

CHAPTER-IX

INTERNAL CONTROL & INTERNAL AUDIT IN GOVERNMENT DEPARTMENTS

9.1 Internal Control (IC) and Internal Audit (IA) is a process with the objective of providing reasonable assurance about

- Effectiveness and efficiency of operations
- Reliability of financial procedures and reporting
- Compliance with applicable rules and regulations

The IA function in the Government of Sikkim (GOS) is performed through the Office of the Director of Internal Audit functioning under the administrative control of the Finance Department. The IA wing in the discharge of its responsibility is required to inspect at periodical intervals the various departments and subordinate offices of the State Government.

Internal Control (IC), on the other hand, is an inherent part of the day-to-day management process (i.e., planning, organising, directing and controlling) within a department /office. Internal Audit is a part of Internal Control mechanism.

Thus, while IA is an independent appraisal by an external agency of a department/office to ensure compliance of the above three stated objectives; IC is built-in in the procedures and practices of the department/office to achieve the same objectives.

To gauge the efficiency of the IA wing and IC mechanism in the Government of Sikkim, a review of

- (i) the Office of the Director of Internal Audit and
- (ii) the Building & Housing Department

was undertaken during September 2003. The findings are enunciated below:

Office of the Director of Internal Audit (Finance Department)

Introduction

9.2 The Directorate of Internal Audit (IA) was established in 1990 under the overall control of the Finance Department to act as a catalysing agent to help departments maintain accounts and records accurately and efficiently, set right records and correct mistakes at the initial stages and thus obviate many of the objections at later stages by the Statutory Auditor. In 1992, a broad guideline for Working of Internal Audit was framed which provided that the IA will:

- Audit all departments of the State Government, Pay and Accounts Offices and the Drawing and Disbursing Officers (DDOs).

- Pursue settlement of objections taken in test audit notes issued by the Statutory Auditor and other matters relating to statutory Audit.
- Conduct inspection of various units and offices by 'on the spot verification' of accounts records.
- Conduct a detailed check of accounts records and procedures in regard to disposal of assets.
- Make efforts to inspect all the offices at least once a year.
- Watch as to whether the progress made towards the settlement of outstanding objections are reviewed quarterly and appropriate further action taken to ensure their speedy settlement.

Organisational setup

9.3 The IA Directorate is headed by a Director (Additional Director w.e.f. July 2003), assisted by an Accounts Officer, two Senior Accountants, three Accountants, one Steno and one Lower Division Clerk.

Manpower

9.4 Considering that the State Government had 41 departments with as many as 271 DDOs, the IA wing was grossly under staffed for the task at hand. No action was ever taken during the last 13 years either by the Directorate or by the controlling department (Finance) to augment the manpower. A maiden attempt was made only in July 2003 by the present in- charge, Additional Director IA. However, as of September 2003, no additional manpower was posted in the IA wing.

Independence of Internal Audit

9.5 An adequate degree of independence from the executive branch of Government is essential for an effective IA system. The IA Wing is under the control of Finance Department and its staff are drawn from the Sikkim Finance & Accounts Service. Though there is no predetermined tenure for the officials in IA wing, they are usually posted back to State Government departments after rendering certain years of service in IA. In that eventuality, they then come under the administrative control of the head of the concerned department to which they are posted and the concerned head of the department becomes their Reporting Officer for writing Annual Confidential Reports (ACRs). Since ACRs are a vital tool for determining future carrier progression, the independence of IA officials is compromised to a large extent as eventually they are required to work under the heads of the department whom they may have audited.

Auditing Standards

9.6 Auditing Standards provide a framework for the establishment of procedures and practices to be followed in the conduct of an audit. They provide

minimum guidance for the auditor that helps determine the extent of auditing steps and procedures that should be applied in the audit. It was seen that the Directorate of Internal Audit has not developed any such Auditing Standards of its own nor had it adopted the Auditing Standards of any other established audit organisation.

Training

9.7 Training is one of the important tools to equip auditors to be professionally competent and to keep themselves updated with the latest developments in the field of accounts and audit which would contribute towards conducting better and effective audit, better audit planning, reporting and monitoring. None of the IA staff were ever nominated for any training programmes since the creation of IA Wing in 1990.

Audit Planning

9.8 For efficient and optimum utilisation of the limited manpower, Audit Planning is a must. The Audit Planning methodology should be a result-based approach emphasising on results or objectives of audit as the starting point and aim at covering as many as auditee units as may be required to achieve the objective. It ensures

- Preparation of audit plan in advance to cover all the auditee units over a period of time.
- Determining frequency of audit, i.e. whether the audit is to be conducted annually, bi-annually or tri-annually according to its importance.
- Optimising the use of available resources for achieving the audit objectives.
- Providing a framework for identifying the departments, programmes, common functions, which are significant and vulnerable to risks and serious irregularities and therefore needs urgent audit attention.

