

CHAPTER-V

Internal Control System in Government Departments

5.1 Evaluation of Internal Control System in Government Departments

Introduction

In response to the growing concerns of financial analysts, governance experts and the civil society at large with regard to the debilities of internal control system in governance structures, increasing attention is being paid by audit to the efficacy of the internal control systems. Evaluation of the effectiveness of internal audit forms part of a wide spectrum of measures devised for the purpose by the Comptroller and Auditor General of India. Internal audit is an integral part 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 procedure would be corrected on an ongoing basis, providing a concurrent support system to administration.

Internal Audit Systems of four Government departments[#] were evaluated with regard to their adequacy and effectiveness. Audit of Department of Panchayati Raj Institutions, conducted by an external agency viz. Director, Local Fund Audit was also evaluated. The audit observations are as under:

Civil Departments

5.1.1 Small Savings Department

Organisational set up

Small Savings Department, Rajasthan, Jaipur is responsible for publicity of Small Savings schemes and encouraging investment in different saving schemes. The Department has 32 District Offices. The internal audit of Directorate is conducted by the Director of Inspection, Jaipur while that of 32 subordinate offices is conducted by the Directorate through a section under the supervision of Additional Director.

Performance of Internal Audit

Evaluation of the Internal Audit System revealed the following:

- The internal audit of subordinate offices was being conducted on the basis of provisions codified in the General Financial and Accounts Rules (GF&AR) and directions issued by the State Government and the Director

[#] Small Savings, State Insurance and Provident Fund, Panchayati Raj and Sale Tax.

from time to time. The periodicity of audit was one financial year, actual pendency of internal audit revealed that audit of 30 offices was not taken up for two to 12 years as shown below:

Audit pending since	Number of offices
April 1991	1
February 1993	1
April 1996	1
April 1997	1
April 1998	12
April 1999	8
April 2000	2
April 2001	4

- No separate internal audit standards, guidelines/manuals for conduct of internal audit and responsibilities of internal audit organisation have been prescribed by the Department. Training, also was not arranged for Internal Audit staff.
- No time limit for issuing the report was fixed and there was no formal format prescribed for the Inspection Report.
- Fifteen days are fixed for first compliance of Internal Audit Report from the date of issue. A total of 619 paras were outstanding on 31 August 2003 involving 72 inspection reports belonging to the period July 1981 to March 2003.

Non-effectiveness of Internal Audit

Substantial pendency of internal audit, lack of training, lack of internal auditing standards and guidelines, and considerable pendency of compliance on internal audit observations reflected poorly on the effectiveness of internal audit system in the Small Savings Department.

During discussion (25 November 2003) the Additional Chief Secretary, Finance while admitting the facts stated that pendency of internal audit was mainly due to shortage of staff. He, however, assured to clear the pendency by March 2004.

5.1.2 State Insurance and Provident Fund Department

Organisational set up

The Director, State Insurance and Provident Fund maintains accounts of State Insurance and Provident Fund of the employees of the State Government, sanctions loans/advances during service period of the employees and settlement of claims at the time of death/retirement. There are eight divisional offices and 37 subordinate offices under the Director. The internal audit of Directorate is conducted by the Director of Inspection, Jaipur and that of the subordinate offices by a section established in the Directorate.

Performance of Internal Audit

Evaluation of the Internal Audit System revealed the following:

- The internal audit was being conducted on the basis of provisions codified in General Financial and Accounts Rules (GF&AR) and various instructions issued by the Director, State Insurance and Provident Fund from

time to time. The periodicity of audit was one financial year but actual pendency of audit was from one to eleven years as per details given below:

Audit pending since	Audit of State Insurance (Number of offices)	Audit of Provident Fund (Number of offices)	Audit of expenditure (Number of offices)
1991-92	-	-	1
1992-93	-	-	5
1993-94	-	-	1
1998-99	23	-	-
1999-2000	1	-	1
2000-01	9	32	5
2001-02	1	2	7
2002-03	1	1	17
Total	35	35	37

- Internal audit of State Insurance was pending in 23 offices for the last five years (since 1998-99), while audit of Provident Fund was pending in 32 offices since 2000-2001 out of total 37 offices.
- There was no codal provision for conducting internal audit in the department. There did not exist any specific rules/manuals, audit standards and guidelines under which internal audit is to be conducted. Further, no training was arranged for internal audit parties of the Directorate.
- No time limit was fixed for issuing the reports and there was no formal format prescribed for the inspection report.
- Fifteen days are fixed for compliance of internal audit reports of State Insurance and Provident Fund, while in case of Expenditure audit 30 days are given. It was, however, observed that compliance of internal audit reports was not made in time. A total of 1466 paras were outstanding on 31 August 2003 involving 162 inspection reports as per details given below:

S.No.	Particulars	Outstanding	
		IRs	Paras
1.	State Insurance	26	214
2.	Provident Fund	51	696
3.	Expenditure Audit	85	556
	Total	162	1466

Non-effectiveness of Internal Audit

Cases of overpayment/less payment of claims of State Insurance and Provident Fund were noticed during internal audit of State Insurance and Provident Fund on account of non-posting/delayed posting of withdrawals/recoveries and incorrect calculation of interest. This indicated slackness of the mechanism of internal checks. A large number of outstanding internal audit report/paras (162 IRs involving 1466 paras) coupled with substantial pendency of internal audit indicated inadequacy and inefficacy of internal audit.

During discussion (25 November 2003) the Additional Chief Secretary, Finance while admitting the facts stated that pendency of internal audit was mainly due to shortage of staff. He, however, assured to clear the pendency by March 2004.

