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**CHAPTER V**
**INTERNAL CONTROL SYSTEM**
**5.1 Horticulture Department and Forest, Environment & Ecology Department**
**5.1.1 Introduction**

The Internal Control/Audit System is evolved by Government to ensure that the implementing officers in the course of discharging their duties, comply with the prescribed rules and procedure and safeguard the financial interest of Government. The Internal Auditors, as an independent entity examine and evaluate the level of compliance to the departmental rules and procedure and bring to the notice of the Head of the Department, the irregularities observed *etc.*, for expeditious corrective action. Though, internal audit mechanism existed in certain departments prior to 1992, Government of Karnataka issued (December 1992) guidelines for effective functioning of Internal Audit Wing (IAW) in all Government departments. The working of IAW of Horticulture and Forest Departments was reviewed during September 2003. Important points noticed are brought out in the succeeding paragraphs.

**5.1.2 Organisational set-up of Internal Audit Functionaries**

Chief Conservator of Forests and Director of Horticulture were to arrange for an adequate departmental audit of Forest and Horticulture Departments respectively to ensure that departmental regulations are properly applied in practice.

***Horticulture Department***

The Department did not have an IAW till 1995. However, following the advice from Public Accounts Committee regarding the non-conduct of internal audit of revenue earning horticultural farms, Government sanctioned (January 1995) seven posts for IAW to be filled on deputation basis from the State Accounts Department (SAD) as against 20 posts proposed by Director of Horticulture. The IAW is functioning since 1995 headed by the Accounts Officer (deputationist from SAD) under the overall control of Director of Horticulture.

***Forest, Environment and Ecology Department (Forest Department)***

The IAW is functioning in the Department since 1977 headed and monitored by the Chief Accounts Officer (CAO) of the Department under the overall control of the Principal Chief Conservator of Forests (PCCF), Bangalore.

**5.1.3 Availability of Internal Auditing Standards**

There was no Internal Audit Manual in the above two departments codifying the practices and procedure relating to conduct of internal audit. The circular

instructions issued by Government (December 1992) were largely followed, which *inter alia* provided that:

- All unit offices are audited annually;
- Man days required are to be fixed on the basis of volume of transactions in the auditee organisation;
- Quantum of audit checks to include detailed examination of one monthly accounts and general coverage of the entire year under audit;
- Internal Audit Reports are issued within a month from the date of conduct of audit and replies thereto are furnished by the auditee office within a time limit of one month;
- A Control Register is to be maintained in IAW to watch the outstanding paragraphs and money value objections and their receipts and clearances;
- Encashments and remittances are verified by IAW invariably;
- Correctness of reconciliation of expenditure is checked by IAW.

#### ***5.1.4 Non-independence of the staff of IAW***

As per the guidelines of the Government, the IAW had to function under the Controller of Accounts etc., and where such system is not in vogue, under the overall responsibility of administrative department concerned. However, though the post of Controller of Accounts exists, in Horticulture Department, the IAW continued to function under the overall control of the Department and Controller of Accounts had no say either in programming of internal audit or monitoring of compliances to internal audit objections. Even in respect of non-compliance to internal audit objections involving loss to Government, the cases were monitored at the level of Joint Director/Director of the Department itself and seldom referred to Controller of Accounts. Thus, the IAW of the Department was not independent to the extent envisaged in the guidelines issued by Government.

#### ***5.1.5 Inadequacy of inputs for Internal Audit***

For effective functioning, IAW was to be equipped with adequate manpower, codes and manuals, periodical training of staff *etc.* Audit scrutiny of IAW in the two departments revealed deficiencies in the working of IAW as detailed below:

##### ***Establishment***

The sanctioned strength and the existing manpower in IAW of the two departments were as follows:

**Horticulture Department**

Year	Sanctioned strength (All posts to be filled on deputation basis from SAD)			Men in position				
	Audit Officer	Superintendents	FDAs <sup>⊗</sup>	Audit Officer	Superintendents		FDAs	
					From SAD	From Dept.	From SAD	From Dept.
1998-99	1	2	4	1	2	-	2	-
1999-2000	1	2	4	1	2	-	2	-
2000-01	1	2	4	1	2	4	1	1
2001-02	1	2	4	1	2	4	-	1
2002-03	1	2	4	1	2	4	-	1

**Forest Department**

Year	Sanctioned strength		Men in position	
	Superintendents	FDAs <sup>⊗</sup>	Superintendents	FDAs <sup>⊗</sup>
1998-99	4	8	1	5
1999-2000	4	8	3	5
2000-01	4	8	3	4
2001-02	4	8	3	3
2002-03	4	8	4	1

There was a shortfall of FDAs as on March 2003 in both the Horticulture and Forest Departments.

