

## CHAPTER V

### Internal Control System in Government Department

#### 5. Introduction

Internal control mechanism forms an integral part of an organisation to provide independent assurance to the senior management on adequacy of internal control frame work of the department. It tends to ensure that provisions of Codes, Manuals and Rules laid down by the Government provided fool-proof and workable system for smooth performance of duties and responsibilities at all levels of staff and that the provisions were being adhered to in letter and spirit. The Rules and Manuals provide for reliability of financial reporting, effectiveness and efficiency of department's operations. In order to ensure these objectives every departmental head is provided with Internal Audit Wing to safeguard against errors, irregularities in operational and financial matters.

#### 5.1 Evaluation of Internal Audit System in Forest Department

##### 5.1.1 Organisational set up

In the Forest Department the Internal Audit Wing was established in the year 1978. The Internal audit wing has nine cadre posts of the Treasuries and Accounts Department.

Internal Auditors being from Treasuries and Accounts department are independent entities and submit their reports to the Principal Chief Conservator of Forest (PCCF).

##### 5.1.2 Training of Audit Personnel

Training programme are arranged from time to time by the Academy of Administration, Madhya Pradesh, Bhopal on behalf of Directorate of Treasuries and Accounts. However, the internal audit wing of Forest department has not codified instructions issued by the Department even after lapse of a period of 25 years since its establishment. Hence there is no code or manual for the internal audit. No internal audit standards has been prescribed. which is essential to make the internal Audit more effective.

The PCCF stated (September 2003) that action is being taken to strengthen the Audit Wing by providing necessary books, instructions etc.

##### 5.1.3 Planning of Internal Audit

With a view to enhance the effectiveness, the Internal audit must be planned based on risk indicators corroborated through detailed risk analysis. In the Forest department, the selection of units for internal audit is done merely by rotation and no statistical or scientific method is used to select the units. The

department has fixed the periodicity of audit of all units as once in 3 years irrespective of size, expenditure and associated risk.

#### 5.1.4 Adequacy of coverage and periodicity of the audit

The year-wise position of availability of staff for internal audit as well as units covered by audit was as under:-

Year	Availability of staff for audit				Position of coverage of audit				
	Director	Dy. Director	Asstt. Director	Asstt. Internal Audit Officers	Total No. of units	Units due for audit	Units covered by audit	Percentage of coverage	Deficiency in No. of units (Percentage)
1998-99	1	1	1	7	156	52	15	29	37 (71)
1999-00	1	1	1	7	156	52+37=89	26	29	63(71)
2000-01	1	1	1	5	156	52+63=115	21	18	94(82)
2001-02	1	2	1	4	156	52+94=146	15	10	131(90)
2002-03	1	2	1	4	156	52+131=183	7	4	176(96)

Though there was no deficiency in availability of staff during the years 1998-99 to 2000-01, shortfall in coverage of audit ranged between 71 per cent and 82 per cent with reference to the year 1998-99. During the years 2001-02 and 2002-03 the deficiency in the staff was 11 per cent while the shortfall in coverage of units ranged between 90 percent and 96 per cent respectively.

The Department attributed the reasons for pendency in internal audit coverage to -

- (i) Transfer of staff to Chhattisgarh State in excess of their proportion. These posts were filled in July 2003.
- (ii) The supervisory staff was engaged in other important departmental activities.

This reply confirms that the available staff was not utilised for the purpose for which it was sanctioned. Internal audit is an important function and the staff meant for internal audit should not be engaged in other departmental activities.

