

## **CHAPTER – VIII**

### **INTERNAL CONTROL/INTERNAL AUDIT**

#### **FINANCE DEPARTMENT/DIRECTORATE OF ACCOUNTS AND TREASURIES**

##### **8.1 Internal control/internal audit system in Mizoram**

###### **8.1.1 Introduction**

Internal Audit (IA) is an independent appraisal of the activities within the organisation for review of accounting, financial and other business practices and it works as a protective and constructive arm of the management. It is an internal control that evaluates the efficiency and effectiveness of other types of internal controls. IA works as an ‘eye and ear’ of higher management. IA through its findings on the one hand keeps the head of the organisation aware about the compliance of his/her orders, organisation’s financial, administrative and other procedures and on the other hand it also helps management in bringing constructive changes in the system.

For an effective financial management and internal control, the Government of Mizoram established the Office of the Examiner of Local Accounts under the control of the Directorate of Accounts and Treasuries. The audit jurisdiction of the IA *i.e.*, Examiner of Local Accounts extends over all Government Departments, offices under these departments, non-Governmental organisations, local bodies, autonomous bodies, *etc.*

###### **8.1.2 Structure of the Government**

There are 45 heads of departments (HOD) under whom there are 488 drawing and disbursing officers (DDOs)/auditee units.

###### **8.1.3 Manpower**

For ensuring a comprehensive and effective IA, it has to be equipped with enough manpower with right skills. It was noticed that the Examiner of Local Accounts had the following officers and staff in position:

**Table 8.1**

Sl. No.	Designation	Post
1.	Examiner of Local Accounts (He is also Director of Accounts and Treasuries)	1
2.	Joint Examiner of Local Accounts (He is also Joint Director of Accounts and Treasuries)	1
3.	Deputy Examiner of Local Accounts (He is also Deputy Director of Accounts and Treasuries)	1
4.	Assistant Examiner of Local Accounts	1
5.	Auditors	4
6.	Assistant Auditors	4
7.	Lower Division Clerk	1
8.	Peons	2

From the above it is clear that no regular incumbents have been posted against the posts of Examiner, Joint Examiner and Deputy Examiner but the Director, Joint Director and Deputy Director respectively of Directorate of Accounts and Treasuries are looking after these posts as additional charge.

The available staff *viz.*, one Assistant Examiner, four Auditors and four Assistant Auditors are not sufficient to conduct any effective audit of 488 auditee units/DDOs offices. This aspect should have been viewed in the light of IA's audit jurisdiction that extends over all the Government Departments, offices under 45 HODs.

It was noticed in audit that of the total 488 units, the IA could cover 47, 45 and 42 units during the years 2000-01, 2001-02 and 2002-03 respectively. Thus, an average of only 45 units were covered in a year which worked out to 9 *per cent* of the total auditee units. This clearly indicated that the IA system prevailing in the State was ineffective. During the period 2000-03, 134 inspection reports (IRs) were issued to the concerned DDOs, of which only 71 IRs were settled during the period leaving 63 IRs as outstanding as of October 2003. Action, if any, initiated for settlement of these outstanding IRs was not on record.

#### **8.1.4 Independence of IA**

For an effective IA system it is mandatory that the functional and financial independence of the office of the Examiner of Local Accounts has to be ensured so that it is able to take decisions about its audit activities on merit basis. It should report and work under the direct control of the head of the organisation and provision for enough funds should be ensured by the head. The functional independence ensures that IA acts as an 'eye and ear' of the organisation especially of the head of the organisation. This also ensures that IA not only brings out lapses or violations of system but also is able to give its recommendations to stop these lapses or improve system in future.

In the State of Mizoram, the Examiner of Local Accounts is reporting to the Directorate of Accounts and Treasuries under intimation to Finance Department. The Directorate of Accounts and Treasuries is also working under Department of Finance.

From the above it is clear that the independence of the Examiner of Local Accounts is compromised. It not only works under the Directorate of Accounts and Treasuries but also all its supervisory level posts of Examiner, Joint Examiner and Deputy Examiner are being looked after by the Director, Joint Director and Deputy Director respectively of Directorate of Accounts and Treasuries. These posts being supervisory level posts are expected to not only supervise the audit work being done by the staff but all the audit activities are to be directed, planned and prioritised by them.

