

## **CHAPTER-VII**

### **FINANCE DEPARTMENT**

#### **7.1 Internal control/internal audit system in the Finance Department**

##### ***7.1.1 Introduction***

Internal Control is an integral process which is designed to provide reasonable assurance for achieving objectives *viz.*, fulfilling accountability obligations, complying with applicable laws and regulations, executing orderly, ethical, economical, efficient and effective operations and safeguarding resources against loss.

Internal control is a dynamic integral process that is continuously adapting to the changes an organisation is facing. Management and personnel at all levels have to be involved in this process to provide reasonable assurance of the achievement of the objectives.

Internal Audit, on the other hand is an internal control mechanism that evaluates the efficiency and effectiveness of other types of internal controls. Internal Audit works as the 'eyes and ears' of higher management. Internal Audit is also an independent appraisal of the activities within the organisation for review of accounting, financial and other business practices and it works as a protective and constructive arm of the management.

##### ***7.1.2 Organisational set-up***

The State Finance Department is functioning under the control of Financial Commissioner, who is assisted by two Additional Secretaries and a Joint Secretary. The work of Finance Department is carried out in seven branches *viz.*, (i) Establishment Branch (E), (ii) Pay Research Unit (PRU), (iii) Finance Commission Branch (FC), (iv) Audit Pension Fund Branch (APF), (v) Expenditure Control Branch (EC), (vi) Budget Branch (B) and (vii) Economic Affairs Branch (EA).

##### ***7.1.3 Audit coverage***

Test check of records pertaining to the period from 2001 to 2004 maintained by the Finance Department and the Director of Accounts and Treasuries cum Ex-officio Examiner of Local Accounts was conducted during June 2004. Points noticed during audit are discussed in the succeeding paragraphs.

#### 7.1.4 Structure of the Government

There are 45 heads of department (HOD) under whom there are 513 drawing and disbursing officers (DDOs).

#### 7.1.5 Manpower of Internal Audit

With a view to have effective and comprehensive Internal Audit, adequate manpower with right skills is a prerequisite. It was, however, noticed in audit that the Examiner of Local Accounts had the following officers and staff in position as on 1 April 2004 against the sanctioned strength.

**Table 7.1**

Sl. No.	Designation	No. of sanctioned post	Men-on-roll
1.	Examiner of Local Accounts (He is also Director of Accounts and Treasuries)	-	1
2.	Joint Examiner of Local Accounts (He is also Jt. Director of Accounts and Treasuries)	-	1
3.	Deputy Examiner of Local Accounts (He is also Dy. Director of Accounts and Treasuries)	1	1
4.	Asstt. Examiner of Local Accounts	1	1
5.	Auditors	4	3
6.	Asstt. Auditors	12	3
7.	Lower Division Clerk	2	1
8.	Peons	2	2
<b>Total</b>		<b>22</b>	<b>13</b>

It would be seen from above that no regular incumbent has been posted against the post of Examiner, Jt. Examiner and Deputy Examiner but the Director, Jt. Director and Deputy Director respectively of Directorate of Accounts and Treasuries were looking after these posts as additional charge.

The available staff viz., one Asstt. Examiner of Local Accounts, three Auditors and three Asstt. Auditors were not sufficient to conduct any effective and meaningful audit of 513 auditee Units/DDOs offices. This aspect should have been viewed in the light of Internal Audit's audit jurisdiction that extends over all the Government departments/offices under 45 Heads of Departments.

It was noticed in audit that of the total 513 units, the Internal Audit could cover 12, 15 and 10 units during the years 2001-02, 2002-03 and 2003-04 respectively. Thus, an average of 12 units were covered in a year which worked out to 2.33 per cent of the total auditee units. Basis for selection of the units during these years were neither on record nor stated. This clearly indicated that Internal Audit system prevailing in the State was not only inadequate but also ineffective. During the period from 2001-02 to 2003-04, 37 inspection reports containing 252 paragraphs involving 34 DDOs under 14 departments, were issued to the concerned DDOs and during the same period as covered by this review 10 IRs and 135 Paras were settled leaving a balance of 42 IRs and 154 Paras pertaining to the period from 1996 to 2004 as

outstanding as of 1 April 2004. It was stated by the department (June 2004) that frequent reminders were issued to the auditee units for settlement of old/outstanding paras.

