

**CHAPTER V**  
**INTERNAL AUDIT SYSTEM IN GOVERNMENT DEPARTMENTS**

**MEDICAL EDUCATION AND DRUGS DEPARTMENT AND REVENUE DEPARTMENT**

*Introduction*

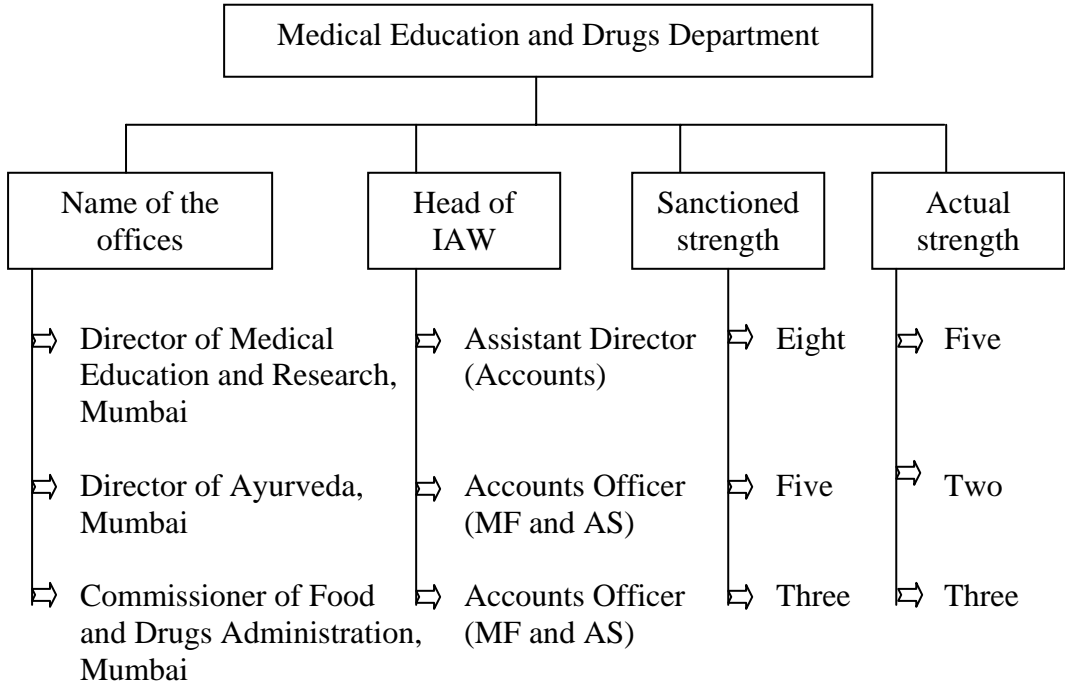
Internal Audit is responsible for examining and evaluating the level of compliance to the departmental rules and procedures, in the aggregate, provide assurance to senior management on the adequacy of the risk management and internal control framework of the department. The responsibility of reviewing the adequacy of such an Internal Audit arrangement lies with the external auditor of Government entities.

A review of the adequacy of internal audit systems in vogue in two Departments of the State Government for the period 2000-2003 conducted during September to October 2003 revealed the following.

**5.1 Medical Education and Drugs Department**

*5.1.1 Organisational Set up*

Organisational set up of the internal audit wing in the Medical Education and Drugs Department (MEDD) is as under:



### **5.1.2 Duties of internal audit**

IAW functioning under the DMER, Mumbai is to conduct biennial audit of 44 medical colleges/hospitals/health units.

IAW existing in the office of the Commissioner, FDA, Mumbai is to conduct annual audit of 30 offices in the State.

The IAW in the office of the Director of Ayurveda, Mumbai is to conduct annual audit of 15 Government and 20 non-Government (aided) colleges.

The internal audit report of the units concerned approved by the Commissioner/Director is issued to the respective Heads of Institutions for compliance.

### **5.1.3 Scope of Audit**

The internal audit system in the MEDD including the DMER, DA and Commissioner, FDA, Mumbai was reviewed on the basis of information collected for the years 2000-2003 (September 2003). The results are indicated in the succeeding paragraphs.

### **5.1.4 Auditing Standards**

**No manual of Internal Audit or Auditing Standards was prescribed for Internal Audit**

There was no manual of Internal Audit or Auditing Standards prescribing the principles and practices, which the Internal Auditors has to follow. The audit of expenditure was conducted with reference to the prescribed rules<sup>1</sup>. In addition, the MEDD stipulated (September 2000), specific parameters/records to be seen during internal audit.

### **5.1.5 Planning of Internal Audit**

**Annual Audit programme was not prepared**

The IAW of DMER is required to prepare an annual audit plan before the commencement of the financial year for conducting the audit during the year. The IAW functioning under DA and the DMER, Mumbai, did not prepare an annual audit programme for the years 2000-2003.

