

## CHAPTER VIII : INTERNAL AUDIT/INTERNAL CONTROL ARRANGEMENTS

### FINANCE DEPARTMENT

#### 8.1 Internal Audit and Internal Control system in Meghalaya

##### *Highlights*

*Internal Audit and Internal Control systems in the State had not yet gathered momentum. Internal audit of Government departments by the Examiner of Local Accounts mainly depended upon the desire of the concerned auditee departments. There was absence of internal control in the Government departments which led to unrealistic budgetary provisions as well as serious deficiency in the control over expenditure.*

##### *8.1.1 Introduction*

Internal auditing is a fast growing and important activity and every Government entity must have in operation an effective system of internal controls. Internal audit is an independent appraisal of the activities within the organisation for review of accounting, financial and other business practices. It works as a protective and constructive arm of the management. It is internal audit that evaluates the sufficiency and effectiveness of other types of internal controls. Internal audit works as the 'eyes and ears' of the management. It also helps the management to bring out the changes in the system where defects/loopholes/shortcomings are detected and pointed out by the internal audit.

For effective financial management and internal controls, the Directorate of Accounts and Treasuries and Local Accounts of the State was bifurcated in February 1990 into two separate Directorates, viz. the Directorate of Accounts and Treasuries and the Directorate of Local Accounts under the charge of the Director of Accounts and Treasuries, and the Examiner of Local Accounts (ELA) respectively. The latter was given the responsibilities of conducting internal audit.

The duties, powers and functional jurisdiction of the ELA as prescribed under the notification of October 1990 are (i) to examine and carry out the audit of accounts of local bodies and accounts of various departments of the Government, aided educational institutions, other organisations as specified in the Local Audit Manual and such other accounts of organisations/offices, etc. as may be entrusted by the Government from time to time in this regard and to pass and issue Audit/Inspection Report thereon and, (ii) to supervise and inspect the audit works of the aided institutions/organisations and offices throughout the State.

Though the jurisdiction of the ELA extends over all the Government departments/offices besides local bodies, District Councils, Government aided institutions, etc, in practice the ELA audits only the accounts of local bodies, District Councils, grants-in-aid institutions, Nazarat and other accounts of Deputy Commissioners and Sub-Divisional Officers, revenue portion of revenue earning departments and accounts relating to works expenditure of other civil departments, excluding the general expenditure of all Government departments/offices.

The department stated (December 2003) that the ELA was not entrusted with the internal audit of the Government departments but audit is conducted on the accounts of various local bodies and grants-in-aid institutions as specified under the Local Audit Manual. The fact remains that the internal audit of various department of the Government, *etc.* was to be conducted by the ELA as per notification of October 1990.

### 8.1.2 Structure of the Government

The Government of Meghalaya comprises 55 heads of departments under the control of 45 administrative departments.

### 8.1.3 Manpower

For comprehensive and effective internal audit, skilled manpower is necessary. The men-in-position for internal audit as of September 2003 against sanctioned strength and their deployment are as follows:

**Table 8.1**

Posts	Sanctioned strength	Men-in-position	Deployment
Audit Officer	27	9	One attached to Directorate of Sericulture and Weaving One attached to Directorate of Social Welfare
Auditor	35	35	...
Assistant Auditor	72	55	Thirteen attached to seven <sup>(a)</sup> different directorates/offices.

Source: Information furnished by the ELA.

Out of nine Audit Officers and 55 Assistant Auditors, the services of two Audit Officers and 13 Assistant Auditors are placed at the disposal of nine Directorates, two Audit Officers, three Auditors and one Assistant Auditors are attached to Directorate of Local Accounts for scrutinising Inspection Reports received from the field audit staff and calculation of Death-cum-Retirement Gratuity, *etc.* The remaining five Audit Officers, 32 Auditors and 41 Assistant Auditors are with the ELA and their services are utilised for conducting audit of various accounts and fixation of pay in the revised scale of deficit schools.

<sup>(a)</sup> Higher & Technical Education (three), Agriculture (two), Inspector General of Police (two), Border Areas (one), Health Services (one), Animal Husbandry & Veterinary (one), Transport (one), Sericulture & Weaving (one) and Social Welfare (one).

The position of manpower for internal control management as of September 2003 along with their deployment is as under:

**Table 8.2**

Post	Men-in-position	Deployment
Examiner of Local Accounts Director	1	In the individual Directorate of (i) Examiner of Local Accounts (ii) Accounts and Treasuries
Officer on Special Duty	1	Finance Department
Financial Advisers/Finance and Accounts Officer	19	Deployed in different departments/directorates
Finance & Accounts Officers	14	One in Directorate of Housing & Social Welfare and 13 in Treasuries as TO/STO

Source: Information furnished by the Finance (Establishment) Department.

#### **8.1.4 Independence of internal audit**

For an effective internal audit, it is necessary that functional independence of the group is ensured so that it is able to function in an objective manner. It should report to and work under the direct control of the head of the organisation. Functional independence also ensures that Internal Audit acts as the 'eyes and ears' of the head of the organisation.

According to the existing system, audit of the Government departments/offices is taken up only when a request comes from the respective heads of the departments/Finance Department. This indicates that internal audit has no free access to Government departments/offices. The performance of the Auditors/Assistant Auditors is also monitored by the department where they are posted. They are drawing their pay and allowances from the establishment where they are posted and their performance is also monitored by the head of the auditee organisation. As a result internal audit staff perform their functions as subordinate staff compromising the independence of internal audit.

