

CHAPTER - V

5 Internal Audit Arrangement

5.1 Introduction

Government of Bihar constituted an internal audit wing in 1953 under the control of Finance Department, merging all the internal audit cells in different departments, for conducting internal audit of their different departments.

5.2 Organisational set up

The internal audit wing headed by the Chief Controller of Accounts and duly assisted by Controller/Deputy Controller of Accounts functioned under the administrative control of the Secretary-cum-Commissioner, Finance Department. The internal audit work in fields was conducted by Senior Auditors and supervised by Deputy Controllers in divisional headquarters.

Working of the internal audit wing during 1998-99 to 2002-03 was reviewed with a view to evaluating its effectiveness. The points noticed were as under:

5.3 Scope of internal audit

The main function of the internal audit wing was to see whether internal control system was in place and to check the financial irregularities, detect and report cases of waste, defalcations or frauds to Government. However, internal audit wing did not cover in audit all the departments of the Government. It conducted audit of various departments generally on the requisition for audit placed by concerned department. On occasions it also conducted audit of Jail, Sales Tax, Health, Supply, Planning, Rural Development and Industry departments without any requisition from the departments concerned.

5.4 Absence of codes and manuals

The internal audit wing does not have any codes, manuals, etc. as of December 2003 for conducting internal audit of government departments. They had only a compendium of important instructions/circulars issued prior to 1974 for conducting audit.

5.5 Manpower

The sanctioned strength of staff and men-in-position of the internal audit wing as on 31 December 2003 was as under :

Sl. No.	Category of officials	Sanctioned strength	Men-in-position
1.	Senior Auditor Gr.II	332	286
2.	Senior Auditor Gr.I	103	43
3.	Dy. Controller of Accounts	64	11
4.	Controller of Accounts	13	1
Total		512	341

5.6 Training

The auditors were provided one time training for 12 weeks by their seniors at the time of their appointment, no training was imparted thereafter to keep them abreast with the latest instructions of the Government on financial

matters and increased audit needs with reference to manifold increase in the developmental expenditure. Thus, there was absence of any mechanism towards development of professional skills through periodical in-house training and deployment of outside experts.

5.7 Performance of Internal Audit

- ❖ Review of audit programme revealed that audit tasks were not completed as per scheduled working days and were generally revised time and again indicating that audit programming was not cost effective.
- ❖ Adequate, prompt and proper follow-up action by the auditee entity in the light of audit observations was necessary to enhance the effectiveness of audit and promote public accountability. Position of inspection reports issued and their compliance during five years was as under :

(In number)

Year	I.Rs. issued	Partial Compliance made	Balance
1998-99	177	128	49
1999-2000	355	143	212
2000-2001	230	187	43
2001-2002	1090	262	828
2002-2003	496	340	156
Total	2348	1060	1288

Thus 55 per cent of the inspection reports issued by internal audit wing during 1998-2003 remained unattended as of December 2003. Even the compliance to the 1060 inspection reports was partial. It was further noticed that delay in issuing Inspection Reports ranged between one month to 15 years.

- ❖ Year-wise position of defalcation/misappropriation detected by internal audit wing was as under :

Year	Paras (Number)	Amount of defalcation/misappropriation (Rs in lakhs)
1998-99	60	14.36
1999-2000	110	108.72
2000-2001	67	44.72
2001-2002	NA	492.35
2002-2003	NA	103.93
Total		764.08

(NA : Not Available)

Audit scrutiny revealed that the amount of defalcation/ misappropriation remained unrecovered as of December 2003.

Quality of audit observations

One hundred Inspection Reports pertaining to sixteen departments were test-checked. These reports contained 1275 paragraphs, out of which 77 paragraphs of money value of Rs 41.87 lakh were on defalcations/misappropriation. Remaining 1198 paragraphs contained observation on maintenance of cash books and service books, non-submission

of detailed contingent bills, heavy cash balances, unadjusted advances, excess payment of pay and allowances, non-accounting of stores, lack of physical verification of stores, improper maintenance of stock register, diversion of funds, payment of daily wages, travel expenses etc.

5.8 Conclusions

The internal audit wing lacked effectiveness. It did not identify an appropriate order of priority for discretionary audit to be undertaken. It did not collect information about the auditee entity and its organization in order to assess risk and determine materiality. It did not prepare manuals and other guidance notes and instructions regarding conduct of audit and developing professional skills.

5.9 Recommendations

- ❖ Codes and Manuals for audit should be developed and updated from time to time ;
- ❖ Audit should be properly planned and execution of these plans should be watched through appropriate Control Register ;
- ❖ Audit skills should be developed through training and refresher courses for the audit personnel.

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