### **5.1.6 Periodicity and Coverage of Audit**

**Internal Audit of Medical Colleges/hospitals was not conducted as specified**

The IAW is to conduct audit of the units/offices under their jurisdiction. Scrutiny of records maintained in DMER, Mumbai revealed that internal audit of the medical colleges/hospitals/health units was not conducted as specified. Out of 22 units due for audit annually, only two units were audited during 2000-01. No unit was audited during 2001-2003. The position of units covered by the IAW of the three offices under MEDD is as follows:

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<sup>1</sup> Bombay Financial Rules 1959, Maharashtra Contingent Expenditure Rules 1965 and Maharashtra Treasury Rules 1968

| Name of IAW  | Year      | Number of units to be audited |                | Number of units actually audited |                | Number of units pending |                |
|--|-----------|-------------------------------|----------------|----------------------------------|----------------|-------------------------|----------------|
|  |           | Government                    | Non-Government | Government                       | Non-Government | Government              | Non-Government |
| Director of Medical Education and Research, Mumbai | 1998-99   | 22                            | --             | 1                                | --             | 21                      | --             |
|  | 1999-2000 | 22                            | --             | 1                                | --             | 21                      | --             |
|  | 2000-01   | 22                            |                | 2                                |                | 20                      |                |
|  | 2001-02   | 22                            | 0              | Nil                              |                | 22                      |                |
|  | 2002-03   | 22                            |                | Nil                              |                | 22                      |                |
| Director of Ayurveda, Mumbai                       | 1998-99   | 15                            | 20             | 03                               | 02             | 12                      | 18             |
|  | 1999-2000 | 15                            | 20             | 06                               | 06             | 09                      | 14             |
|  | 2000-01   | 15                            | 20             | 15                               | 13             | --                      | 7              |
|  | 2001-02   | 15                            | 20             | 15                               | 4              |                         | 16             |
|  | 2002-03   | 15                            | 20             | 7                                | 5              | 8                       | 15             |
| Food and Drug Administration, Mumbai               | 1998-99   | 31                            |                | 13                               |                | 18                      |                |
|  | 1999-2000 | 31                            |                | 18                               |                | 13                      |                |
|  | 2000-01   | 30                            |                | N A                              |                | -                       |                |
|  | 2001-02   | 30                            |                | 16                               |                |                         |                |
|  | 2002-03   | 30                            |                | 20                               |                | 10                      |                |

Internal audit wing of DMER, Mumbai audited only four units during 1998-2003 against 110 units. Reason for the arrears in audit was attributed to shortage of staff during 2000-2003 (September 2003). The reply is not tenable as no justification is given for arrears in audit pertaining to the earlier period 1998-2000 when staff was available.

The arrears in IAW of Director of Ayurveda ranged between three and 15 units in respect of Government and upto 12 units in respect of non-Government units during 1998-2003.

The IAW of FDA audited 13 to 20 units during 1998-2003 against 31 units. No reasons for shortfall in conducting audit were furnished by either of the above.

#### 5.1.7 Follow up of Audit observations

Inspection Reports approved by the Commissionerate/Directorate were issued to the head of the office concerned for compliance. The internal audit wing was to maintain registers showing the unit/year wise number of audit objections initiated, settled and outstanding during the year. The IAW of DMER, Mumbai had not maintained any register showing the unit wise position of the audit observations. The compliance by the units could not be ascertained in the absence of registers/records. The position of outstanding paras of internal audit in respect of offices under MEDD during the period 1998-2003 is as follows:

**Unit wise position of audit observations not maintained by internal audit wing in Director, Medical Education and Research**

| Name of internal audit wing                         | Year      | Number of paras initiated | Number of paras closed | Number of paras outstanding as on 31.08.2003 |
|---|-----------|---------------------------|------------------------|--|
| Director of Ayurveda, Mumbai                        | 1998-99   | Audit not conducted       |                        |  |
|   | 1999-2000 |                           |                        |  |
|   | 2000-01   | 181                       | 109                    | 72   |
|   | 2001-02   | 196                       | 47                     | 149  |
|   | 2002-03   | 29                        | --                     | 29   |
| Commissioner, Food and Drugs Administration, Mumbai | 1998-99   | 92                        | 92                     | Nil  |
|   | 1999-2000 | 173                       | 170                    | 3  |
|   | 2000-01   | 190                       | 190                    | Nil  |
|   | 2001-02   | 167                       | 146                    | 21   |
|   | 2002-03   | 174                       | 124                    | 50   |

### **5.1.8 Reporting**

**The internal audit reports were of routine nature and no prioritisation was made for conduct of audit**

The internal audit reports issued by IAW of DMER office in respect of Public Health Unit Palghar (Thane district) for the period 1997-2001 revealed that the observations were of routine nature ie payment of electricity bills, verification of dead stock registers, delay in remittances, GPF and service books. The report does not show the position of paras outstanding, action taken in respect of previous audit observation pointed out, reconciliation of the remittances and withdrawals, functioning/non-functioning of machinery etc.

