

CHAPTER - V

INTERNAL CONTROL MECHANISM AND INTERNAL AUDIT

5.1 Internal Audit Arrangement in Government Departments

5.1.1 Introduction

Internal Control is an integral part of an organisation's operation and is the principal focus of the Internal Audit. Internal Audit unit is an independent function within or outside the department to examine and evaluate the level of compliance to the departmental rules and procedures and in the aggregate provide independent assurance to senior management on the adequacy of the risk managements and internal control frame work for the Department/Government. The responsibility of reviewing the adequacy of Internal Audit arrangement lies with the external Auditor.

5.1.2 Internal Audit arrangement

Internal audit of all the departments and offices in the State is the responsibility of the Internal Inspection Cell (IIC) under the administrative control of Director of Accounts. Government, in August 1996, decided that major departments, having a post of Sr. Accounts Officer/Accounts Officer, would be responsible for internal inspection of their subordinate offices (278 numbers).

Government decided to keep major departments outside the purview of the IIC

There were two IICs, one each in North Goa at Panaji for 162 units and South Goa at Margao for 68 units. Each IIC was consisting of one Deputy Director of Accounts, two Assistant Accounts Officers and four Auditors.

5.1.3 Scope of audit

The functioning of the IICs was reviewed by test check of the records pertaining to the period 1998-2003. Important points noticed are mentioned below.

5.1.4 Internal Auditing standards

In Goa, there was no manual of Internal Audit. No standards or methodologies of internal audit were prescribed for the Internal Auditors. Even the duties and powers of IICs were also not documented. In fact, internal audit by the IICs was limited to examination of the Bill Register, Cash Book, Receipt Book etc to ensure their proper maintenance, as per prescribed Financial Rules. Thus, internal audit was practically routine in nature and does not cover value for money audit/performance reviews of the schemes/programmes/projects of the auditees.

No manual of Internal Audit or Auditing standards was prescribed for IIC

5.1.5 Audit planning and coverage

There was no annual plan for internal audit by the IICs. Offices were selected for internal audit on rotation basis, without any prioritization, as no risk analysis was done in respect of the auditee units. In August 1996, Government decided that internal audit should be conducted only for three years from the current month

Annual Plan was not prepared for IICs

going back to the date of the last audit by IIC or CAG whichever is later. It indicated that internal audit was not being done at a regular interval and no periodicity of audit was prescribed.

It was noticed that, as a result of the orders of August 1996, internal audit of five units* was skipped by the IICs for 11 to 35 months during the period May 1996 to November 1999.

The following table shows that only 24 to 40 units (10 to 18 per cent of the total auditee units) were covered each year by the IICs during past five years.

Year	No. of auditable units	No. of units covered	Percentage of coverage
1998-1999	230	29	13
1999-2000	230	38	17
2000-2001	230	40	18
2001-2002	230	35	16
2002-2003	230	24	10
TOTAL		166	

Majority of IIC mandays were utilized for statutory audits of Municipalities and village panchayats

Poor coverage of the units by the IICs was because they diverted most of the working days for audit of the Municipal Councils (13) and Village Panchayats (189), for which they were the statutory auditors. During 1999-2003 number of days utilized for internal audit was only 54, 68, 46 and 72 (against 244-253 working days available) respectively. As a result the work of internal audit was neglected.

In nine departments^ (15 units) no internal audit was conducted from August 1996 onwards.

The IRs of the IICs did not indicate any month being selected for detail checking by them. Further, there was no record to show that remittances of receipts were verified in audit.

5.1.6 Issue of Inspection Reports

Issue of Inspection Reports was delayed, despite time frame fixed

For effective compliance, it is desirable that the inspection reports are issued within a reasonable time frame after the conclusion of internal audit inspection. It was observed during test check that the register for issue of Inspection Reports was maintained only from 2002-03 and 21 Inspection Reports were issued after a gap of 33 to 63 days from date of completion of the audit. Details for earlier

* Goa College of Home Science, Collector North Goa, District Registrar cum Head of Notary Services, Conservator of Forests and Goa College of Pharmacy.

^ Directorate of Industries, Trade & Commerce, Home Guards and Civil Defence, Directorate of Estates, Finance Department (Secretariat), Government Polytechnic, Curchorem, Directorate of Museums, Law Department (Secretariat), Directorate of Youth Affairs and Department of Science, Technology & Environment.

period though called for were not furnished to Audit. In the absence of the records timeliness of issuance of Inspection Reports prior to 2002-03 could not be verified in audit.

Director of Accounts stated (October 2003) that no time frame was fixed by the Government for issue of Inspection Report on completion of internal inspections. The reply was not tenable, as a time limit of 17 working days from the conclusion of internal audit was fixed in October 1987.

Department attributed the delays to lack of adequate manpower (October 2003).

5.1.7 Inadequate follow up action

Pursuance of Inspection Reports was left to the concerned departments instead of IICs

For effective remedial action on the issues raised during internal audit, follow up of these was necessary. However, Government did not prescribe a time schedule for taking remedial action in respect of objections raised by the IICs. The verification of compliance by the auditee departments (DDOs) was to be seen in subsequent inspections conducted by the IIC, as per the orders of the Government (February 1978). Thus the follow up action on the IICs observations/objections devolved on the administrative departments concerned. The pursuance of the Inspection Reports by the administrative departments themselves, without any pursuance from the IIC weakened the relevance and effectiveness of IIC, as can be seen in the following cases.

From the IR of Central Jail Aguada (July 1993), it was seen that there was a shortage of cash to the extent of Rs.0.44 lakh on account of manipulation, shortage, unaccounted prisoners' cash and incorrect carry forward of cash balances etc.

It was observed from the IR of July 1999 of the same organization that the shortage of cash (Rs.0.17 lakh) was not made good by the erring cashier. There was no record to show that any disciplinary action was taken against the cashier as of December 2003. All these indicated inadequate follow up of IRs.

5.1.8 Conclusions

The importance of Internal audit in the Government of Goa has still not been widely understood. As a result, Internal audit wing is still doing the routine checks only. There was no manual or standards for internal audit and no prescribed method for Audit Plan and follow up of internal audit reports. The limited manpower with the Internal Inspection Cell had to be used for the statutory audits. Thus, very limited mandays were available for internal audit. As a result, internal audit was neglected.

5.1.9 Recommendations

- ❖ Government should prepare Internal Audit Manual for guidance of the internal auditors on audit planning, audit procedure and reporting requirements
- ❖ IIC should ensure that no period is skipped for internal audit of the auditee units.
- ❖ For improving the effectiveness of internal audit, timeliness in conducting audit and issue of Inspection Reports should be ensured.
- ❖ Government should enable the IICs to pursue the observations raised during inspection and ensure compliance by the departments.
- ❖ IIC should be strengthened and regular professional education/training imparted to the internal auditors.