

CHAPTER-VII FINANCE DEPARTMENT

7.1 Internal Control and Internal Audit in Government Departments

For enforcing proper internal controls in various Government departments, the Government of Assam created the posts of Financial Advisors (FAs), Finance and Accounts Officers (FAOs) and Internal Auditors (IAs). By not prescribing any auditing standard, not defining duties and responsibilities of the internal audit (IA) wing, not-ensuring the independence of the IA wing and by not having any internal audit planning, the system of Internal Control and Internal Audit was largely ineffective.

Highlights

- **Dates of creation of the posts of FAs and FAOs could not be furnished.**
(Para-7.1.1 and 7.1.3)
- **Out of 79 Heads of departments only 19 were provided with the services of Internal Auditors.**
(Para-7.1.3(b))
- **In all the offices of seven Chief Engineers (Works etc.) internal control and internal audit arrangement was non-existent.**
(Para-7.1.4)
- **There was no nodal agency to monitor the performances of the FAs, FAOs and IAs posted in various departments/HODs.**
(Para-7.1.5(i))
- **Auditing standards for conduct of internal audit by the IA wing was never prescribed and no clear-cut jurisdiction of duties and responsibilities of the IA wing and the IAs were in place.**
(Para-7.1.5(iii) and (iv))
- **13 out of 15 departments/directorates did not prepare any audit planning for Internal Audit.**
(Para-7.1.5(viii))

7.1.1 Introduction

For smooth and efficient fiscal management and for enforcing fiscal discipline, the Government of Assam, Finance Department undertook⁹² various steps, which included creation of the posts of Financial Advisers (FA) and Finance and Accounts Officers (FAO) for various departments and directorates under the Government. The

⁹² Dates of establishment/notification not on records.

posts of FAs/FAOs were to be manned by the personnel from the Assam Finance Service. The FAs/FAOs were responsible for strict adherence to various rules and orders of the Government to bring about financial regularity and to advise/assist the departments/Directorates in this regard and also establish a proper control system. In addition, the Government of Assam also created the Directorate of Audit (Local Fund) in 1921 to exercise various checks and measures in the accounts of bodies/authorities funded by Government. This Directorate (Local Fund) of Audit was also to appoint, train and depute internal auditors of the rank of Assistant Audit Officers to various departments for exercising regulatory checks in pursuance of various rules, orders/instructions of the Government in the manner as prescribed in the Assam Audit Manual (Local Fund) framed under Assam Local Audit Funds (Accounts and Audit) Act 1930.

7.1.2 *Organisational structure*

According to information made available to audit, there are 79 Heads of Departments (HODs) under the control of 49 administrative departments of the Government of Assam. The HODs consists of 67 Directorates/Chief Engineers/Commissioners etc., (Civil, Works, Revenue and Commercial) and 12 other offices including judiciary and Zonal Commissioners.

7.1.3 *Structure of Internal Control system*

(a) *Financial advisers (FA) and Finance and Accounts Officers (FAO)*

The Finance Department of the Government sanctioned and regulated the posts of FAs & FAOs to the departments and the directorates. The Finance Department furnished (August 2003) the deployment and cadre strength of 116 officers from the Assam Finance Service (AFS) to the departments, directorates and district level offices as under but did not furnish year wise and category wise sanctioned strength and men in position.

<u>Sl. No.</u>	<u>Category of Posts</u>	<u>No. of Posts</u>
1.	Director	3
2.	Senior FA/FA	25
3.	FAO/Sr. FAO	88
	Total	116

Detailed deployment list of FAOs/Sr.FAOs made available by the Finance Department showed that only 41 establishments, which included 25 directorates, were provided with the services of FAOs/Sr.FAOs. Information regarding deployment of the remaining 47 (88-41) FAOs/Sr.FAOs was not furnished (August 2003).

(b) Internal Auditors

The creation, sanction and approval of the post of Internal Auditors (IA)/Assistant. Audit Officers (AAO) was done by the Finance Department. Their selection, posting, transfer etc., are being regulated by the Director of Audit (Local Fund). As of March 2003 Government has created and sanctioned 52⁹³ posts of Internal Auditors of the rank of Assistant Audit Officers for 19 different departments/directorates. Of this, only 46 posts were filled up and 6 posts were lying vacant as of July 2003.