It was noticed that the IA had so far not adopted the concept of Audit Planning. It did not even have the list of auditee units under its purview of audit. As a consequence, conduct of effective and timely audit was compromised as would be seen from following:

- Out of 271 auditee units only 59 were audited during 1990-91 to 2002-03.
- The frequency of audit was not according to any fixed norms.
- Audit was conducted only once in respect of 36 units and twice and thrice in respect of 18 and five units respectively in the last 13 years.
- 212 units including all major works departments with considerable budget outlays and expenditures were not checked by IA at all.

Reporting and Issuing of Inspection Reports

9.9 According to para 11(b) of the Guidelines of the IA Wing, the inspection reports should invariably be discussed with the Head of the Office inspected and

their comments if any, suitably incorporated in the report. Inspection Report should be issued after being vetted at the headquarters.

Test check of records revealed that none of the inspection reports were discussed with the heads of the offices/department. The system of issue of Preliminary Observation Memos (POM) was also not in vogue and as a result, balanced reporting which duly incorporated the views of the auditee units was not possible.

Follow up action of Inspection Reports

9.10 According to para 11(b) and 12 of the manuals/guidelines of the IA Wing, progress of settlement of the points raised in the reports should be watched by the Director of Internal Audit. He should also review all points outstanding at the time of next inspection and keep a watch over a settlement of audit objections issued by the Statutory Audit. The internal audit wing was required to maintain a register setting apart separate folios for each DDO for the purpose. The progress made towards the settlement of outstanding objections should be reviewed quarterly and appropriate further action taken to ensure their speedy settlement. This ensures not only the effectiveness of IA but is also beneficial to the concerned auditee units if corrective action is taken on the observations pointed out by IA.

It was seen that after the audit inspection of the auditee units, the inspection report is submitted to the Director/IA for records and its pursuance. A check revealed that the Directorate had no records such as monthly progress register, Objection Books, Monthly/Quarterly Reports on Settlement of old outstanding objections/observations. It was noticed that during 1990 to 2003, 59 units were audited by the IA of which departmental replies were received in 23 cases only. Reminders for pursuance of inspection reports were issued in respect of only 11 departments till September 2003.

Conclusion

9.11 The functioning of the IA Wing is still at a nascent stage. For its effective and efficient functioning, the following steps should be taken:

- The independence of the IA wing should be ensured
- The IA staff should be regularly deputed for training programmes.
- The manpower should be augmented
- Audit Planning must be implemented to ensure efficient and optimum use of IA resources.
- Auditing Standards should either be framed or adopted.
- Procedure for follow up action after reporting and issuing of Inspection Reports should be stringently followed.

Building & Housing Department (BHD)

Introduction

9.12 The BHD, headed by a Principal Chief Engineer-cum-Secretary and assisted by other technical and general staff, is engaged in the construction and maintenance of Government residential and non-residential buildings. The Department has one planning and five executing divisions¹. A review of its IC system in the areas of manpower, asset management, accounting and financial procedures, stores, project management and record keeping revealed the following.

Manpower controls

No individual job analysis and assessment of manpower requirement

9.13 The Department had never assessed its manpower requirements on a systematic basis. Individual job specification, quantum of work, output, etc. were never analysed nor prescribed and the overall deficiency or surplus ever reviewed. The department furnished a list of 232 sanctioned posts against which 211 staff were stated to be on roll as of September 2003. However, it could not clarify on what basis the posts were sanctioned and records relating to sanctioning of these posts by the appropriate authorities were also not available with the department.

Formal allocation of work not done

9.14 There was no formal distribution of work and clear demarcation of functional responsibilities among the personnel of the Department in absence of which it was difficult to determine accountability and responsibility at different levels.

Need-based and rational deployment of staff absent

9.15 The BHD had not adopted any system to streamline or rationalise the deployment of staff to match individual skill and expertise with the job requirement, regular rotation of assignments to prevent monotony and ensure that staff over a period of time gained experience in different areas of work. There were no proper records to indicate how long a person was performing a particular duty in a particular section of the Department, there being no formal work assignment to each individual.

No proper handing /taking over of charge

9.16 The system, at the time of change of charge between two officials, of a formal handing over/taking over of charge and a detailed note describing the job

¹ Planning Division, North/East Division, South Division, West Division, Headquarters Division and Projects Division

responsibility, important pending item of works and particulars of important files and documents handed/taken over which is intended to ensure continuity and smooth flow of work was not in vogue in the Department.

It was observed that 56 officers/officials were transferred to the BHD during 2001-03. Out of these, only in one case was a handing/taking over note available with the Department. Even this note was deficient as it did not indicate a detailed job description, pending works and the particulars of records handed/taken over.

