Chapter-1

Introduction

1.1 Internal controls are "the whole system of controls, financial or otherwise established by the management in order to carry on the business of the organization in a orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure, as far as possible, the completeness and accuracy of records". Government Departments are responsible for a range of diverse services for citizens. The probability that Government plans, programmes or projects may fail; services may not be delivered on time or to a satisfactory standard; benefits of a programme/scheme may not reach the targeted beneficiaries; financial loss, fraud or waste occurs, exists in all Government initiatives and endeavors. Therefore, establishing effective internal controls entails assessment/identification of risks and their detection, mitigation and prevention.

Internal Control is an integral process that is effected by an entity's management and personnel and is designed to provide reasonable assurance that the following general objectives are achieved:

- Accountability obligations and transparency;
- Compliance with applicable laws and regulations;
- Operational controls; and
- Safeguarding resources against loss and failure of control mechanism.

Internal controls consist of five interrelated components, viz.,

- Control environment;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring

The massive size and scale of Government operations call for effective internal controls over its operations. Internal controls help strengthen public accountability of Government and help balance the competing demands of delivering responsive and quality services to the community whilst recognizing fiduciary responsibilities and maintaining standards of probity, prudence and ethics. Internal Controls are, therefore, closely aligned with good governance. The existence of internal controls and risk management framework and its vibrant and honest operationalization can lead to better service delivery, more efficient use of resources, better project management and promote innovation.

1.2 Budgetary and Expenditure Controls

The Budget Manual, the Contingency Manual, Financial Rules and Treasury Rules of the Government of Assam prescribe internal controls for drawal and utilization of funds from the Consolidated Fund of the State. Although these provisions are mandatory on the part of the Executive, Audit observed that these were being bypassed persistently and with impunity by concerned authorities in the State Departments, as evidenced from the following instances:

- Against the total amount of Abstract Contingent (AC) bills of ₹1,452.00 crore drawn by DDOs in various Departments up to 31 March 2010, the total amount of Detailed Countersigned Contingent (DCC) bills received during the period up to 31 March 2010 was only ₹79.59 crore; thus leading to an outstanding balance of DCC bills of ₹1,372.41 crore as on 31 March 2010. Non-adjustment of advances for long periods is fraught with the risk of mis-appropriation and therefore, requires close monitoring by the respective DDOs.

- Although the Assam Treasury Rules prohibits drawal of money from the treasury unless it is required for immediate disbursement, the State Government had drawn ₹127.30 crore at the fag end of the financial year and deposited into the head of account 8443 – Civil Deposit to avoid lapse of budget grant. Besides, there were nine cases in seven offices under four Departments wherein ₹27.21 crore was retained for periods ranging from one to seven years in Deposit at Call Receipt (DCR)/Bankers cheque/Bank drafts/Cash ***(Appendix-I).*** Such financial transgressions lead to blocking of funds and delay in implementation of schemes/programmes for which the funds were intended.

- Contrary to Assam Treasury Rules stipulation to avoid rush of expenditure in the closing month of the financial year, in respect of 28 Major heads listed in ***Appendix II***, expenditure exceeding ₹10 crore and also more than 50 *per cent* of the total expenditure for the year was incurred in March 2010. Such lapses are fraught with the risk of weakening of controls over expenditure leading to financial mismanagement and instances of pilferage/ misappropriation going undetected.

- As per Article 205 of the Constitution of India, it is mandatory for the State Government to get the excess over a Grant/Appropriation regularized by the State Legislature. However, the excess expenditure amounting to ₹2,361.67 crore for the years 2002-03 to 2009-10 was yet to be regularized. In violation of the provisions of the Assam Budget Manual, the excess drawal of ₹2,361.67 crore was made during 2002-10 leading to erosion of the authority of the legislature over the finances of the State Government.

- General Financial Rules (GFR) and Assam Financial Rules provide that for the grants provided for specific purposes, Utilisation Certificates (UCs) should be obtained by the departmental officers from the grantees and after verification these should be forwarded to the Accountant General (A&E) within 12 months from the date of their sanction unless specified otherwise. However, 16,760 UCs due in respect of grants aggregating ₹5,769.83 crore paid up to 2008-09 were outstanding as of March 2010. In the absence of the UCs it could not be ascertained whether the recipients had utilized the grants for the purposes for which these were given.

- As per the Public Accounts Committee (PAC) stipulations, the administrative departments are required to submit Action Taken Notes (ATNs) on paragraphs and reviews featured in the Audit Reports, within three months of presentation of the Audit Reports to the Legislature. Audit however, noticed that the PAC discussed (March 2010) 965 out of 1,521 paragraphs and reviews pertaining to the years 1983-2009 and ATNs pertaining to none of the paragraphs/reviews were received either from the Departments or through the PAC. Consequently, none of these paras/reviews were settled by PAC as of March 2010. Therefore, the lacklustre approach of the Executive in responding Audit findings for taking remedial action and resting accountability on the defaulting officers dilutes the exercise of audit.

In view of the persistent nature of above transgressions of stipulated financial and budgetary provisions indicating weakening of the internal control mechanism in various State Departments, Audit has made an attempt to analyse and highlight the systemic control failures through test-check of financial transactions of 15[1] Departments of the State Government.

Audit findings relating to these departments of the State Government revealed weak financial discipline, owing not only to the absence of internal controls mechanism, but also due to inability of the management to effectively implement the controls already in place as prescribed in Laws, Rules, Regulations, Codes, Manuals etc. Absence of effective internal audit coupled with lack of supervision and monitoring to oversee that the obligations of internal controls were being discharged effectively by the executing officers aggravated the risk of failure of the systems. As is evidenced by the audit analysis; bypassing the internal control obligations resulted in misappropriation, defalcation, loss of Government funds, fictitious/wasteful expenditure; and extra, avoidable and unproductive expenditure. These are brought out under Chapters 3 to 6 of this Report. Chapter 7 deals with non-existence/non-functioning of internal audit wings in the departments which led to recurring and serious financial irregularities.

[1] (1) Animal Husbandry and Veterinary Department, (2) Commerce and Industries, (3) Dairy Development, (4) Education, (5) General Administration, (6) Health and Family Welfare, (7) Home, (8) Irrigation, (9) Panchayat and Rural Development, (10) Power, (11) Public Health Engineering, (12) Public Works, (13) Revenue (General), (14) Revenue (Reforms) and Disaster Management, (15) Urban Development.