

CHAPTER-V

5.1 Internal audit system in Government Departments

Internal audit is an important tool available to the management for assessing the extent of accountability, compliance and efficiency as prevailing in the organization. It safeguards the financial interest of the organization by checking frauds, misappropriations and embezzlements and contributes in streamlining the management information system to ensure availability of vital information to the senior management for taking necessary decisions at appropriate time.

The Government of Uttar Pradesh issued (November 1988) instructions for formation of “Internal Audit Organization” in all departments. In compliance of these orders various departments set up their own internal audit wings. In order to systemize the internal audit activities, the Government issued (January 2001) further orders wherein the quantum of audit, detailed check points for audit, procedure for imparting training to staff and monitoring of the inspection reports were specified. For further strengthening the system, recommendations of the consultant (M/s Pricewater House Cooper Limited) were notified (January 2003) by the Government for implementation in all the departments. These recommendations *inter-alia* defined the duties, responsibilities and organizational set up of the office of the State Internal Auditor (Special Secretary level officer in the State Finance Department) and the Director of Internal Audit. The need for independence of the internal audit organization, auditing standards, duties and responsibilities of internal audit staff, training requirements, adequacy of audit coverage, monitoring of audit reports and overall effectiveness of internal audit were also decided through this order.

For implementation of the internal audit policies, for monitoring the internal audit reports and for guidance of the internal audit, a State Level Internal Audit Committee headed by the Chief Secretary and departmental internal audit committees headed by the departmental secretaries have since been constituted (May 2003). The working of the internal audit system in two departments of the Government viz. Forest and Co-operative departments for the period 1998-2003 was reviewed to assess their efficiency and effectiveness. This review revealed the following:

FOREST DEPARTMENT

5.1.1 Organisational Set up

Before January 2003, the Forest Department (Department) had its own Internal Audit Organisation under the overall control of the Finance Controller, supported by Assistant Accounts Officer and Senior Auditors. In January 2003, the Government of Uttar Pradesh created a Directorate of Internal Audit under the Finance Department and the Internal Audit Organisation of the Department now functions under the direction/control of Director, Internal Audit, UP, Lucknow.

5.1.2 Duties of Internal Audit and auditing standards

The Chief Conservator of Forest issued (February 1975) orders regarding responsibilities and duties of the Internal Audit Organisation of the Department. Specific duties of Accounts Officer, Senior Auditors/Auditors were, however, not decided.

5.1.3 Internal Audit Manual

In January 2001 a check list in respect of expenditure incurred with reference to budget allotment, cash book, various registers, service book, contingent expenditure, log book, dead stock, tender and income received, Cash Credit Limit, Deposit Credit Limited and Personal Ledger Account was issued for compliance. However, no Internal Audit Manual has been issued by the department.

5.1.4 Manpower Management and training

As against sanctioned posts of nine Senior Auditors and two Auditors in the Internal Audit Organisation of the Department, the posts of two Senior Auditors and two Auditors were lying vacant since the beginning.

There was no provision for imparting training to the staff deployed for internal audit prior to February 2003. Consequent to creation of the Directorate of Internal Audit at State level, the internal audit staff was to be trained by the Directorate. No such training was, however, provided till date (September 2003).

5.1.5 Lack of risk based Audit Planning

Audit planning was not done on the basis of risk indicators. The audit of left over units of previous year was routinely planned for coverage during the current year.

5.1.6 Periodicity and coverage

According to orders issued by the Government of U.P. (January 2001) 10 per cent units were to be covered during a year. The position of coverage of units during last five years was as under:

Year	Total No. of units	Units audited	Percentage
1998-99	168	51	30
1999-2000	178	25	14
2000-01	177	24	14
2001-02	97	21	21
2002-03	111	49	44

Posts lying
Vacant

Roster of
periodicity of
audit not
maintained

The table indicates that the required quantum of coverage (10 per cent) was achieved. Records, however, do not reveal whether a roster of units to be covered periodically was maintained to enable the Internal Audit to plan out its activities systematically.

5.1.7 Unattended Audit Reports/observations

Details of inspection reports issued and volume of pendency of audit observations during the last five years was as under:

Year	Opening balance of outstanding paragraphs	No. of reports issued	Paragraphs added during the year	Paras settled during the year	Closing balance of outstanding paragraphs
1998-99	5292	51	650	709	5233
1999-2000	5233	25	281	428	5086
2000-01	5086	24	218	113 (+) 808 ^{#T}	4383
2001-02	4383(+) 685 ^{##}	21	198	871	4395
2002-03	4395	49	424	138	4681

The above table shows that even though 808 paragraphs were transferred to Uttaranchal during 2000-01, the old outstanding paragraphs ranged between 5233 to 4383. The Internal Audit Organisation did not maintain records to show the number of units which had failed to respond to audit queries within one month.

5.1.8 Poor response to Audit Observations

A review (January 2004) of 33 internal audit reports, out of 170 reports issued during 1998-2003, revealed the position of compliance to internal audit observations as under:

Year	Total No. of IRs issued		Total No. of IRs test checked		Replies received out of test checked			No reply received	
	IRs	Paras	IRs	Paras	IRs	Paras	Paras settled	IRs	Paras
1998-99	51	650	11	159	5	68	28	6	91
1999-2000	25	281	5	52	--	--	--	5	52
2000-01	24	218	5	49	3	25	8	2	24
2001-02	21	198	6	41	--	--	--	6	41
2002-03	49	424	6	50	--	--	--	6	50
Total	170	1771	33	351	8	93	36	25	258

Action taken on defaulting units was not on record

Non-receipt of even the first reply in respect of 258 paras contained in 25 reports (91 paras/6 reports for the year 1998-99) pertaining to the period 1998-2003, as of January 2004, indicated non responsiveness of the field units. Details of the action taken in this regard were not available on records.