#### ***7.1.6 Independence of Internal Audit***

It is mandatory that functional and financial independence of the office of the Examiner of Local Accounts has to be preserved for an effective Internal Audit System so that it is able to take decisions regarding its audit activities on merit basis. It should report and work under the direct control of the head of the organisation and provision for enough funds should be ensured by the head. The functional independence ensures that Internal Audit acts as the 'eyes and ears' of the organisation, especially of the head of the organisation. This also ensures that Internal Audit not only brings out lapses or violations of system but also is able to give its recommendations to stop these lapses and improve the system in future.

It was, however, seen that the Director of Accounts acts as the Examiner of Local Accounts under the Finance Department. No separate Budget allotment was provided for the office of the Examiner of Local Accounts. All expenditure was met from the Budget Allotment of office of the Director of Accounts and Treasuries.

In the State of Mizoram, the Examiner of Local Accounts is reporting to the Directorate of Accounts and Treasuries which is working under Finance Department. The Examiner of Local Accounts not only works under the Directorate of Accounts and Treasuries but also all its supervisory level posts of Examiner, Joint Examiner and Deputy Examiner are being looked after by the Director, Joint Director and Deputy Director respectively of Directorate of Accounts and Treasuries. These posts being supervisory level posts are expected to not only supervise the audit work being done by the staff but all the audit activities are to be directed, planned and prioritised by them. As such, independence of the Examiner of Local Accounts is compromised.

In reply to an audit query, the Director of Accounts and Treasuries stated (June 2004) that audit of receipts and payments in respect of various DDOs including NGOs receiving funds from Central/State Government are conducted. Special Audits were also done according to the direction of the Finance Department.

#### ***7.1.7 Audit Standards and Audit Manual***

To ensure that the quality of audit is not compromised or sub-standard, auditing organisations frame their own auditing standards or adopt some accepted auditing standards. The work done by the auditors should continuously be in conformity with the adopted standards. It was noticed in audit that the Directorate had neither framed nor adopted any accepted auditing standards and no internal audit manual had so far been brought out by

the Directorate/Government. In the absence of any auditing standards/Audit Manual, the quality of work done remained unevaluated.

#### **7.1.8 Mandate**

According to the General Instructions which is the only guiding document made available, the Internal Audit is to conduct regularity audit, *i.e.*, compliance of rules, regulations, procedures *etc.* Propriety audit is required not only to ensure the effectiveness of the Internal Audit but it also benefits the State by ensuring efficient utilisation of its scarce resources. Besides, there has been tremendous increase in expenditure on various developmental and welfare programmes for achieving the desired results. With the increase in expenditure on various developmental and welfare programmes, it is necessary to examine the aspect by undertaking propriety audit.

It was, however, noticed that propriety audit was neither mandated by the General Instructions nor had any such audit been done.

#### **7.1.9 Training**

Staff training is one of the important aspects of manpower development. As the job of Audit is technical and rule based, it has to be kept updated with the changes of rule and system of maintenance of accounts or new technology.

But, it was noticed that no training scheme existed for audit staff of Internal Audit and nor was any training imparted to the staff.

#### **7.1.10 Audit planning**

It is accepted that for efficient and optimum utilisation of the limited manpower and financial resources, audit planning is required to be done every year. This ensures coverage of all required units over a period of time, prioritisation of auditee organisations in audit according to need, finalisation of time schedule for audit, distribution of audit resources among various types of audit, *etc.* Audit planning includes creating financial and functional profile of the auditee organisations, capturing their main activities in terms of finance and objective of the department, identifying important sources of revenue, assessment and distribution of audit manpower *etc.* The audit plan leads to formation of an annual calendar of audit that contains targets in terms of number of units to be audited by the auditee organisation as a whole and also as individual groups/teams, value and number of audit observations, time schedule *etc.*

It was, however, noticed that the concept of Audit Planning or annual calendar of audit was not prevalent in the office of the Examiner of Local Accounts. No targets in terms of number of units to be audited, financial value of audit observations *etc.*, was also fixed.