7.1.4 Audit coverage

Of the 79 HODs under 49 administrative departments, test-check of records and information called for from 24 directorates⁹⁴ etc., (Civil-17⁹⁵, Works-7) and the Finance Department for the period from 1998-99 to 2002-03 revealed the deficiencies mentioned in the succeeding paragraphs. All the seven Chief Engineers (Works etc.) stated (August 2003) that there was no internal control/audit arrangement in their offices.

7.1.5 Implementation**(i) System management**

According to the information obtained from 15 out of 17 directorates (Civil), it was seen that the dates for creation and posting of FAs/FAOs and IAs to the departments and the directorates ranged between 1960-61 and 2002-03. Though the Finance Department and the Directorate of Audit (Local Fund) did the selection and transfer/posting of FAs/FAOs and the IAs respectively, there was nothing on record as to who was responsible for monitoring the performance of the FAs/FAOs and the Internal Auditors. In the absence of any laid down criteria and a specified authority/department to monitor the performance of the FAs/FAOs and the IAs in the departments/directorates, the proper functioning and effectiveness of the internal control system lacked direction and their impact remained unassessed.

⁹³ Seven more posts were sanctioned and posted to seven Inspector of Schools.

⁹⁴ **Civil :** (1) Directorate of Audit (Local Fund), (2) Handloom & Textiles, (3) Controller Legal Metrology (Weights & Measures), (4) AH & Vety., (5) Higher & Technical Education, (6) Secondary Education, (7) Health Services, (8) Agriculture, (9) Dairy Development, (10) Sports and Youth Welfare, (11) Sericulture, (12) Industries, (13) Treasuries and Accounts, (14) Printing and Stationery, (15) Police, (16) Fisheries and (17) Panchayat and Rural Development

Works: Chief Engineers of (1) PWD (Roads), (2) PWD (Border Roads), (3) PWD (Building), (4) PWD (NH), (5) Water Resource, (6) Irrigation and (7) PHE.

⁹⁵ Directorate of Fisheries, Panchayat and Rural Development and the Finance Department (including all administrative Departments) had not yet furnished the information.

(ii) *Organisational structure*

Though the Finance Department was to create and sanction the posts of FAs/FAOs/IAs for all the departments/directorates and other offices, the department could not produce records to show the criteria laid down or followed for the purpose. There was also nothing on record to show as to whom the officers posted by the Finance Department would be reporting their performance. Thus, in the absence of a nodal agency to monitor the Annual Action Plan for audit, Inspection Reports of IAs and their overall performance, the officers thus deployed were left at the mercy of the departmental heads to whom they were attached. This defeated the independent character of introduction of internal control and Internal Audit system. It was seen further that out of 67 directorates, IAs were provided to only 19 directorates, coverage being 28 *per cent*. Reasons for such low coverage were neither on records nor stated by the Finance Department. Only the Directorate of Audit (Local Fund) stated that sanction and posting of IAs are dependant on needs and the importance of the departments.

It was, therefore, evident from above that, the structure of the internal control system and the internal audit was not such as to capture the totality of the Government departments for overall effective financial management.

(iii) *Auditing standards*

None of the 15 directorates/departments (Civil) from whom information was collected had prescribed any auditing standard for conduct of internal audit by the IA wing. The Director General of Police (DGP) stated (August 2003) that the IAs follow the norms and standards prescribed in the Assam Audit Manual (Local Fund) while others stated that their IAs were to function as per the Government rules and orders applicable to respective departments for better financial administration of the departments. But compilation of such rules and orders followed by the IAs could not be shown to audit.

(iv) *Duties/responsibilities of IAs*

Except DGP, the Director of Industries and Commerce, Director of Agriculture and Director of Sericulture and Weaving, the remaining 10⁹⁶ directorates had not defined the duties and responsibilities of the IAs and IA wing and they were often utilised in routine nature of office works (*viz.*, verification of Pension claims of departmental employees, checking of payment of grants in aid and other financial matters of the department, furnishing replies to AG's Inspection reports etc.), which were not relevant to the nature of duties to be performed by an auditor. Besides, the duties and responsibilities of the internal auditors, though posted by the Directorate of Audit (Local Fund) under the Finance Department, were to be fixed by the respective department/directorates where they were posted. As the Finance Department did not

⁹⁶ Directorate of Audit (LF) excluded being nodal directorate.

exercise any control over the assignment of duties etc. of IAs, the very purpose of creation of the posts of IAs and the IA wing and deployment of staff in directorates/departments were frustrated.