There are 44 Government medical colleges and attached hospitals in Maharashtra. Major hospitals are in Mumbai, Pune, and Nagpur cities on which huge expenditure is incurred annually. Such hospitals are required to be audited annually. It was noticed that the audit of such hospitals was not conducted during 1997-2003. This indicated that the audit plan was not based on the priorities viz the financial implication/expenditure incurred etc. In DMER, Mumbai the pendency in audit of the colleges/hospitals/health units ranged from three to 27 years. Despite this no efforts were made to plan the audits on priority basis considering the huge expenditure and other risk factors involved. Verification of medical stock and stores by the medical officer in charge of the hospital need to be mentioned in the inspection report. The IAW report throws no light on the verification of stock and stores, indenting and issue of stores to the indenter. Moreover the annual inspection of the Medical colleges/ Hospitals is to be done by the O and M Officer of the DMER. The IAW report does not comment on the annual inspections not conducted.

### **5.1.9 Training of Audit Personnel**

There was no arrangement for imparting training to the internal audit personnel.

**Frauds/embezzlement occurred in 10 hospitals where internal audit was in arrears for six to 24 years**

### **5.1.10 Special Audit**

IAW of the DMER, Mumbai conducted special audit of 10 medical colleges/hospitals at the instance of the Government/ DMER during January 2001 to February 2003. The special audit of Indira Gandhi Medical College, Nagpur was conducted (February 2002) to look into the difference of Rs 22.44 lakh between the actual cash balance and cash book balance, for the period between April 1992 and December 2001. Responsibility for shortage of cash was fixed by internal audit and the First Information Report was lodged on 26 October 2002 with police. The internal audit of Indira Gandhi medical college had not been conducted since 1988. The special audit was also to look into five cases pertaining to medical store verification and the four cases regarding misuse of post, embezzlement of funds and fraudulent reimbursement of medical claims.

Scrutiny of records revealed that the internal audit of these 10 medical colleges/hospitals was in arrears from six to 24 years. It was thus obvious that failure on the part of IAW to complete regular internal audit resulted in occurrence of misappropriation/frauds.

## **5.2 Revenue Department**

### **5.2.1 Organisational Set up**

The Divisional Commissioner, the executive authority at the divisional level of the revenue administration, monitors the working of the district Collectors. There are six Divisional Commissioners under whom 35 district Collectors are functioning. Based on the recommendations of the Public Accounts Committee and direction of Finance Department, the Government (April 1977) created IAW for the revenue receipts in the offices of the Divisional Commissioners and district Collectors. The IAW of Commissionerate is headed by Assistant Director, Accounts and that of Collectorate by Accounts Officer.

### **5.2.2 Internal auditing standards set by the Government**

According to the norms fixed by the Government, IAW is required to test check 20 per cent of the total cases in which assessment is complete and check 100 per cent of cases where relief is granted and cases where there are arrears of recoveries to ascertain the correctness. However, due to non availability of records showing category wise position of cases, the department failed to adhere to the norms fixed for assessment.

### **5.2.3 Lack of Planning for Internal Audit**

In order to have effective internal audit, it is necessary to have proper planning with due consideration of risk indicators based on the money value and probable escape/evasion of revenue. It was, however, noticed that there were no risk indicators provided to IAW for planning and programming of the units. The Divisional Commissioner/Collector approves annual programme of the IAW considering only the number of units in arrears.

#### **5.2.4 Non-adherence of time schedule for issue of Inspection Reports**

Government directives (August 1996) provide that the IAW should issue Inspection Report (IR) within two months from date of completion of audit. Similarly, the audited body has to furnish compliance of the IR para within one month from the receipt of IR failing which disciplinary action has to be taken against the responsible official.

Scrutiny of records in two Commissionerates, Aurangabad and Nagpur revealed that there was delay in issue of IR over two months in Nanded and Chandrapur Collectorates and in Commissionerate, Nagpur. The first compliance was received after three months in all the offices. In, Nanded collectorate compliance was not received since 1998-99. The Commissioner, Nagpur stated that the first compliance is generally received in one year and in case of money value para, it takes two to three years after the recovery is effected. No departmental action according to Government directive was, however, initiated for non-adherence to the time schedule.