Lack of training

9.17 The BHD did not have any arrangement for its staff to attend training programmes on a regular basis to upgrade skills and improve productivity. During 2000-01 to 2002-03, only four persons (two each in technical and non-technical) were sent on training programmes - one administrative, one accounts and two technical.

Control over Assets

Non-maintenance of Assets Register

9.18 The Department was not aware of the assets under its control as it was not maintaining an Assets Register showing the total number of buildings (residential/non-residential) under its control, their date of creation, value and location.

Non-maintenance of allotment records of quarters

9.19 As on 31 March 2003, 2275 quarters were stated to be under the Department's administrative control according to a report furnished by it to the Finance Department in August 2003.

Test check of records showed that the Department had not maintained any records indicating the name and other particulars of the allottee, date of allotment, licence fee recoverable, furniture issued, etc. No information in this respect was also being periodically received from the field offices and consolidated or maintained in the head office. It was therefore, not clear how the Department could furnish reliable statistics on the position of Government quarters under its control as and when demanded by any authority. Thus, the latest figure of 2275 quarters furnished to the Finance Department in August 2003 could not be vouchsafed by Audit as there was no basic record to support its authenticity.

Unauthorised retention of quarters and non-recovery of licence fee at market rate

9.20 According to the information furnished by the Department, three officers have been occupying two Government quarters each - one quarter at the place of their posting in the districts and one at Gangtok. The Department did not take any steps to charge house rent from these officers at the market rate as prescribed vide Notification No. 1/BLDGS/2002 dated 7.3.2002 for the second quarter retained by them. Further, two Deputy Secretaries² who had both retired on 31 March 2003 were occupying Government quarters till the time of audit (September 2003) even though the Sikkim Government Servants' (Allotment of Quarters) Rules, 1993 permit retention of quarters after retirement only upto 90 days. Even in these two cases, house rent at the rate prescribed according to the notification *ibid* was not realised.

Accounting/Financial control

Account of materials purchased not maintained correctly and cost of materials not booked under 'Miscellaneous Public Works Advances' (MPWA)

9.21 Materials are purchased from budgetary allocations under 'stock suspense' and 'works'. Codal provisions stipulate that all relevant details/accounts are required to be maintained separately for items purchased from funds under 'stock suspense' and 'works'. A test check revealed that this stipulation was not followed by the Department.

According to para 104 of the Sikkim Public Works Code (SPWC), when advance payments are made to suppliers, this should be first debited to the suspense head 'MPWA'. When materials are received, the amount advanced should be debited to stock suspense or the concerned work duly crediting MPWA. A check of records revealed that the BHD made advance payments totalling Rs.2.95 crore during 5 February 2003 to 31 March 2003 to suppliers. The entire amount was booked under stock suspense/various works without routing it through MPWA and as a result final adjustment of the amount could not be ascertained in audit.

Delayed credit of funds into Government account

9.22 Para 321 of the SPWC stipulate that funds received by the Department for executing deposit works and earnest money from contractors should be remitted to the bank for deposit into Government account. It was observed that 10 Term Deposit Receipts (TDRs) aggregating Rs.6.35 lakh were sent to bank on 16 August 2001 out of which TDRs valuing Rs.2.46 lakh were accounted for in Government account by the bank only after 25 to 48 days of receipt of the same while TDRs valuing Rs.0.88 lakh were not accounted for till August 2003.

²(i) Sh. K.C. Rai (ii) Sh. Tshultim Bhutia

Similarly, although two cheques³ for Rs.45.60 lakh and Rs.20.00 lakh received for deposit works were remitted to the bank on 21 January 2002 and 26 March 2003 respectively, the same were accounted for in Government account only on 30 January 2002 and 26 May 2003.

The Department did not enquire the reasons from the bank for not crediting the funds promptly into Government account and to ensure that similar delays did not recur in future.

Improper maintenance of Cash Book and no physical verification of cash done

9.23 Para 91(3) of the SPWC prescribes that the Cash Book should be balanced daily to ensure accuracy of postings, totals and balance. Para 91(11) further stipulates that the amount given as advance or imprest should be continued to be shown separately under the details of cash balance till the account is rendered and debited to final head of account. Para 91(12) requires that the full particulars of name of payee, name of work, reference to Measurement Book No. and page should be furnished in the “particulars” column in the Cash Book.

It was seen that the Department was not following the above codal provisions. In some cases full classification of receipts and charges were also not recorded in the Cash Book against each entry of receipt/payment as required under para 91(13) of the SPWC.

Rule 49(iii) of the Sikkim Financial Rules (SFR) stipulates that the Head of the Department (HOD) should make a surprise physical verification of the cash balance at least once a month and record a certificate on the cash book indicating the results of such verification. This provision of SFR was also not found complied with.