Further, in reply to an audit query about the types of audits, *i.e.*, Regularity, Proprietary, Value for Money (VFM), System, *etc.*, that has been undertaken, the Director of Accounts and Treasuries stated (September 2003) that audit is done as per direction of the Finance Department.

#### **8.1.5 Audit Standards**

To ensure that the quality of the audit is not compromised or sub-standard, auditing organisations frame their own auditing standards or adopt some prevailing and accepted standards. The work done by the Internal Audit should continuously be compared to the adopted standards to ensure qualitative control and benchmarking.

It was noticed in audit that the Directorate has neither formed their own auditing standards nor has it adopted any accepted auditing standards. In the absence of any auditing standards, the quality of the work done, remained unevaluated.

#### **8.1.6 Mandate**

According to the General Instructions which is the only guiding document available, the IA is basically to conduct regularity audit, *i.e.*, compliance of rules, regulations, procedures, *etc.* Propriety audit is required not only to ensure the effectiveness of the IA but also it benefits the State by ensuring efficient utilisation of its scarce resources. Besides, there has been tremendous increase in expenditure on various developmental and welfare programmes for achieving the desired results. Thus, it is necessary to examine the aspect by undertaking propriety audit.

It was noticed that propriety audit is neither mandated by the General Instructions nor has any such audit has been done in the past.

### **8.1.7 Audit Manual**

Each auditing organisation should have its IA Manual which keeping in view its mandate explains the various criteria/aspects of its audit, selection of units for audit, sampling for detailed examination, monitoring and reporting of audit findings, special audits, *etc.* The manual is not only required for daily usage by the staff but is also very useful to train new staff on their promotion to or induction to the group.

The Examiner of Local Accounts has not prepared any IA Manual and the entire audit is being guided by general instructions.

### **8.1.8 Training**

Staff training is one of the important aspects of Human Resource Planning and Development. Since the job of audit is technical and related to the auditee organisations, it has to keep itself updated with the changes in system of maintenance of accounts or new technology *i.e.*, Information Technology adopted by the auditee organisations. The knowledge of Information Technology not only helps in conducting better and effective audit but also helps in better audit planning, reporting, monitoring of audit, monitoring of reports, generation of any relevant information instantly from the captured database, *etc.* The use of Computer Assisted Audit Techniques (CAATs) ensures efficient utilisation of limited audit resources. Similarly, new areas in audit like Energy audit and Environment audit are gaining more and more importance world over. IA has to keep itself aware to these new challenges through frequent trainings.

The staff working in Examiner of Local Accounts were never given any kind of training on manual audit, CAATs, propriety audit, value for money audit, statistical sampling, audit planning, *etc.*

### **8.1.9 Audit Planning**

It is accepted fact that for an efficient and optimum utilisation of the limited manpower and financial resources, audit planning is mandatory. This ensures coverage of all required units over a period of time, importance to units according to need, topicality and financial turnover, finalisation of appropriate time schedule for audit; distribution of audit resources among various types of audit, *etc.* Audit planning is also recommended since *cent per cent* audit is neither recommended nor possible. Audit planning includes creating financial and functional profile of the auditee organisations, capturing their main activities in terms of finance and topicality, identifying important sources of revenue, assessment of availability and distribution of audit manpower, *etc.* The Audit planning is converted into an annual calendar of audit that contains targets in terms of number of units to be audited by the auditing organisation as a whole and also as individual groups/teams, value and number of audit observations, time schedule, *etc.*

It was noticed that the concept of Audit planning or annual calendar of audit was not prevalent in the office of the Examiner of Local Accounts. No targets in terms of number of units to be audited, financial value of audit observations, *etc.*, was also found fixed.

#### **8.1.10 Reporting and issuance of Inspection Reports**

In audit reporting, it is highly desirable that there is some form of an agreed format for drafting of the audit/inspection reports. This ensures some kind of uniformity in the reporting. Similarly, after the audit/inspection is completed the reports are to be issued to the concerned office for necessary actions. To ensure that the reports are issued without much delay, time limits should be prescribed and observed in practice.