5.1.3 Panchayati Raj Department

Organisational set up

There are 32 *Zila Parishads* (ZPs), 237 *Panchayat Samitis* (PSs) and 9189 *Gram Panchayats* (GPs) in the State. Principal Secretary, Panchayati Raj and Rural Development Department assisted by Director, Panchayati Raj Department is the administrative head at the State level. There is no provision for Internal Audit in the department. Director, Local Fund Audit (DLFA), Rajasthan conducts annual audit of all the units of *Panchayati Raj* Department under Rajasthan Local Fund Audit Rules, 1955 framed under Section 16 of Rajasthan Local Fund Audit Act, 1954 (Act). Audit conducted by DLFA includes test audit and special audit.

Test-check (September 2003) of records of the Director, Panchayati Raj Department and the DLFA, Rajasthan, Jaipur for the period from April 1998 to March 2003 revealed the following:

Pendency of audit

Periodicity of audit of all the Panchayati Raj Institution (PRI) units was annual. However, out of 9189 GPs, audit of 1317 GPs was pending for total 7256 accounting years indicating that audit was due for an average 5½ years in each of 1317 GPs. Though, the main reason for pendency of audit was non-production of records by the GPs, DLFA did not take any action against the defaulters under Section 7 of the Act which provides fining the defaulters.

Delay in first compliance of Inspection Reports (IRs)

Three months period has been fixed for first compliance of an IR. However, of 736 IRs of PSs and 97 IRs of ZPs issued during 1999-2003 PSs had not furnished first compliance of two IRs for more than three years, of 11 IRs for more than two years and of 88 IRs for more than one year. ZPs had not furnished first compliance of six IRs for more than two years and of 11 IRs for more than one year. No such record in respect of GPs was maintained by DLFA. The Director, Panchayati Raj did not intimate action taken against defaulting units.

Non-compliance of Special Audit Reports

DLFA, Rajasthan, Jaipur had got conducted special audits in 51 cases during 1991-2003. Embezzlements and serious irregularities pointed out in almost all the reports of special audits were brought to the notice of the Director, Panchayati Raj time and again for taking adequate action non recovery, disciplinary action against defaulters, police case and disciplinary action against supervising officers for supervisory negligence for not taking action against defaulters.

Scrutiny of 10 special audit reports in DLFA office revealed that though embezzlements of Rs 1.11 crore and serious irregularities involving Rs 2.52 crore were pointed out, compliance reports were not received by

DLFA for the last one to four years. No consolidated record of special audit and action taken thereon was found maintained in office of the Director, Panchayati Raj.

Outstanding embezzlement cases

There were 8643 cases of embezzlement involving Rs 6.79 crore pointed out in the IRs of DLFA, pending settlement as of July 2003. Of these, in 212 cases amount of embezzlement was more than Rs 50,000 in each case which amounted to Rs 2.48 crore. The cases were pending for recovery and disciplinary action from 1962-63 onwards. No case-wise record of the embezzlement and the action taken thereon was maintained by the Director, Panchayati Raj for effective monitoring nor was any action taken against supervising officers for supervisory negligence for not taking action against the defaulters.

Pendency of old IRs/draft paragraphs

Position of outstanding paragraphs of old Inspection Reports as of 31 May 2003 was as under:

Year	Number of outstanding paragraphs		
	<i>Zila Parishads</i>	<i>Panchayat Samitis</i>	Total
Upto 1998-1999	2,551	74,841	77,392
1999-2000	218	3,258	3,476
2000-01	209	4,001	4,210
2001-02	218	3,356	3,574
Total	3,196	85,456	88,652

Number of outstanding paragraphs of GPs were 18,52,927. As per Special Audit Report of GP, Bap (District Jodhpur) issued in October 2001, almost all the paragraphs of 25 IRs for the period 1957-2000 were outstanding in absence of compliance. Total outstanding paragraphs of GPs i.e. 18.53 lakh suggest that similar position of non-compliance may be prevailing in other GPs. Besides, 400 draft paragraphs included in the annual audit reports of DLFA were also lying unsettled (August 2003).

State, Divisional and District level permanent administrative committees were formed in March 2000 for accelerating compliance of old outstanding paras and their settlement which were to meet two to four times a year. There was a shortfall of 27 to 33 *per cent* in organising the meetings reflecting inadequate monitoring of compliance of audit observations.

The matter was referred to the Government in October 2003; reply has not been received.

Revenue Department

5.1.4 Sales Tax Department

A separate accounts wing is functioning under the supervision of Financial Advisor, who is supported by two Accounts Officers and other staff. Internal Audit is one of the important functions of this wing. Eleven internal audit parties are working with the main duty of checking assessment records of

sales tax, entertainment tax and also expenditure accounts of the entire Department. There are 443 units and all these units are audited annually. The year-wise position of units pending for Internal Audit as on 30 June 2003 is as under:

Financial year	Number of units
1998-1999	13
1999-2000	22
2000-2001	38
2001-2002	39
2002-2003	370

The position of pendency of Internal Audit paras and Inspection Reports (IR) is as under:

Year	Opening balance		Additions		Clearance		Balance at the close of year		Percentage of disposal	
	Number of IR	Paras	Number of IR	Paras	Number of IR	Paras	Number of IR	Paras	Number of IR	Paras
1999-2000	2843	17077	226	1451	105	551	2964	17977	3.42	2.97
2000-2001	2964	17977	119	3058	1035	12290	2048	8745	33.57	58.42
2001-2002	2048	8745	343	1690	153	689	2238	9746	6.39	6.60
2002-2003	2238	9746	252	2123	109	794	2381	11075	4.37	6.68

From the above it is evident that the observations made by the Internal Audit Wing are not followed-up properly and arrears of paras and Inspection Reports have shown an increasing trend in all the years except during 2000-01.

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