

Chapter VII: Internal Audit System in the Government

Internal Audit System in the Government of NCT of Delhi

7.1 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 in administration. 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 and Auditor General of India relating to the Government of NCT of Delhi for the year ended March 2003. An evaluation of the effectiveness and efficiency of the internal audit procedures in one Department of the Government of Delhi, viz. the Directorate of Higher Education as well as of the functioning of the Directorate of Internal Audit was carried out this year. The findings are in the succeeding paragraphs.

7.2 Internal control system in the Directorate of Higher Education

The Directorate of Higher Education was established in 1997 with the objective of facilitating and promoting studies in emerging areas of higher education. It is under the overall control of the Secretary (Education) and is headed by a Director who is assisted by one Deputy Director, one Administrative Officer, one Research Officer and other staff. The main function of the Directorate of Higher Education is to provide funds as grants-in-aid under Plan and Non-Plan heads to 31 educational institutions, 15 of which are fully funded and 16 partially funded by the Government of NCT of Delhi, for meeting their recurring and non-recurring expenditure. In addition, the Directorate is also providing funds as grants-in-aid to the Delhi University and the colleges maintained by Trusts for maintenance of heritage buildings. During the period 1999-2004, the quantum of grants-in-aid provided by the

Directorate to various educational institutions was as follows:

Table No. 7.2.1: Grants-in-aid to various educational institutions

(Rupees in lakh)

| Year | Plan | Non-Plan | Total |
|-----------|---------|----------|---------|
| 1999-2000 | 3448.11 | 1632.00 | 5080.11 |
| 2000-2001 | 1796.82 | 1717.00 | 3513.82 |
| 2001-2002 | 1400.15 | 1845.00 | 3245.15 |
| 2002-2003 | 1839.46 | 1979.00 | 3818.46 |
| 2003-2004 | 1472.09 | 2074.00 | 3546.09 |

The Directorate of Higher Education falls within the audit jurisdiction of the Directorate of Internal Audit. As its internal auditors, it was the function of the Directorate of Internal Audit to examine and evaluate the level of compliance to rules and regulations existing in the Directorate of Higher Education and the adequacy of extant systems and procedures regarding accounting and financial matters. However, the Directorate of Internal Audit had not audited this Directorate during the period 1999-2004. The Directorate of Higher Education did not also have any internal audit wing of its own. A review of the internal controls of the Directorate of Higher Education for the period 1999-2004 revealed the following deficiencies:

7.2.1 There was no system in the Directorate of Higher Education to anticipate, assess and project the actual requirement of funds under Plan schemes. There were persistent savings under two Plan schemes, one during 1999-2004 and another during 2000-2004. Savings under these two schemes ranged between 32.86 to 81.21 *per cent*. The Directorate stated in August 2004 that the savings under one Plan scheme were due to the University Grants Commission (UGC) not releasing its 50 *per cent* share to the colleges partially funded by the Government of NCT of Delhi for construction of college buildings.

The reply of the Directorate is not tenable as there were persistent savings in consecutive years. The persistent savings under the other Plan scheme where funds were to be fully provided by the Directorate itself indicate the failure of the Directorate to anticipate, assess and project the actual requirement of funds under the Plan schemes.

7.2.2 Under a Plan scheme, the Directorate had sanctioned and released grants-in-aid aggregating Rupees three crore to three educational institutions in the month of March 2003 even though the pattern of assistance was awaiting the approval of the Government of NCT of Delhi. The Finance Department approved it in the next financial year, i.e. in July 2003.

Sanction and release of funds in the closing months of the financial year pending approval of pattern of assistance results in rush of expenditure which is contrary to the generally accepted norms of financial management.

7.2.3 Directorate of Higher Education was required to review the performance of the grantee institutions receiving grants-in-aid exceeding Rs.10 lakh per annum as per Rule 151 (3)(C) of the General Financial Rules. During the period 1999-2004, the Directorate had sanctioned and released grants-in-aid (recurring and non-recurring) under Plan and Non-Plan heads exceeding Rs.10 lakh per annum to 15 Delhi Government sponsored colleges/institutions. This was done without a review of their performance though the Directorate had 20 persons on its strength against a sanctioned strength of 15 persons as on 31 March 2004. The Directorate stated in August 2004 that as it had released grants-in-aid only to the statutory bodies and the institutions sponsored by the Government, the review of the performance of the grantee institutions was not required under Rule 151 (3)(A)(i) of the General Financial Rules.

The Directorate's contention is not correct as Rule 151 (3)(C) of the General Financial Rules clearly provides for such review at least once in three to five years in each case.