#### 5.1.5 Inspection reports of Internal audit

The year-wise position of Inspection Reports (IRs) issued by internal audit, as well as its settlement is as under:-

Year	Total No. of IRs issued	Total no. of Paras included in the IRs of			Total No. of paras settled		Total No. of Paras still outstanding	
		Serious nature	Ordinary nature	Money value (Rs. in crore)	No.	Money value (Rs. in crore)	No.	Money value (Rs. in crore)
1998-99	15	--	210	13.01	107	5.78	103	7.23
1999-00	26	--	358	14.40	34	0.24	324	14.16
2000-01	21	--	284	8.80	21	1.49	263	7.31
2001-02	15	--	192	10.73	21	0.22	171	10.51
2002-03	7	--	129	3.06	--	--	129	3.06
<b>Total</b>	<b>84</b>	<b>--</b>	<b>1173</b>	<b>50.00</b>	<b>183</b>	<b>7.73</b>	<b>990</b>	<b>42.27</b>

All the 1173 paras included in the IRs were of ordinary nature. Not a single para of serious nature was found by internal audit in the audit of 84 units covered during the years 1998-99 to 2002-03.

No time-frame for responses to the audit observations has been fixed. It is stated that efforts have been made for early settlement of paras by issuing periodical instructions.

### 5.1.6 Overall effectiveness of Internal Audit

#### (a) Departmental compliance to internal audit observations

As department had not fixed any time-frame for responses to the internal audit observations, the compliance was low ranging between zero per cent to 51 per cent during the years as mentioned below:-

Year	Total No. of paras included in the IRs	Total No. of Paras settled		
		No.	Period of compliance	Percentage of settlement
1998-1999	210	107	More than five years	51
1999-2000	358	34	More than 4 years	9.5
2000-2001	284	21	More than 3 years	7.39
2001-2002	192	21	More than 2 years	10.93
2002-2003	129	--	More than 1 years	Zero

#### (b) No system has been corrected at the instance of Internal Audit.

(c) There was not a single instance where any recourses and penal action was taken by the department at the instance of Internal Audit.

### 5.1.7 Outcome of special audits done by Internal Audit wing

Special Audit of any units was not entrusted to the Internal Audit Wing by the PCCF. The PCCF stated (October 2003), that the special audit does not come under the purview of Internal Audit Wing. Usually Special Audits are conducted by Directorate of Treasuries and Accounts under the special order of Finance Department.

### 5.1.8 Evaluation of the performance of Internal Audit

With a view to keep the Internal audit more effective, it is essential that the internal control structure must be reviewed and updated periodically. It is evident from the information made available by the PCCF and test check of the records, the performance of the Internal Audit was not evaluated so far.

The Government to whom the matter was referred (October 2003) endorsed (December 2003) the reply of the Department wherein the CCF (Finance / Budget) while accepting the para No. 1 to 3 and 7 to 8 stated (November 2003) that deficiency in coverage of internal audit should be taken on year to year basis. He further stated that Department's statement regarding not finding paras of serious nature meant only that no such serious cases of theft, fraud etc. were found in audit. As regards audit observation at para No. 10 the CCF stated that the internal audit is not mere formality but Department is serious

towards Internal audit and already expressed commitment towards strengthening the internal Audit Wing.

### **5.1.9 Conclusion**

The internal audit wing of the Forest department has become a mere formality. The wing does not carry out the tasks which are essential to its existence. Neither are the units covered regularly, nor is any system check or analysis carried out. A weak Internal Audit wing reflects weak internal controls, which can result in frauds etc.

### **5.1.10 Recommendations**

It is in the interest of the department that the Internal audit wing be strengthened and made more effective through proper training and professional education. The selection of units for internal audit should be based on risk indicators corroborated through risk analysis. The staff meant for internal audit should only be utilised for the same.

## **5.2 Evaluation of Internal Audit System in Technical Education and Training Department**

### **5.2.1 Audit Coverage**

An evaluation study of Internal Audit system was carried out during September-October 2003 in the Department of Technical Education which consists of one Directorate with 5 Engineering Colleges, 41 Polytechnics, 9 Pre-Vocational Training centres and 1 Technical Higher Secondary School (total 56 units) under the control of Director. Results of test check of records of the Directorate and 5 Government Engineering Colleges (Bhopal, Jabalpur, Rewa, Sagar and Ujjain) are given in the succeeding paragraphs.