**Internal Audit Manual**

A manual of Internal Audit to provide a comprehensive idea on approach to audit was not forthcoming in the two departments. In respect of Horticulture Department, on this being pointed out during the review, the Department issued (October 2003) instructions specifying duties and responsibilities for the staff of IAW.

**Training**

Training is an integral part of development of personnel and enables them to equip with knowledge of rules and regulations. No training had been provided to Internal Audit staff to enrich their knowledge and to improve their audit skills in both the departments.

**5.1.6 Planning and pendency in Internal Audit Coverage****Audit Plan**

As per the guidelines of Government, all auditee units of departments were to be annually audited and no unit to be left unaudited for more than two years. Also internal audit of units had to precede external audit by the Accountant General. Thus, there was need for framing of annual audit plans based on risk parameters. It was however, noticed that the two departments did not devise the required risk based audit plan during 1996-2003. In Horticulture Department, though the Department stated that units for audit were selected

<sup>⊗</sup> FDAs – First Division Assistants

giving priority to revenue earning horticultural farms etc., there was nothing on record to indicate that audit plan was prepared and followed. In the case of Forest Department, the selection of units for audit was stated to be based on expenditure. Thus, the selection was not based on any risk analysis.

### ***Shortfall in Internal Audit Coverage***

#### ***Horticulture Department***

There were 344 DDOs (auditee units) in the department. Percentage of units covered in internal audit during the period 1996-2003 was poor ranging from 6.4 to 52.9 *per cent* as detailed below:

Year	No.of offices audited	No.of offices pending	Percentage of coverage
1996-97	23	321	6.7
1997-98	22	322	6.4
1998-99	36	308	10.5
1999-2000	49	295	14.2
2000-01	89	255	25.9
2001-02	122	222	35.5
2002-03	182	162	52.9

Though, improvement in internal audit coverage from 2000-01 onwards was due to deployment of additional staff (four Superintendents and one First Division Assistant) to IAW from within the department, no concurrence of State Government was obtained for the internal diversion of staff as the Government's concurrence was necessary on the ground that only SAD staff had to function in IAW. Further, there were 58 offices, wherein audit was pending for three years or more which included 16 revenue earning horticultural farms as indicated below:

Division	Audit pending for one year (2002-03)	Pending for two years (2001-03)	Pending for three years or more (2000-01 & earlier)
Bangalore	44	27	28
Mysore	42	5	20
Belgaum	37	13	4
Gulbarga	44	4	6
Total	167	49	58

This was contrary to Government's guidelines that no unit was to be left un-audited for more than two years. The Department replied that priority was given to audit of horticultural farms. The Department stated that the poor progress was due to inadequate staff provided for IAW and that action would be taken to strengthen IAW.

#### ***Forest Department***

There were 99 DDOs (auditee units) in the Department. The extent of audit coverage during the period 1998-2003 was as detailed below:

Year	No. of DDOs	No. of units programmed for audit	No. of units audited	No. of units programmed but not audited	Short fall	Percentage of shortfall
1998-99	99	33	19	14	80	81
1999-2000	99	32	21	11	78	79
2000-01	99	17	19	-	80	81
2001-02	99	30	18	12	81	82
2002-03	99	29	16	13	83	84
TOTAL	495	141	93*	50	402	

\* Two units not programmed but audited during 2000-01 are included in this figure

The shortfall in audit ranged from 79 to 84 *percent*. This included 70 Timber Depots, out of which 24 depots were under orders of closure (November 2002). But, the IAW audited only 10 of them and the audit of the remaining timber depots had not been done even once. In view of this, any loss of revenue to Government on sale of timber could not be detected by IAW. The Department stated that the shortfall was due to inadequate staff provided for IAW.