7.2.4 In order to monitor receipt of statements of accounts, utilization certificates, etc. and to guard against the possibility of double payment of grants-in-aid, the General Financial Rules [Rule 151(4)(d)] prescribe that a Register of Grants containing stipulated columns should be maintained by the sanctioning authority. The Register of Grants maintained by the Directorate during the period 1999-2004 was not complete as certain vital information such as (a) conditions attached to the grant, (b) date by which the statements of accounts and utilization certificates were actually received, (c) date of submission of utilization certificates to PAO and (d) unspent balances, if any, were not recorded in it. Moreover, even the existing entries were not authenticated by the competent authorities. The Directorate stated in August 2004 that it had started maintaining the Register in the prescribed format from the current financial year 2004-05.

Thus, the internal control mechanism in the Directorate of Higher Education was weak and inadequate.

7.3 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 Secretaries and 24 Senior Accounts Officers/Accounts Officers. The sanctioned strength of the Directorate was 173 out of which 137 posts were filled-up. Out of these 137 staff members, however, 29 were working in the Finance Accounts and Budget Section of the Finance Department. The Directorate operated 22 internal audit parties as on 31 March 2004.

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. In addition, grantee institutions receiving grants-in-aid from the Departments of Delhi Government also fall within its purview. The Directorate also carries out special audits as may be directed from time to time by the Principal Secretary (Finance).

7.3.1 Audit coverage, periodicity and planning

There were 1,985 units under the audit jurisdiction of the Directorate of Internal Audit as on 31 March 2004. Para 3.1.2. of the Manual of Internal Audit of the Directorate prescribes that an annual plan is to be drawn up 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 1999-2000 to 2003-04 were as below:

Table No. 7.3.1: 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 |
|--------------|-----------------------------------|---------------|----------------------------|--------------------------------|
| 1999-2000 | 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 |
| 2003-04 | 337 | 347 | - | - |
| Total | 1896 | 1469 | 437 | |

The Directorate could cover only 1,469 units (inclusive of the units repeated in successive years) during the five years period 1999-2004 leaving out 516 units, viz. 26 per cent of the total number of units altogether. There was also 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 indicators corroborated through risk analysis. 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 May 2004 that the 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 in August 2004 that the aspect of better and more rational planning of audit programme was being taken into account at the time of issuing the audit programme and institutions where deficiencies had been noticed were being taken up first.

7.3.2 *Non-compliance to internal audit paras*

A total of 41,391 audit paras were outstanding as on 31 March 2004 including those involving recoveries of Rs.5.76 crore to be effected by different departments of the Government. The year-wise break-up of outstanding audit paras was as under:

Table No. 7.3.2: Outstanding audit objections

| Year | Opening balance of outstanding paras as on 1 st April | Number of Paras | | Number of outstanding paras as on 31 st March | Percentage of paras settled |
|---------|--|------------------------|-------------------------|--|-----------------------------|
| | | Raised during the year | Settled during the year | | |
| 1999-00 | 36083 | 1381 | 397 | 37067 | 1.10 |
| 2000-01 | 37067 | 1560 | 576 | 38051 | 1.55 |
| 2001-02 | 38051 | 1609 | 903 | 38757 | 2.37 |
| 2002-03 | 40440 | 1704 | 1291 | 40853 | 3.19 |
| 2003-04 | 40853 | 2249 | 1711 | 41391 | 4.18 |

The number of outstanding paragraphs has been steadily increasing during the last five years. It was seen that some paragraphs remained outstanding since 1976-77 and were more than 26 years old. The number of paras settled every year ranged between a miniscule 1.10 to 4.18 *per cent* of the total pendencies and was in fact less than the additions made during the year. The Departments with the maximum number of audit objections pending as on 31 March 2004 were:

| | |
|---|---------------|
| Directorate of Education | 22,028 |
| Directorate of Social Welfare | 2,691 |
| Directorate of Training & Technical Education | 1,024 |
| Public Works Department | 893 |
| Directorate of NCC | 818 |
| Aided Colleges | 651 |
| Directorate of Health Services | 557 |
| Hospitals | 555 |

The year- wise position of outstanding recoveries of Rs. 5.76 crore was as under:

Table No. 7.3.3: Outstanding recoveries

| (Rupees in lakh) | | | |
|--|-------------------------------------|-----------------|------------------------|
| Year | Total amount of recoveries detected | Amount realized | Outstanding recoveries |
| 1999-2000 | 128.97 | 9.12 | 119.85 |
| 2000-01 | 158.33 | 22.74 | 135.59 |
| 2001-02 | 96.93 | 39.48 | 57.45 |
| 2002-03 | 160.27 | 35.61 | 124.66 |
| 2003-04 | 130.75 | 54.03 | 76.72 |
| Total | 675.25 | 160.98 | 514.27 |
| Outstanding recoveries pertaining to period prior to 1999-2000 | | | 61.60 |
| Total | | | 575.87 |

Some of the institutions/departments where recoveries were pending were as under:

Table No. 7.3.4: Institutions/ departments with pending recoveries

| (Rupees in lakh) | | |
|------------------|-------------------------------|--|
| Sl. No. | Name of Department | Amount outstanding for recovery as of March 2004 |
| 1. | Government Schools | 288.11 |
| 2. | Aided Colleges | 100.05 |
| 3. | Government Aided Schools | 35.30 |
| 4. | Directorate of Social Welfare | 29.95 |
| 5. | Public Works Department | 27.01 |
| 6. | Hospitals | 19.51 |

Such huge pendencies were indicative of 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 audit exercise.