### **5.2.2 Organisation of Internal audit wing**

A separate Internal Audit wing was set-up in the office of the Director, under the supervision of Accounts Officer. A Deputy Director was in-charge of the wing under overall control of the Director.

Against the sanctioned strength of one superintendent, five senior auditors, four junior auditors, one assistant Grade-I and one assistant grade II (total 12 members), four senior and four junior auditors (total eight) were deployed in other wings of the Directorate. As a result, there was a huge shortage of staff in the wing.

Due to acute shortage of staff, Internal audit of 38 of the 56 units could not be conducted during 1998-2003. Reasons for engaging staff of Internal Audit to other Jobs of the office were not intimated by Director.

### **5.2.3 Auditing standards, responsibilities and duties for Internal audit**

No auditing guidelines for selection of units, programming of audit, identification of key areas for check in audit, detailed duties & responsibilities assigned to each member of party, measures and time frame to comply with the objections raised etc. were provided in departmental codes/Manuals/Standing instructions for Internal Audit wing.

### **5.2.4 Training of Internal audit personnel**

The persons trained in accounts were posted in the Internal Audit wing. No separate training in auditing or refresher courses was arranged for Internal Audit staff, which was essential to make the internal audit effective.

### **5.2.5 Planning, coverage and periodicity of internal audit**

Audit observed that Internal Audit of the units was being conducted on ad-hoc basis without observing fixed and roster/cycle registers and periodicity. 42 units were pending for audit since 10 to 20 years and 10 units were pending for Internal Audit since their inception (1984). The Internal Audit wing never conducted the audit of Directorate itself. The position of pendency of internal Audit of units is shown in the **Appendix LI**.

On being pointed out, the Director stated that no specific Codes & Manuals were framed and due to shortage of staff, internal audit could not be conducted. Reply only confirmed that work of internal audit had suffered due to deployment of audit staff to other sections.

### **5.2.6 Pendency of audit observations**

As only 18 out of 56 units due were audited during last five years (1998-2003) for period ranging between 9 to 17 years, no repeat audit was conducted. It could not be ascertained whether deficiencies indicated in the reports were removed/complied with and the corrective measures taken. Internal audit of accounts for years earlier to 2-3 years hardly served intended purpose of internal control and tool of management.

Inspection reports (IRs) of two units viz. Government Engineering College, Rewa and Government Polytechnic, Ashoknagar were not issued though audit was conducted during 2002. No time frame for response to the audit observation had been fixed. As a result, the immediate compliance of the audit observations were not made by the units. Of the 255 observations outstanding, 149 related to IRs of 56 units, audits of which was conducted prior to 1998 and remaining 106 pertained to audit conducted between 1998-2003. No serious efforts were made for obtaining compliance for internal audit observations.

### **5.2.7 Overall effectiveness of Internal audit**

Internal Audit wing was not found effective, as 58 per cent internal audit observations remained unsettled for want of compliance. No penal action was found to be initiated against any officer/official on the basis of Internal audit observations. No special audit was conducted so far except in case of Women Polytechnic, Sagar on the basis of complaints of suspected misappropriation of stores and stock, which was stated to be in progress.

### **5.2.8 Conclusion**

The internal audit wing in the department was found ineffective and did not carry out the tasks which were essential for its effectiveness. Neither the units were covered regularly nor any system check or risk analysis carried out. The wing carried out audit of seven units for period ranging between four and 17 years. Thus, the purposes for which the Internal audit wing was created have not been achieved.

### **5.2.9 Recommendations**

- ⇒ The department should devise a manual/code of internal audit providing periodicity and detailed procedure for carrying out audit and rectification of errors noticed during internal audit.
- ⇒ The staff strength required for internal audit should be assessed to cover the audit within a reasonable time frame and full deployment made.

Gwalior  
The

**(J.N. GUPTA)**  
**Principal Accountant General (Audit)-I**  
**Madhya Pradesh**

*Countersigned*

New Delhi  
The

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