Control over stores

9.24 The Department could not furnish to audit records relating to stores acquisitions. There was no established system to assess the requirement of stores and materials for any period and procurements by the stores wing was ad-hoc in nature.

The department had no system to check the quality of materials received to ensure that the materials conformed to the specifications.

No annual physical verification report of stores as prescribed under Rule 136 of the SFR could be produced to audit and no exercise of this nature was conducted during the three years 2000-01, 2001-02 and 2002-03.

³ (i) Cheque No. SBS 071403 dated 17 January 2002 for Rs.45.60 lakh and (ii) Cheque No. SBS 071404 dated 12 March 2003 for Rs.20.00 lakh

Half-yearly inspection of stores by a responsible officer to ensure that stores are not held unnecessarily in excess of requirement of a reasonable period, as prescribed by Rule 138 (1) of the SFR had also not been conducted during 2000-01, 2001-02 to 2002-03.

Security bond was not executed according to Rule 217(1) of the SFR, with the persons entrusted with the custody of cash/stores.

Control over project management/execution

Delay in completion of works.

9.25 Examination of the monthly progress report of works for the month ending August 2003 revealed that there was considerable delay, reasons for which were not cited in the report, in the execution of works by the BHD as shown below:

Table-9.1

	<i>Period of delay ranging from</i>					
	1 month to 6 months	More than 6 months to 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years
No of works	6	5	6	4	2	2

Administrative control - non-maintenance of records

9.26 The SFR, Sikkim Public Works Code and Manual prescribe the maintenance of certain registers/records which are essential for the sound management of a works department. Some of these records/register which were found not maintained by the BHD, their purpose and the consequences of their non-maintenance are shown in the table below:

Table-9.2

Sl No	Name of Record / Register (SFR/SPWD Code/Manual Para No)	Purpose	Consequence of non-maintenance
1.	Contractors' Ledger (SPW Code, Para 66)	Personal account maintained for each contractor to record the value of works done and recoveries to be made to ascertain the balance due to or due from the contractor	There was no ready availability of information with the Department regarding value of work done, recoveries to be made and the amounts due to or due from each contractor
2.	Buildings Registers (SPW Manual, Para 94)	Shows the location, value of land, value of building, type of building, cost & year of addition, etc., of all buildings under the control of the Department	The Department did not have a consolidated record of the assets created by it and hence was not aware of the assets under its control

SI No	Name of Record / Register (SFR/SPWD Code/Manual Para No)	Purpose	Consequence of non-maintenance
3.	Register of Check Measurement (SPW Code, Para 222)	Collective record of test check of works/supplies done by the AE/DE before submitting bills for payment	The Department did not have in a consolidated form information in respect of all works whether test check of works/supplies was carried out by AE/DE before submission of bills for payment for record purposes and check by higher authorities.
4.	Purchase Order Register (SPW Code, Para 116)	To record all purchase/supply orders and payments	The Department could not readily determine at any given time the total purchase orders issued, value and quantity of materials ordered, to whom orders given, supplies received against orders, balance quantities to be received, payments made, etc.
5.	Register of Indents (SPW Code, Para 128)	To keep proper account of the Indent books (indents for issue of material from stores)	The Department was not in a position to check against possible misuse of the indent books.
6.	Register of issue & consumption of materials (SPW Code, Para 129)	To watch issue of materials for works with reference to the estimate to avoid excess issue of materials.	The Department was in no position to monitor progressive issue and consumption of materials (work-wise) with reference to the estimate to check against excess issue of materials.
7.	Tools and Plants Ledger (SPW Code, Para 149)	To maintain the accounts of tools and plants received and issued	Due to absence of T&P Register, audit could not ascertain whether the Department had any tools and plants. If it did have, there was no record to indicate their existence. If it did not have, it is not clear how departmentally executed works were carried out.
8.	Liability Register (Rules 83(6) of SFR)	To be maintained monthly by the Controlling officer indicating the latest position of outstanding liabilities to facilitate budgetary control and preparation of correct budget estimates, etc.	Due to non-maintenance of liabilities register, effective financial control and monitoring of expenditure by the controlling officer was doubtful. Audit was also not in a position to ascertain total liabilities of the Department.

Conclusion

9.27 The internal control mechanism of the BHD with regard to personnel and asset management, accounting and financial procedures, stores, project management/ execution and administration was beset with weaknesses and shortcomings. Individual job responsibilities and duties were not defined, personnel were not being rotated periodically between different assignments and training was a largely ignored activity. The Department did not have any idea of the buildings and residences under its control, expenditure on purchase of materials was not being accounted and adjusted as per codal provisions, cash book was not being maintained properly, physical verification of stores had not been carried out in the last three years, completion of various works were delayed

and important records/registers were not maintained. It is recommended that the Department take remedial measures in these areas so that an effective degree of internal control is established.

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