#### **5.2.5 Arrears in internal audit, coverage and clearance of outstanding paragraphs**

➤ Government framed (April 1983) rules for internal audit according to which every revenue receipt office has to be audited by the IAW once in a year. Similarly, according to Government instructions (April 1984) the IAW in Commissionerate should review the quarterly progress reports critically and in details. They should give special attention to the speedy clearance of paragraphs and issue suitable instructions to the officers impressing upon them the importance and necessity of compliance of paragraphs of IRs promptly.

Scrutiny of records revealed that audit was in arrears since 1992-93 and paras were outstanding since 1976-77. The year wise position of pendency in two Commissionerates as of June 2003 was as follows:

| Year         | Divisional Commissioner,<br>Nagpur |            |             | Divisional Commissioner,<br>Aurangabad |            |             |
|--------------|------------------------------------|------------|-------------|--|------------|-------------|
|              | Pendency in<br>audit               | IR         | Paragraphs  | Pendency in<br>audit                   | IR         | Paragraphs  |
| 1976 to 1997 | 5                                  | 370        | 1320        | 18                                     | 548        | 3346        |
| 1997-98      | 6                                  | 43         | 330         | 12                                     | 58         | 235         |
| 1998-99      | 12                                 | 30         | 315         | 24                                     | 24         | 349         |
| 1999-2000    | 24                                 | 45         | 753         | 51                                     | 47         | 1139        |
| 2000-01      | 49                                 | 80         | 1030        | 77                                     | 47         | 1151        |
| 2001-02      | 87                                 | 38         | 1007        | 97                                     | 54         | 1514        |
| <b>Total</b> | <b>183</b>                         | <b>606</b> | <b>4755</b> | <b>279</b>                             | <b>778</b> | <b>7734</b> |

➤ The Assistant Director Accounts, Nagpur Commissionerate attributed the vacant posts as reason for pendency and also to the additional work at Collectorate being entrusted to the IAW. The Commissioner, Aurangabad attributed the pendency to the unavoidable circumstances such as

general elections, natural calamities etc. The large pendency in audit defeated the purpose of creation of IAW.

On being asked reasons for pendency of IR paras for over 25 years, the Divisional Commissioner, Aurangabad stated that efforts for speedy clearance of pending paras were taken up at Commissioner as well as Government level. The Commissioner, Nagpur stated that despite all efforts, non-response from the audited body was the main cause for pendency of paragraphs at district level. The non-response of the audited body in complying with the IR/paragraphs shows that serious thought is not being given to IRs, thereby defeating the purpose of creating the IAW.

The audit programme of the selected IAW Collectorate, revealed that on an average three to four years of audit is taken up at a time. In some cases, period of five to 11 years is covered. Thus inordinate delay in taking up the audit defeated the purpose and objective of internal audit to bring out the omissions/irregularities for its prompt remedial action and avoid its recurrence.

#### **5.2.6 Poor response to Internal Audit**

Scrutiny of records in Nagpur, Commissionerate revealed that out of 127 money value paras pertaining to 1976-77 to 2000-01, involving recovery of Rs 7.17 crore as of June 2003, only of Rs 3.76 lakh in case of 32 paras was recovered (March 2003). The position shows poor response of audited offices to IAW findings as well as poor persuasion of compliance from IAW side.

The Assistant Director (Accounts) stated that the departmental authorities (audited bodies) do not take prompt cognizance of the IRs for assessing correctness of the audit finding, raising demand for defaulted amount despite persuasion by Commissioner in monthly meetings with Collectors.

#### **5.2.7 Training**

Rules provide that the Divisional Commissioner concerned should immediately arrange a short period training programme on audit of revenue and receipts for the IAW staff of the division. However, in none of the Commissionerate test-checked such training was arranged.

#### **5.2.8 Internal check of expenditure**

Government in March 1981 re-entrusted the work of checking of validity of bills before submission to treasury, inspection of receipt and payment of the Collectorate, Sub-division, Tehsil to the regular revenue staff. There was no internal audit system for expenditure except annual inspection by the Collector/nominated officer as required under Government circular of April 1985.

### **5.3 General Recommendations**

- An Internal Audit Manual should be prepared to provide guidance to the IA staff on audit planning, audit procedures and reporting requirements.

- Well thought out, short and long term audit plan should be prepared to ensure complete coverage of offices and activities.
- IAW should complete audit of units mandated to prevent misappropriation of funds/frauds.
- The system of monitoring and follow up action registers for watching audit objections should be maintained for ensuring compliance.
- Government should conduct a special drive to clear/obtain compliance for paras outstanding in respect of Internal Audit Reports issued.
- Time gap between audits conducted and issue of IRs should be minimised.
- Objections outstanding for a prolonged period for want of action should be communicated to Government.
- Diversion of staff of IAW for other purposes should be discouraged.
- Training of staff engaged on IA should be taken up on a continual basis to impart skills necessary to evaluate the adequacy of controls within the organisation.
- The independent status of IAW should receive due publicity within the department.

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