(v) ***Status of Internal Auditor***

Only five⁹⁷ out of 15 departments/directorates (Civil) stated that their IAs enjoy full independence in performance of their duties. The remaining 10 directorates had either remained silent or stated that the IAs are dependent on the orders of the respective Directors. Thus, the IA wing in these 10 directorates could not function or discharge their duties without fear or favour.

(vi) ***Criteria for posting of manpower to IA wing***

Supervisory level officers viz., the posts of Audit Officer/Assistant Audit Officer are manned by the Director of Audit (Local Fund) from their trained pool of officers. Other manpower below the supervisory level or where the supervisory officers were not posted by Directorate of Audit (LF), the respective departments made arrangement for posting of staff from Upper Division (UD) Assistants cadre and got them trained through the Directorate of Treasuries and Accounts. As stated by the directorates, main criteria followed in posting of IAs were honesty, integrity and overall knowledge of rules and order of the Government and the departments.

(vii) ***Training status***

IAs manned by both Directorate of Audit (LF) and the concerned departments were trained at the Central Training Institute (CTI) of the Directorate of Treasuries and Accounts for a period of 3 months and 6 months respectively.

(viii) ***Audit planning and finalisation of Quarterly/Annual Audit Programme***

From the replies furnished by the directorates, it was seen that audit planning was virtually non-existent except in two departments viz., Industries and Commerce and Police (Home). The Director of Agriculture stated that audit planning of the units are based on allegations received from the field units. Thus, in the absence of annual planning and non-fixation of target for units to be covered by audit annually, inspection of the records of the departments/directorates and their field units remained uncovered as shown in **Appendix-XXVI**.

⁹⁷ Handloom & Textiles, Legal Metrology, Health Service, Industries and Commerce and Stationery and Printing

(ix) Performance of IAs

It may be seen from the Appendix that except five departments (viz., Handloom & Textiles, Agriculture, Home (Police), Industries and Commerce and Sericulture) others did not cover any of the auditable units. Thus, the intended purpose of establishment of IA wing in the remaining eight directorates/departments⁹⁸ was frustrated. Therefore, Rs.45.98 lakh⁹⁹ spent on pay and allowances of 15 IAs of these departments proved to be largely unproductive. Further, Handloom and Textile, Agriculture and Police Departments furnished money value of Rs.6.51 crore in 273 IRs issued by internal audit but the 65 IRs issued by Industries and Commerce (9 IRs) and Sericulture (56 IRs) did not reflect any money value. Recoveries affected at the instance of internal audit were not reported by four of the five departments. Details of recoveries of Rs.1.22 lakh by the Agriculture Department were not furnished. Thus, the audit coverage done by the IAs of these departments was mainly on procedural matter of routine nature, which did not seem to have bearing on financial implications.

7.1.6 Conclusion

From the foregoing observations it is concluded that the system of internal control and internal audit was largely ineffective because of-

- (i) absence of nodal monitoring agency and system to monitor and review the performance of FAs/FAOs and IAs attached to the departments,
- (ii) deficiency in organisational structure and inadequate coverage of departments,
- (iii) absence of laid down criteria and statutes for the performance of IAs,
- (iv) dependency of the IAs on HODs for assignment and performance of duties and their Audit Plan and
- (v) non-coverage of field units or even HQr unit inspection by the IAs in most of the cases.

⁹⁸ Exclude the Directorate of Treasuries and Accounts and Directorate of Audit (Local Fund).

Sl. No.	Departments	No. of IAs (MIP)	Salary expenditure during 1998-2003 (Rupees in lakh)
1.	Legal Metrology	3	9.59
2.	AH & Vety	2	4.18
3.	Dairy Development	1	3.78
4.	Higher and Technical Education	3	15.06
5.	Secondary Education	2	8.47
6.	Health Service	2	0.66
7.	Printing and Stationery	1	0.68
8.	Sports and Youth Welfare	1	3.56
Total		15	45.98

7.1.7 The matter was referred to Government in August 2003; their reply had not been received (September 2003).

7.1.8 ***Recommendation***

(i) System and functioning of Internal control and Internal audit must be streamlined and made effective.

(ii) Internal audit standards and independent character of duties and responsibilities of the internal audit organisation should be clearly defined.

(iii) Audit planning should be introduced so that internal audit can have a focus and its output capable of being quantified.

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