1998-99 to 2002-03 were as below:

Table 7.1: - Details of Units Audited

Year	Target-No. of units to be audited	Units audited	Units that remained unaudited	Percentage of unaudited units
1998-99	426	318	108	25.4
1999-00	409	264	145	35.4
2000-01	430	298	132	30.7
2001-02	400	301	99	24.7
2002-03	320	259	61	19.1

The percentage of units in arrears every year ranged between 19.1 per cent to 35.4 per cent.

Planning of audits was not based on any risk indicators. Considerations like previous audit findings, analysis of performance indicators, media and external reports and budget allocations were not taken into account while framing the audit plans.

The Directorate stated in December 2003 that the backlog was due to shortage of manpower and diversion of staff to other wings of the Finance department. The sanctioned strength of the Directorate was 173 out of which 132 posts were filled. But of these 132 staff, 25 were working in the Finance Accounts and Budget Section. It added that planning was done in accordance with the General Financial Rules, Fundamental Rules and Supplementary Rules and was not based on any risk indicators.

There is a need for better and more rational planning of the audit programmes so as to ensure periodic coverage of at least the more vulnerable auditee units within a reasonable time span. Given the apparent staff constraints, selection of units should be based on more rational criteria and risk analysis so as to ensure optimum utilization of available manpower. Deployment of personnel needs to be optimised given the wing's overall importance in ensuring efficiency and propriety of government expenditure as well as in collection of government dues.

7.5 Training

The Directorate of Audit does not have its own staff. Staff are posted to the Directorate from various offices of the Government for a normal tenure of 3-4 years. The staff posted in the Directorate need to be equipped with the necessary skills through training and re-orientation programmes. However, no such training was imparted to the 107 persons actually working in the Directorate. The Manual of Internal Audit had also not been updated since 1989. Hence, the skills and techniques employed by the staff in the Directorate were clearly inadequate for effective internal audit.

7.6 Non-compliance to internal audit paragraphs

A total of 40,853 internal audit paragraphs were outstanding as on 31 March 2003. These included cases of recoveries of Rs.5.68 crore outstanding as of August 2003 to be effected by different departments of the Government. The year-wise break-up of audit paragraphs is given below:

Table 7.2: Position of Outstanding Paras

Year	Opening Balance of outstanding paragraphs	Number of Paras		Closing balance of outstanding paragraphs
		Raised during the Year	Settled during the Year	
1998-99	34287	2261	465	36083
1999-00	36083	1381	397	37067
2000-01	37067	1560	576	38051
2001-02	38051	1609	903	38757
2002-03	38757+1683*	1704	1291	40853

*Note: Additions made after reconciliation of figures.

The number of paragraphs settled every year ranged from a minuscule 1.10 percent to 3.19 percent of the total pendency as of 1 April each year and was much less than the additions made during the year. Some of the Departments with the highest pendency of audit paragraphs were the Departments of Education, Social Welfare, Directorate of Training and Technical Education and Public Works.

Some of the institutions/departments where recoveries were pending are shown in the table below:

Table 7.3:- Details of Pending Recoveries

(Rupees in crore)

Sl. No.	Departments/ Institutions	Amount outstanding for recovery as of August 2003
1.	Government Schools	2.53
2.	Aided Colleges	1.00
3.	Government Aided Schools	0.64
4.	Directorate of Social Welfare	0.27
5.	Public Works Department	0.27
6.	Hospitals	0.20

The Directorate stated in December 2003 that though there had been a few cases where penal action had been initiated and recoveries effected as a result of the findings of internal audit, the pendency was due to a lack of response from the various departments concerned despite their best efforts including regular meetings at various levels. It was added that the State level Committee set up in March 2003 at the instance of the Accountant General (Audit), Delhi, under the Addl.Secretary (Finance), to monitor compliance to statutory audit observations was also monitoring the internal audit paragraphs.

The failure of individual offices and their administrative departments to effectively address the findings of internal audit undermined the very purpose of the audit exercise. There was also a need for more effective pursuance by the Directorate itself. In fact, the State level committee set up in the Finance Department to monitor compliance to the pending audit paragraphs of both internal audit and statutory audit had yet to start showing results in terms of obtaining compliance and settlement of paragraphs.

7.7 Conclusion and Recommendations

The primary objective of the Directorate of Audit remained unfulfilled as evidenced by a backlog of audit and the continuous increase in the number of pending audit paragraphs. Problems were noticed in the areas of competence of staff, lack of training, poor audit planning and ineffective follow-up action.

The following steps could be considered by the Government to strengthen the internal audit mechanism in the Government:

- A review should be carried out to optimise staff deployment and utilisation within the Directorate to enable it to discharge its functions effectively.
- The Manual of Internal Audit should be updated keeping in view best practices and prevailing internal audit standards.
- The staff, at induction, should be trained to equip them to effectively discharge their new responsibilities. In addition, there should be a refresher course to update their knowledge and skills.
- There should be an effective system of monitoring of pending audit paragraphs. Further, every head of department should be responsible for settlement of audit paragraphs within a stipulated timeframe.

The matter was referred to the Government in December 2003, their reply was awaited (February 2004).

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Dated:

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