#### **8.1.5 Auditing standards**

To ensure the quality of the audit and to avoid sub-standard work, auditing organisations frame either their own auditing standards or adopt some prevailing and accepted auditing standards. The work done by the auditors should continuously be compared to the adopted standards to ensure quality. But the ELA had not yet framed or adopted any auditing standards. Internal Audit manual of their own had not been brought out by the Directorate/Government and the auditors had been following the Assam Local Funds (Accounts and Audit) Act, 1930 as adopted by the Government of Meghalaya.

The department stated (December 2003) that besides the Assam Local Audit Manual and the Act, 1930, *ibid*, other rules framed by the Government as the standard for auditing were also followed by the Local Audit Department. Details of such rules had not been furnished.

### **8.1.6 Audit planning**

For efficient and optimum utilisation of the limited manpower and financial resources, audit planning is required to be done every year. This ensures coverage of all required units over a period of time, prioritisation of auditee organisations in audit according to need, finalisation of time schedule for audit, distribution of audit resources among various audit aspects, *etc.* Audit planning includes creating financial and functional profile of the auditee organisations, capturing their main activities in terms of finance and objective of the department, identifying important sources of revenue, assessment and distribution of audit manpower, *etc.* The audit plan leads to formation of an annual calendar of audit that contains targets in terms of number of offices to be audited, time schedule, *etc.*

The concept of audit planning was not prevailing in the offices of the State Government. Targets in terms of number of units to be audited, financial value of audit observations, *etc.* were also not found fixed. Audit of Government departments was conducted depending upon the requirement of the departments concerned and was not independently taken up by the ELA, with the exception of grants-in-aids institutions where audit is taken up as per plans and programmes drawn up by the ELA.

### **8.1.7 Reporting, issuance and monitoring of Inspection Report**

The ELA had not fixed any time limit for issuance of Inspection Reports (IR) to guard against any delay.

Audit is conducted by ELA. The auditors from the field after conducting audit send the IRs to the ELA for record and pursuance. Copies of IRs are also sent to the administrative heads for their information. But no records showing the details of IRs as well as progress register, objection book, monthly/quarterly report on settlement of old paragraphs were made available to Audit.

The ELA stated (October 2003) that 355 IRs covering 425 audit units were issued during 2000-2003. Of this, 153 IRs were settled during the period.

The department stated (December 2003) that the Audit Reports were monitored through individual files of auditee institutions and the time limit fixed for issuance of Audit Report was soon after completion of audit. The fact remains that an effective way to monitor action on the IRs would be to maintain appropriate register. Reasons for not fixing specific period for issue of IRs had not been furnished.

### **8.1.8 Training**

Staff training is one of the important aspects of manpower development. To equip with latest development/changes in the system of maintenance of accounts or new technology, training of the internal audit staff plays a vital role. The audit staff of the ELA has to pass the prescribed course of training as per the provisions of the Service Rules and no other training is imparted. It

was found that 23 Assistant Auditors were imparted training on accounts for four months duration by the Director of Accounts and Treasuries during the years 2000 to 2002. No other training for improvement of the quality of audit was imparted.

### ***8.1.9 Failure of the internal control/internal audit system***

The internal audit system had been functioning in the State since its creation. But the same had not yet gathered momentum in terms of financial management of the State. A few instances are given below:

(i) During 1992-2002, eight Drawing and Disbursing Officers drew Rs.29.88 lakh through 20 Abstract Contingent (AC) Bills (details in Appendix XII). The Detailed Countersigned Contingent (DCC) Bills against such drawal, required to be submitted to the Accountant General by the controlling officers within a month, were not submitted till March 2003. Consequently, these drawals remained un-regularised for periods ranging from one to 10 years. The large scale non-regularisation of withdrawal in AC Bills indicated a serious deficiency in control over expenditure.

(ii) In case of 11 grants, supplementary provisions of Rs.14.67 crore obtained during 2002-03 proved unnecessary as the expenditure of Rs.427.15 crore fell short of even the original budget provision by Rs.76.55 crore (details in Appendix XXXIX). This indicated that estimates of expenditure prepared by the various departments of the State for supplementary budget were not realistic and the internal control/internal audit arrangement run by the State failed to point out the defects.

(iii) The spending departments are required to surrender the grants/appropriations or portion thereof to the Finance Department as and when the savings are anticipated. During 2002-03, the entire available savings of Rs.43.73 crore (saving exceeding Rs.10 lakh) under 13 cases of grants and one case of appropriation were not surrendered by the concerned controlling officer (details in Appendix XL). As a result, Finance Department was not able to re-allocate such savings to other needy departments. This was indicative of ineffective monitoring and control over expenditure.

### ***8.1.10 Evaluation/Conclusion***

The internal control/internal audit system is still functioning at a very basic level and thus, is not able to fulfil its required objective. Its control and independence is to be ensured, work has to be planned, mandate is to be widened to incorporate expenditure accounts on the Government departments/offices, additional and skilled staff need to be provided, reporting and monitoring systems need strengthening so that it can work as a good control mechanism that evaluates and reports on the sufficiency and effectiveness of the functioning of internal controls in various Government departments.

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