5.1.9 Major irregularities pointed out remained un-responded

The nature of audit observations and the position of settlement thereof on receipt of compliance reports from the auditees during 1998-2003 was as under:

[#] Transferred to Uttaranchal

^{##} Transferred from Chief Conservator of Forest, Social Forestry

Audit Report (Civil) for the year ended 31 March 2003

Sl. No.	Total No. of IRs issued	170		Replies received and paras settled	
	Total No. of IRs test checked	33		9	
	Nature of observations	No. of Paras	Amount (Rs. in lakh)	No. of Paras	Amount (Rs. in lakh)
1	Procedural irregularities	223	574.59	28 (12.6)	10.91 (1.9)
2	Outstanding recovery of royalty from Van Nigam and centage charges	35	557.71	4 (11.4)	281.26 (50.4)
3	Outstanding recoveries from officers/officials	44	111.35	4 (9.0)	0.67 (0.60)
4	Loss of revenue	11	170.71	--	--
5	Excess payment	6	19.82	--	--
6	Embezzlement	2	1.68	--	--
7	Un-successful plantation/survival below norms	10	354.45	--	--
8	Blockage of funds	3	256.20	--	--
9	Execution of works without financial sanction	11	394.89	--	--
10	Unusable plants	1	2.24	--	--
11	Records not put up to internal audit	5	8.14	1 (20.0)	--
	Total	351	2451.78	37 (10.5)	292.84 (11.9)

(Figures in brackets denote percentages).

Settlement was only 11 per cent

The table indicated that the quantum of settlement of objections on receipt of compliance ranged between nine and 12.6 per cent. The overall progress of settlement was below 11 per cent during the last five years.

Out of 11 categories of observations, no compliance was received in respect of seven which include loss of revenue, excess payment, embezzlement, unsuccessful plantation and execution of works without financial sanction.

5.1.10 Ineffective follow up of the Reports

Inordinate delays and persistent failure in reporting compliance to such a large number of outstanding paragraphs by the audited units, indicated that the Internal Audit had been largely ineffective. Besides, the organisation failed to give details of system corrected and penal action taken at the instance of internal audit.

5.1.11 Special Audit

The department was unable to furnish reports of special audits conducted, if any during 1998 to 2002. However it stated that no special audit was carried out during 2002-03.

CO-OPERATIVE DEPARTMENT

5.1.12 Organisational Set Up

In consideration of the instructions for formation of “Internal Audit Organisation” issued (November 1988) by the Government of Uttar Pradesh, the Registrar, Co-operative Societies established (September 1997) an Internal Audit Cell for conducting internal audit of its 88 field offices. The detailed work plan and assignment of duties to various functionaries could not be finalised as of date (October 2003). The “Internal Audit Cell” functioned under the control of the Finance Controller.

5.1.13 Manpower Management and training

Three to seven accountants/ assistant accountants were posted in this Cell from time to time. No training could be imparted to the staff selected for the internal audit.

5.1.14 Internal Audit Manual

No internal audit manual could be framed by the department as of date.

5.1.15 Audit Planning

Neither any audit planning was done nor were the risk indicators identified.

5.1.16 Status of Internal Audit Reports

The position of the Internal Audit Reports for last five years was as follows:

Year	Number of reports issued	Number of report where compliance report has been received	Cases where compliance reports were awaited	
			Number	Percentage
1998-1999	03	02	01	33
1999-2000	03	02	01	33
2000-2001	15	03	12	80
2001-2002	20	05	15	75
2002-2003	12	NIL	12	100
TOTAL	53	12	41	77

Thus, the quantum of cases where compliance reports were yet to be received ranged between 33 and 100 *per cent*. Although there were 88 field offices in the department, no arrears in internal audit have been shown.

A review of 20 inspection reports out of 53 issued by the Internal Audit Wing of the Co-operative department revealed that the observations related mainly to the administrative and procedural lapses. A further review of eight of the 12 compliance reports revealed that the audit observations had been taken care of and complied with in all the cases. The department stated in reply that the “risk areas” had not been identified as the internal audit was examining only the activities relating to establishment matters and that the staff entrusted with internal audit was yet to be provided training by the Director, Internal Audit, Lucknow. The reply was not tenable. Necessary training should have been

Audit Report (Civil) for the year ended 31 March 2003

provided to the staff prior to their deployment for internal audit. Further, the internal audit set-up was not being utilized for an overall evaluation of the functioning of the department, as its mandate remained limited to the establishment matters only.

5.1.17 Special Audits

No special audit was done by the Internal Audit Cell, as of date (October 2003).

5.1.18 Conclusions

Despite instructions from the Government regarding strengthening of the Internal Audit System, an effective internal audit wing did not exist in the Forest and Co-operative Departments. Risk based audit planning to decide the quantum and coverage of the internal audit had not been established. Even monitoring of the submission of compliance reports and training of the staff deployed for internal audit had not commenced. For want of these, the Internal Audit Mechanism of the department, as it existed on date, could not be said to be effective and facilitating efficient management control.

5.1.19 Recommendations

- *Major risk areas may be identified for a closer look by the internal audit.*
- *Internal audit programme should be planned based on major risk areas identified keeping in view key risk indicators.*
- *All major units should be covered within a time span of 3 - 5 years.*
- *Adequate training may be provided to the staff deployed for internal audit.*

Allahabad The

(NARENDRA SINGH)
Principal Accountant General (Civil Audit)
Uttar Pradesh

Countersigned

**New Delhi The
The**

(VIJAYENDRA N. KAUL)
Comptroller & Auditor General of India

