

PERFORMANCE AUDIT ON FUNCTIONING OF INTERNAL CONTROLS

1. Introduction

Internal controls are essential for good governance. These are procedures and safeguards that are put in place by the management of an organisation to ensure that its activities are proceeding as planned. Internal controls are pervasive and continuous processes designed to provide reasonable assurance about the achievement of objectives of an entity in three broad categories viz. economy, efficiency and effectiveness of operations, including achievement of performance goals and getting timely warnings of deviations and malfunctioning. The control procedures are broadly categorised as preventive, detective, corrective, directive and compensating controls.

2. Audit objectives

Performance audit of internal controls in the Department of Revenue, Department of Heavy Industry and Department of Science and Technology was conducted to assess whether these ensured that the following general objectives were being achieved: -

- Fulfilling accountability obligations;
- Complying with applicable laws and regulations;
- Executing orderly, ethical, economical, efficient and effective operations;
- Safeguarding resources against loss;
- Reliable financial and operational data and reports; and
- Identifying and minimising the risks which the organisation faces in achieving its objectives.

3. Audit criteria

The criteria used to assess the internal controls were: -

- whether internal control systems (structures and functions) have been prescribed and documented;
- whether these systems were adequate and if not, what were the deficiencies;
- whether the management was implementing these in the manner prescribed;
- whether the management periodically reviewed the internal control structures on the basis of risk assessment and took corrective action;
- whether internal audit was planned after making appropriate risk assessment and follow up was adequate and effective.

4. Audit methodology and scope of audit

Performance audit of the effectiveness of the internal controls instituted in the Department of Revenue (Ministry of Finance), Department of Heavy Industry (Ministry of Heavy Industry and Public Enterprises) and Department of Science and Technology (Ministry of Science and Technology) covering the period 2003-2004 to 2005-06 was conducted during June-August 2006. These departments were selected in view of the importance of revenue collection and control of economic offences; the growth of industry through policy initiatives and resolution of problems relating to tariffs and trade and development of science and technology through policy formulation and assistance to technical institutes in the overall context of our economic development. The audit was conducted through sample check of records in the selected departments and their subordinate/attached offices. The systems and practices followed with reference to the provisions of the Central Secretariat Manual of Office Procedure (CSMOP), government rules, orders and instructions etc. were also assessed in audit. The sample for audit, *inter alia*, covered records relating to budget and expenditure, manpower policies, internal work study, internal audit and various control registers. The draft report was issued to departments of Revenue, Heavy Industries and Science and Technology in December, September and October 2006 respectively. Reply to the draft report was received from the Department of Science & Technology and the Department of Revenue. Reply from the Department of Heavy Industry was awaited (March 2007). The audit findings are discussed in succeeding paragraphs.