

CHAPTER V

INTERNAL CONTROL SYSTEM IN GOVERNMENT DEPARTMENT

ROADS AND BUILDINGS DEPARTMENT

5.1 Evaluation of Internal Audit System in Roads and Buildings Department

5.1.1 Introduction

Internal control is a process established by the management to provide reasonable assurance regarding the achievements of objectives in the areas of effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable rules and regulations. The components of internal control include risk assessments, accounting information, control activities and monitoring.

Internal audit and internal control mechanism are integral parts of the administration that carries out the basic internal auditorial functions for the management. Unlike statutory audit, it is not independent of the management control and hence debilities in the internal audit system would have to be seen as debilities in the administrative accountability structure. Greater effectiveness of internal audit, by implication would ensure greater efficiency of administration and consequently would attract lesser criticism from statutory audit systems and procedures would be corrected on an ongoing basis, providing a concurrent support system to administration.

Government stated (October 2003) that no internal audit system exists in the Government departments or the Heads of Department (HODs) and internal control with regard to financial matters of the State Government is governed by Rules/procedures framed under the provisions of various Manuals/Rules*.

Although no specific system of internal controls is evolved by the government, periodical departmental inspections are conducted by the administrative departments and HODs for ensuring safeguard against errors and irregularities in operational and financial matters.

The Internal Control System followed as per various Manuals/Rules framed by the Government was evaluated in Roads and Buildings Department with regard to its implementation, adequacy and effectiveness. The audit observations are as under:

5.1.2 Organisational Set-up

The Roads and Buildings Department is headed by Secretary (Roads and Buildings). The activities of the department are carried out by the Executive Engineers, being the divisional in charge, under the overall supervision of Superintending Engineers and the Chief Engineers.

The Divisional Accountant (DA) acts as an Internal Auditor in R&B Divisions. According to codal provisions, a Divisional Accountant is required to exercise checks on internal accounts/vouchers besides advising Divisional officer on all matters relating to accounts. He is also entrusted with the responsibility of periodical inspection of the accounting records of the sub-divisional offices. He also checks a percentage of the initial accounts.

* Budget Manual, General Financial Rules, Treasury Rules, Contingent Expenditure Rules, Delegation of Financial Powers and Defining power for officers at different levels under Rules of Business.

5.1.3 Audit Coverage

The functioning of the Internal Audit System of 12 R&B Divisions of the State in ten Districts* and the records of the R&B Department was test checked (September-October 2003) covering the period from 1998-99 to 2002-03.

5.1.4 Absence of auditing standards/guidelines

No auditing standards were laid down

It was observed during review that no auditing standards have been laid down by Government for internal audit in Roads and Buildings Department and Narmada, Water Resources and Water Supply department. No training on internal audit was provided to the staff engaged on this work and also the staff engaged in administrative inspection. In the absence of well defined system, neither quality checks are being exercised nor corrective actions taken.

5.1.5 Non-achievement of the purpose of Internal Audit

The DA as an internal auditor in a PW Division is required to check the payments to Contractors/Suppliers and to ensure that these are being made correctly according to the financial rules, conditions of agreement, etc.

Material testing charge of Rs.4.87 lakh short recovered

Short recovery: Instances were noticed where recoveries were made incorrectly due to failure in applying the checks or applying these incorrectly. In thirteen illustrative cases as shown in **Appendix XXXII**, there were short recoveries of Rs. 4.87 lakh towards Material Testing Charges from the contractors due to application of incorrect method of recovery.

In similar three cases in two Districts*, short recovery of material testing charges of Rs. 0.34 lakh were recovered from Contractors at the instance of this review.

The internal audit of 13 Sub-Divisions not carried out

Arrears in audit: The DAs are required to carry out periodical inspections of the accounts records of the sub-divisional officers under the division. Test check of Divisional records revealed that in respect of 13 sub-divisions of five divisions^ no inspection was conducted for varying periods from 1998-99 to 2001-02 as detailed in **Appendix XXXIII**. In other 18 sub-divisions of five divisions* inspection was conducted simultaneously for two to three years and that too within a period of two days only as detailed in **Appendix XXXIV**.

Audit of earlier years left in arrears

Audit conducted without clearing arrears of earlier years: Scrutiny revealed that in seven sub-divisions of three divisions,^ though the inspections of earlier years were in arrears, the audits were conducted for the subsequent years without clearing the arrears of earlier years. As a result the audit of the earlier years remained in arrears. The details are given in **Appendix XXXV**.

No objections were recorded in objection books

Non-maintenance of Objection Book: Out of 12 Divisions test checked, four Divisions^φ did not maintain any objection book, seven Divisions^θ did not record any objection and no major objection was recorded in the remaining one Division[⊕] during 1998-2002.

* Anand, Bharuch, Bhuj, Gandhinagar, Godhra, Palanpur, Rajpipla, Surat, Vadodara and Valsad.

♦ Anand and Rajpipla

▲ Bharuch, Godhra, Palanpur, Surat-I and Vadodara City.

♣ Anand, Gandhinagar, Palanpur, Surat-II and Vadodara City.

¥ Bharuch, Godhra and Vadodara City.

φ Godhra (PMs), Surat-I, Vadodara City and Valsad

θ Anand, Bharuch, Bhuj (Kutchh), Gandhinagar, Palanpur, Surat-II and Vadodara District

⊕ Rajpipla

**Inspection Reports
were not produced to
audit**

Non-production of Inspection Report: The reports of inspections conducted were not produced to audit either due to the Inspection Reports not being drawn up or the report did not contain any observations/comments.

5.1.6 Conclusions

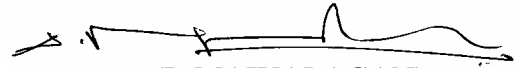
As observed by audit and also stated by Government that no separate Internal Audit System exists in the Government Departments. However the system is not effective in the department where it exists.

Based on a recommendation from the Comptroller & Auditor General of India in August 1992, several State Governments introduced Internal Audit Systems in their States by entrusting the Internal Audit functions also to the State Accounts Department/Examiner of Local Funds Accounts. However, no action has been taken by the Government in this regard.

5.1.7 Recommendations

- Government should immediately implement the recommendations of the Comptroller and Auditor General of India and create a separate audit wing in the State with a view to ensure greater efficiency and proper accountability of various departments.
- Strengthen the Internal Audit system in the Departments wherever it exists. All internal audit personnel should be imparted training on modern audit methodologies.

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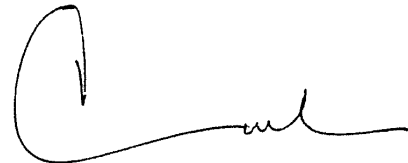


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