

## **CHAPTER- VIII**

### **INTERNAL CONTROL SYSTEM IN GOVERNMENT DEPARTMENTS**

#### **FINANCE DEPARTMENT AND SOCIAL WELFARE DEPARTMENT**

##### **Introduction**

Internal audit is responsible for examining and evaluating the level of compliance to departmental rules and procedures and also for providing assurance to senior management on the adequacy of risk management and internal control framework of the department. The responsibility of reviewing the adequacy of such an internal audit arrangement lies with external auditor of the government entities.

##### **State Internal Auditor**

##### **Duties of State Internal Auditor**

**8.1** The Government created the organisation in June 2001 and Director, Treasuries and Financial Services was redesignated as Director, Treasuries and Financial Services cum State Internal Auditor (Director).

He is responsible for supervision, control etc. of establishments of (a) Treasuries and sub-treasuries, (b) Local Fund Account and, (c) Data Centre.

The Reports of the State Internal Auditor on serious financial irregularities, lapses etc. noticed during the course of internal audit are submitted to the Government. The Director is also responsible for audit of receipts and expenditure of Local and Autonomous Bodies and Cooperative and Panchayat Institutions receiving grants in aid and loan from government.

##### **Organizational Set-up**

**8.2** Apart from the Director, Treasuries and Financial Services Cum State Internal Auditor, Government had sanctioned the posts of two Additional Directors, four Joint Directors/Deputy Directors, three Accountant-cum-Senior Data Entry Operators, two Senior Auditor-cum-Data Processing Assistants and five Office Assistant-cum-Data Entry Operators to manage the organization. For audit of Local and Autonomous Bodies, Cooperative and Panchayat Institutions, there are District Audit Officers at the District level.

## Scope of Audit

8.3 The State Internal Audit System was reviewed on the basis of information collected for the year 2002-03. Results of review are indicated in succeeding paragraphs.

## Non-establishment of the office of State Internal Auditor

8.4 Though the Government sanctioned organisational structure of office of the State Internal Auditor in June 2001, the office did not come into existence even after lapse of over two years as of April 2004 due to the fact that appointments to the sanctioned posts of Additional Directors, Joint Directors/Deputy Directors, Accountant-cum-Senior Data Entry Operators, Senior Auditor-cum-Data Processing Assistants and Office Assistants-cum-Data Entry Operators were not made.

## Auditing Standards

8.5 There was no manual of Internal Audit or Auditing Standard prescribing the principles and practices of Audit.

## Manpower Management

8.6 The position of staff sanctioned for audit of Local and Autonomous Bodies, Cooperative and Panchayat Institutions and persons in position thereagainst as on April 2003 was as under:

Serial Number	Category of Officers/Officials	Posts sanctioned	Men-in-position	Shortfall	Percent shortfall in Men-in-position
<b>(a) For Local and Autonomous Bodies</b>					
1.	Group A	2	1	1	50
2.	Group B	14	6	8	57
3.	Group C	153	46	107	70
	<b>Total</b>	<b>169</b>	<b>53</b>	<b>116</b>	<b>69</b>
<b>(b) For Cooperative and Panchayat Institutions</b>					
1.	Group A	4	1	3	75
2.	Group B	18	Nil	18	100
3.	Group C	748	246	502	65
	<b>Total</b>	<b>770</b>	<b>247</b>	<b>523</b>	<b>68</b>
	<b>Grand Total</b>	<b>939</b>	<b>300</b>	<b>639</b>	<b>68</b>

It would be seen from the above that the maximum staff shortage was in the cadre of Group 'C' staff which formed the main work force.

Steps taken to fill up the sanctioned posts were not intimated to audit.

## Internal Audit Function

8.7 Due to shortfall in men-in-position vis-a-vis sanctioned posts, accounts of all the auditee units could not be audited and the shortfall in the audit of auditee

units stood at 71 *per cent* in respect of Local and Autonomous Bodies and 54 *per cent* in respect of Cooperative and Panchayat Organisations during 2002-2003, as would be evident from the table given below:

(In number)

	Local and Autonomous Bodies	Cooperative and Panchayat Organisations	Total
Units to be audited	2136	9632	11768
Units actually audited	619	4405	5024
Shortfall	1517	5227	6744
Percentage of Shortfall	71	54	57

Thus, 6744 units (57 *per cent*) remained unaudited at the close of 2002-03. This indicated that the objective of Internal Control Mechanism of the State Government over Local and Autonomous Bodies and Cooperative and Panchayat Institutions remained largely unfulfilled.

### Financial Irregularities

8.8 During the course of audit of accounts of 5024 units, the Local Fund Account noticed financial irregularities to the extent of Rs. 6.70 crore during 2002-03 (Rs. 3.21 crore in Local and Autonomous Bodies and Rs. 3.48 crore in Cooperative and Panchayat organisations). The nature of financial irregularities was as under:

(Rs. in lakh)

Serial Number	Particulars	Local and Autonomous Bodies	Cooperative and Panchayat Organisations	Total
1.	Embezzlement and misuse of funds	1.49	19.60	21.09
2.	Excess/irregular payments	124.10	166.81	290.91
3.	Irregularities relating to grants-in-aid	10.89	-	10.89
4.	Irregularities relating to establishment	5.17	-	5.17
5.	Financial loss	130.35	-	130.35
6.	Loss of Government revenue	14.91	0.04	14.95
7.	Miscellaneous irregularities	34.25	162.02	196.27
	<b>Total</b>	<b>321.16</b>	<b>348.47</b>	<b>669.63</b>

Follow up actions taken if any, for settlement of audit observations were not intimated.