Accepting the audit observation, the Directorate stated in August 2004 that the matter of outstanding paragraphs and recoveries was being taken up in the meetings of the State Level Audit Committee.

7.3.4 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 1999-2004 on the directions of the Principal Secretary (Finance) was as under:

Table 7.3.5: Special audits undertaken

| Year | No. of special audits conducted |
|------------------|--|
| 1999-2000 | 5 |
| 2000-01 | 7 |
| 2001-02 | 12 |
| 2002-03 | 21 |
| 2003-04 | 8 |
| Total | 53 |

However, the Directorate had no compiled figures of money value detected by it during these special audits. Consequently, the efficacy or outcome of the special audits done by the Directorate could not be verified in audit.

The Directorate stated in May 2004 that the Inspection Reports were sent to the respective Principal Secretary/Secretary of the Department or Vigilance Department for taking further action. It added in August 2004 that the recoveries detected by it during special audits had since been posted in a register.

7.3.5 Training

The report of the Comptroller & 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. However, no action had been initiated as on date and no training had been imparted to the 108 persons actually working in the Directorate. Further, the Manual of Internal Audit which is the primary guideline to be followed in internal audit has also not been updated since 1989.

Accepting the audit observation, the Directorate stated in August 2004 that efforts were being made to chalk out a training programme in consultation with the Directorate of Training.

7.3.6 Compliance to statutory audit

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 & 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 four years is as follows:

Table No. 7.3.6: Civil Audit observations

| | | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|----|---|---------|---------|---------|---------|
| 1. | Number of inspection reports pending settlement | 1114 | 1315 | 1331 | 1071 |
| 2. | Number of outstanding audit observations | 5299 | 6333 | 5995 | 5164 |
| 3. | Money value of objections (in crore of Rupees) | 78.95 | 87.31 | 104.84 | 149.94 |

Department-wise details of outstanding audit observations as on 31 March 2004 are given below:

Table No. 7.3.7: Department-wise details of outstanding audit observations

| Sl. No. | Name of department | Number of outstanding paras as on 31.3.2004 |
|---------|------------------------------|---|
| 1 | PWD | 1006 |
| 2 | Irrigation and Flood Control | 218 |
| 3. | PAOs | 231 |
| 4. | Health Department | 759 |
| 5. | Education Department | 779 |
| 6. | Social Welfare Department | 399 |
| 7. | Other Departments | 1772 |

Table No. 7.3.8: Revenue Audit observations

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---------|---------|---------|---------|
| Number of inspection reports pending settlement | 943 | 1022 | 1115 | 811 |
| Number of outstanding audit observations | 8544 | 9290 | 9947 | 5364 |
| Amount of revenue involved (in crore of Rupees) | 418.98 | 662.82 | 835.82 | 1206.08 |

Table No. 7.3.9: Commercial Audit observations

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

At the instance of the Accountant General (Audit), Delhi, the State Government activated the ad-hoc State Level Audit Committee in September 2003. There was consequently a net reduction of 5,458 outstanding audit

objections pending in the office as on 31 March 2004 as compared to 31 March 2003.

Given the huge number of 10,616 paras 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.

Response of the Departments to Draft Paragraphs

Draft Paragraphs and Reviews 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 May 2004 to July 2004 was as follows as of February 2005:

| | No. of Paragraphs/Reviews sent | | Replies received from Management/ Government | |
|-----------------------------------|--------------------------------|---------|--|---------|
| | Paras | Reviews | Paras | Reviews |
| Civil Department | 11 | 3 | 7 | 3 |
| Revenue Department | 23 | 3 | 19 | 3 |
| Government Companies/ Corporation | 11 | 1 | 7 | 1 |

7.3.7 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:

- Audit planning needs to be strengthened and rationalized. Units should be selected after systematic risk analysis taking into account staff constraints.
- Staff posted in the Directorate should at the time of their induction be imparted proper training so that they are equipped to effectively discharge their responsibilities. In addition, there should be mid-posting refresher courses to update their knowledge and skills. The internal audit manual should be immediately updated in the light of best practices and internal audit standards adopted internationally.

- There should be an effective system of stringent monitoring of pending audit paras of both internal audit and statutory audit. Further, every head of department should be held accountable for settlement of audit paras within a stipulated time frame. Long pending paras should attract adverse notice at the highest levels.

Accepting the above recommendations, the Directorate stated in August 2004 that the point regarding audit planning had been noted and that efforts were being made to chalk out a training programme for its staff and to review the pending audit objections through the State Level Audit Committee.

New Delhi
Dated:

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

Countersigned

New Delhi
Dated:

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