### **7.1.11 Reporting and issuance of Inspection Reports**

In audit reporting it is highly desirable that certain prescribed/agreed format are followed for drafting of the audit/inspection reports, and time limit for issuing of report after completion of audit.

It was noticed that there was no prescribed/agreed format for drafting of Audit/Inspection Reports nor was there any time limit for issue of report after completion of audit.

### **7.1.12 Monitoring of Inspection Reports**

In a well established Internal Audit System, pursuance of Inspection Reports is a necessity as this ensures an effective Internal Audit and the Government benefits from these observations through corrective and preventive follow up action.

It was noticed that the Examiner of Local Accounts had been sending copies of its reports to the Finance Department. The Objection Register maintained by the Examiner of Local Accounts did not contain details of objection, money value *etc.* Moreover, in 11 (out of 37) cases first reply to the Inspection Reports had not been received. As the system of sending monthly/quarterly/half-yearly/annually report on the outstanding Inspections/Paras has not so far been evolved, there was no effective pursuance and monitoring of Inspection Reports.

### **7.1.13 Internal Control system**

The Internal Control system is an independent appraisal of the activities within the organisation for review of accounting, financial and other business practices. Though the system has been functioning from 1976 onwards the same has not become effective in terms of financial management of the State. A few instances are given below:-

It was seen that there were persistent savings in excess of Rs.10 lakh in each case and 20 *per cent* or more of the provision. Details are given in **Appendix-XXXII**.

In reply the Department stated (June 2004) that the budget making process originates from each Drawing and Disbursing officer level to Directorate level and thereafter the Secretary of the concerned department forwards the budget proposal to the Finance Department. It was also further stated that no review was done by any high level committee in the Finance Department before presenting the budget proposals to the Cabinet/ Legislature except consolidation of various Demand for Grants submitted to the Secretary, Finance for scrutiny and examination.

Further, State has neither any Budget manual of its own nor has adopted any other Budget manual. Finance Department of the State follows General Financial Rules in formulation of Budget and other financial Control over the

various departments. However, persistent savings as mentioned above are indicative of ineffective monitoring and control.

It was noticed that Rs.148.30 crore were lying under 8443-Civil Deposit at the end of 31 March 2004. However, the amount was reduced to Rs.40.97 crore as of June 2004. The Finance Department stated that due to late receipt of Central grant and to avoid lapse of such fund, the State Government parked the funds in Civil Deposits. This practice is indicative of improper financial management and control.

It was seen that an amount of Rs.34.49 crore was drawn on Abstract Contingent (AC) Bill during the period from 1999-2000 to 2003-04 by various departments (**Appendix-XXXIII**). The Finance Department has no record to show adjustment of AC Bills by way of submission of Detailed Countersigned Contingent (DCC) Bills. Thus, the Finance Department lacks control over the drawal and adjustment of AC Bill.

It was noticed that 27 computers with accessories were procured for the purpose of computerisation of Aizawl South (seven), Lunglei (10) and Saiha (10) Treasuries by incurring an expenditure of Rs.22.38 lakh in 1997 in respect of Aizawl South Treasury and in 1999 in respect of Lunglei and Saiha Treasuries. In reply to a query, it was stated that computers so procured for the purpose of computerisation of treasuries could not be utilised due to non-availability of sufficient fund for the purpose of software development. Although computers were utilised for official purpose, but no trained personnel was posted. This shows that the State Finance Department has no planning and control over computerisation of treasuries.

#### **7.1.14 Conclusion**

The internal control/internal audit system in the State needs to be substantially improved to fulfil its desired objectives. Its control and independence are to be ensured, work has to be planned, additional and skilled staff needs to be provided, regular/periodical training to be imparted, reporting and monitoring system needs to be strengthened so that it can work as a better control tool that evaluates and reports on the efficiency and effectiveness of the functioning of various Government Departments.

**7.1.15** The foregoing points were reported to the Government in July 2004. Government in reply (October 2004) accepted the points raised in the foregoing paras.

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