### 5.1.7 Delay in issue of Inspection Reports

#### *Forest Department*

The Inspection Reports (IRs) to the DDOs were to be issued within one month after completion of audit and the DDOs were to furnish compliance within a month. Test-check (September 2003) revealed that there was delay of two to 14 months in issue of IRs in respect of 47 DDOs. In respect of 15 DDOs, despite completion of internal audit (2001-03) the IRs were not issued for four to 18 months. There was delay of two to 42 months in furnishing compliance by 39 DDOs. The timeliness of response to the audit observations and volume of pendency during the period 1998-2003 are detailed below:

Year	No. of institutions audited	No. of IRs issued	IRs replied within one month	IRs replied after one month	Non-receipt of replies
1998-99	19	14	-	12	02
1999-2000	21	19	-	11	08
2000-01	19	22	-	15	07
2001-02	18	07	-	05	02
2002-03	16	16	-	05	11
TOTAL	93	78	-	48	30

The department replied that the IRs could not be issued pending their review by the CAO. The reply is not tenable as belated issue of IRs defeats the very purpose of early detection of irregularities and initiating expeditious corrective action.

#### *Horticulture Department*

In respect of Horticulture Department, timely issue of IRs to the DDOs and whether internal audit preceded external audit by the Accountant General (Audit)-I as required under Government's guidelines could not be verified as the relevant control registers were not maintained in the IAW.

### 5.1.8 Pendency in Internal Audit Compliance

A control register in prescribed form had to be maintained by Heads of Department to monitor the outstanding paras and money value objections observed by Internal Audit. This requirement was also reiterated in the guidelines issued by Government (December 1992). This had not been maintained in the two departments. However, the statement of money value objections furnished by the two Departments indicated the following position as of 2002-03.

#### Horticulture Department

(Rupees in lakh)

Year	Objections		Objections settled		Pending objections	
	Number	Amount	Number	Amount	Number	Amount
Upto 1998-99	242	62.51	52	37.21	190	25.30
1999-2000	136	40.42	60	11.42	76	29.00
2000-01	146	46.27	23	7.98	123	38.29
2001-02	205	53.97	50	23.33	155	30.64
2002-03	200	28.31	80	3.00	120	25.31
Total	929	231.48	265	82.94	664	148.54

#### Forest Department

(Rupees in lakh)

Year	Objections		Objections settled		Pending objections	
	Number	Amount	Number	Amount	Number	Amount
Upto 1996-97	297	851.70	54	52.53	243	799.17
1997-98	30	126.40	06	24.47	24	101.93
1998-99	64	1,347.96	03	1.50	61	1,346.46
1999-2000	57	771.12	-	-	57	771.12
2000-01	08	310.45	-	-	08	310.45
2001-02	166	535.36	49	197.23	117	338.13
2002-03	239	233.65	52	80.46	187	153.19
Total	861	4,176.64	164	356.19	697	3,820.45

In Forest Department, regarding number of objections cleared during 1999-2000 and 2000-01, the department stated (September 2003) that the matter would be examined. Thus, due to non-maintenance of the required control register in the two departments, the correctness of figures furnished by the Departments could not be ensured in audit.

### 5.1.9 Recourses and Penal action taken at the instance of Internal Audit in Horticulture Department

The details of major irregularities noticed in internal audit which were referred to the Director of Horticulture for necessary compliance/penal action and their pendency as of September 2003 were as indicated below:

Year	No.of cases referred	No.of cases finalised	No.of cases pending settlement
Upto 1997-98	65	52	13
1998-99	66	55	11
1999-2000	54	34	20
2000-01	59	44	15
2001-02	58	15	43
2002-03	73	30	43
Total	375	230	145

Of the 145 cases pending, 11 cases involved monetary value of Rs.4.40 crore, the particulars of which are detailed in *Appendix 5.1*.

**5.1.10 Evaluation of working of IAW**

Inadequate staff for internal audit, lack of training to audit staff, absence of a departmental internal audit manual, lack of audit planning and approach and shortfall in coverage of audit of units did not ensure adequacy and effectiveness of Internal Audit in the two departments. In Horticulture Department, due to non-maintenance of important control registers regarding internal audit of units conducted from time to time and objections raised, the effectiveness with which the IAW worked was not susceptible to proper verification/evaluation by audit.

In Forest Department, as per guidelines issued by Government (December 1992) IAW had to verify Treasury encashments and remittances made by DDOs for test-checked months. The said verification was not done by IAW. There is need for strengthening of internal audit setup in the two departments.

**5.1.11** The matter was referred to Government in October 2003; reply awaited.

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