### Internal Audit Mechanism in Government Departments

8.9 According to Rule 399 (iv) of Uttar Pradesh Financial Handbook, Volume 5, Part I, the Financial Controller of each department of the Government is also the Internal Audit Officer of the department and is required to conduct 10 *per cent* audit of the department and report the important findings to the Secretary of the department, State Internal Auditor and Special Secretary, Finance Department. It was noticed that Additional Secretary of Finance Department, Uttaranchal Government in his letter (September 2002) addressed to Principal Secretary, Finance Department, Government of Uttaranchal sought issuance of

necessary Government instructions for the creation of internal control mechanism in each department of the Government on the pattern of Uttar Pradesh.

During test check of the record of the Social Welfare Directorate, Haldwani, it was noticed that the department did not have a mechanism of internal control. Scrutiny revealed that 28 audit paras<sup>•</sup> involving financial impact to the extent of Rs.8.20 lakh<sup>•</sup> noticed during the internal audit of Social Welfare Officers, Nainital and UdhamSingh Nagar by Directorate, Social Welfare, Uttar Pradesh, Lucknow in May and July 2000 (before the creation of Uttaranchal State) were lying unattended as of April 2004 even after lapse of over three years' period.

The review revealed that internal control mechanism in the State was grossly deficient.

## IRRIGATION DEPARTMENT

### Introduction

**8.10** Irrigation department in Uttaranchal State came into existence on 9 November 2000, on the separation of Uttaranchal State from Uttar Pradesh State.

### Organizational Set-up

**8.11** Chief Engineer is the head of Irrigation Department consisted of 4 Chief Engineer level II officers, 21 Superintending Engineers and 69 Executive Engineers.

### Auditing Standard

**8.12** There was no manual of Internal Audit or Auditing Standards prescribing the principles and practices of Audit.

### Internal Control System not in existence

**8.13** Scrutiny of records of Chief Engineer Ganga Ghati, Yamuna Ghati and Superintending Engineer, Irrigation Division revealed that there was no internal control system in existence in the department. As a consequence serious financial irregularities remained undetected. An illustration of this has been discussed below:

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<sup>•</sup> Social Welfare Officer, Nainital: valued Rs. 5.78 lakh , 15 paras and Social Welfare Officer, Udham Singh Nagar: valued Rs. 2.42 lakh, 13 paras.

Paragraph 114 of the Financial Handbook (Vol.VI) provides that any unspent balance out of an appropriation lapses and is not available for utilization in the following years.

Executive Engineer (EE), Mechanical Equipment & Store Division-I, Dehradun (MES-Division), was sanctioned an amount of Rs. 8.36 crore in the year 1997-98 for procurement of equipment and stock for Yamuna Valley Hydroelectric Project. However, out of this, Rs. 8.13 crore was re-allocated among six construction and maintenance divisions\* of the project on 30 March 1998. The six divisions withdrew the money and remitted the amounts to the MES Division as advances for the same purpose on the very next day, i.e. 31 March 1998. In addition to above, Rs. 0.80 crore belonging to these units was outstanding with MES Division. Out of the total outstanding advance of Rs. 8.93 crore, only Rs. 0.45 crore was utilized and Rs. 8.48 crore♦ remained unutilized till December 2003 under the deposit head.

On this being pointed out, E.E. stated (December 2003) that the amount remained unutilized as construction/maintenance divisions did not require more stock during the period.

The reply is not tenable as the drawal of funds to avoid lapse was not justified. The unspent balances should have lapsed to the Government account at the end of financial year instead of being drawn as advances.

Thus, the amount of Rs. 8.48 crore remained unutilized under deposit head for more than 5 years.

The matter was reported to the Government (December 2003), reply was awaited (May 2004).

**Dehradun  
The**

**(PRABHAT CHANDRA)  
Accountant General, Uttaranchal**

**New Delhi  
The**

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

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\* (i) Lakhwar Dam Construction Division (LDCD)-I: Rs. 1.5 crore; (ii)LDCD-II Rs. 1.00 crore; (iii) LDCD-III Rs. 0.51 crore; (iv) Lakhwa Tunnel Construction Division : Rs. 0.06 crore (v) Lakhwar Colony Division: Rs. 3.00 crore & (vi) Koti Awas & Sanchar Division: Rs. 2.06 crore.

♦ Divisions as above S.No. (i) Rs. 1.5 crore; (ii) Rs. 0.93 crore; (iii) Rs. 0.50 crore; (iv) Rs. 0.71 crore; (v) Rs. 2.92 crore & (vi) Rs. 1.97 crore.