The time limit for issuing of report after completion of audit was fixed as two weeks. It was noticed that there was no prescribed/agreed format for drafting of Audit/Inspection Reports. In the absence of an agreed format uniformity in reporting cannot be ensured.

#### **8.1.11 Failure of the Internal Control/Internal Audit System**

The internal control/internal audit system is an independent appraisal of the activities within the organisation for review of accounting, financial and other business practices. But it is observed that though the system exists the same has not gathered momentum in terms of financial management of the State. A few instances are given below:

Supplementary provision of Rs.36.85 crore made in 13 grants/appropriations during 2002-03 proved unnecessary in view of savings of Rs.100.48 crore against the original provision of Rs.428.96 crore. This indicated that estimates of expenditure prepared by the various departments of the State for supplementary budget were defective and the internal control/internal audit arrangement made by the State failed to point out the defective preparation of the estimates of expenditure for supplementary budget.

Further, according to rules framed by Government, the spending departments are required to surrender the grants/appropriations or portion thereof to the Finance Department as and when the savings are anticipated. It is seen that out of the total savings of Rs.186.47 crore (**Appendix-XXXII**) under 38 grants/appropriations during 2002-03, Rs.157.37 crore (84 *per cent*) were not surrendered by the different Controlling Officers (COs) of the State. 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.

During the period from 1997-98 to 2001-02, nine DDOs of four departments had drawn Rs.3.85 crore through 56 abstract contingent (AC) bills but detailed countersigned contingent (DCC) bills for the same had not been submitted to Accountant General (A&E), Shillong as of June 2003 (**Appendix-XXXIII**).

These drawals remained unadjusted for periods ranging from one to five years though the rule provides that drawal of AC bills requires presentation of DCC bills to the COs and transmission to the concerned Accountant General (A&E), along with a certificate to the effect that for every AC bill, DCC bills have been submitted to the CO in respect of all AC bills drawn more than a month after the date of that bill. Due to non-submission of DCC bills the actual expenditure against these drawals remained unassessed by the Government. This indicated serious deficiency in control over expenditure as the entire amount of Rs.3.85 crore remained out of Government account for a considerable period, besides being fraught with the risk of misappropriation.

#### **8.1.12 Monitoring of Inspecting Reports**

In a healthy system of IA once the audit reports are issued to the concerned parties, some effective system has to be evolved to pursue these findings to their logical conclusions. This also ensures an effective IA and all the hard work done by the audit staff and expenditure incurred in conducting these audits are not wasted and the Government benefits from these observations through corrective and preventive follow up actions. Outstanding observations can be effectively pursued through regular periodical correspondence and reminders to the concerned organisations. If no suitable action is taken by the office, this is to be brought to the knowledge of higher authorities for their action. The higher authorities are normally expected to take these observations more seriously since they are responsible for overall performance of the organisation. The old outstanding observations should be reviewed keeping in the light of replies received from the auditee offices. Here it must be mentioned that the methodology adopted by the Supreme Audit Institution, *i.e.*, office of the Principal Accountant General (Audit) about the formation of Audit Committees containing members from Finance, concerned Departments and Audit has been found quite effective for spot discussion and settlement of audit observations.

It was noticed that the Examiner of Local Accounts has been sending copies of its reports to the Finance Department. It does not maintain any records on Progress Register, Objection Book, Monthly/Quarterly Report on Settlement of Old Paras, correspondences on old observations, *etc.* Thus, in this situation how far the audit observations are being pursued could not be examined in audit.

#### **8.1.13 Evaluation/conclusion**

Internal Audit in the State is still in an underdeveloped or basic stage and thus is not able to deliver what it is supposed to deliver. Its independence is to be ensured, audits have to be planned, mandate is to be widened to incorporate propriety and value for money audits, additional and skilled staff needs to be provided and reporting and monitoring system needs strengthening so that it can work as a control tool of the Government that evaluates and reports on the sufficiency and effectiveness of other internal controls.

The matter was reported to the Government/departments in October 2003; reply has not been received (November 2003).

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