

CHAPTER V

INTERNAL CONTROL SYSTEM

5.1 INTERNAL AUDIT SYSTEM IN GOVERNMENT DEPARTMENTS

Government of West Bengal set up (November 1998) an Internal Audit Wing (IAW) within the Finance Department for conducting internal audit in all State Government departments, their field offices, directorates, state undertakings and autonomous bodies, local bodies and three-tier panchayat bodies and such other offices in which State Government's interest is involved for effective expenditure control at operating levels through concurrent monitoring and evaluation of financial transactions.

In addition, 14 out of 53 departments were having Internal Audit Wing of their own.

Performance of Internal Audit Wing in Health and Family Welfare Department, Commercial Taxes Department and that of Finance Department with respect to Public Works Department was reviewed during September to October 2003 covering the period 1998-2003.

5.1.1 HEALTH AND FAMILY WELFARE DEPARTMENT

Functioning of the Internal Audit Wing

Internal Audit is an important management tool of a department to examine and evaluate the level of compliance to departmental rules and procedures. Internal Audit Wing in Health and Family Welfare Department started functioning with effect from 1984.

The wing is headed by one Additional Director (Audit, Accounts and Verification) who is assisted by one Deputy Director of Health Services (Audit, Accounts and Verification) and 15 inspectors of accounts to conduct audit of offices under 675 DDOs spread in 19 districts. One inspector of accounts is required to be posted at each of the district CMOH offices, Central Medical Stores (CMS), Nil Ratan Sircar (NRS) Medical College and Hospital, Seth Sukhlal Karnani Memorial Hospital (SSKM) and office of the Director of Health Service. Actual men-in-position during 1998-2003 varied between 7 and 10.

Each inspector of accounts was required to conduct periodical inspection of 65 Medical and Health Institutions in a year. Scrutiny of the records of Directorate revealed that the inspectors of accounts conducted inspection of only

4 to 37 units (shortfall 96 per cent) of the 675 units in a year during 1998-2003 as shown below:

Year	Available strength of Inspector of Accounts	No. of units to be inspected as per norms fixed by Govt.	No. of Units inspected	Shortfall (in percentage)
1998-1999	10	650	4	99.4
1999-2000	10	650	22	96.6
2000-2001	9	585	16	97.3
2001-2002	8	520	37	92.9
2002-2003	7	455	23	95

The reason for shortfall was attributed to engagement of inspector of accounts in other day to day work of CMOH offices in defiance of administrative instructions.

The department had not formulated any auditing standard nor prepared any audit plan. No register indicating the number of auditable units and periodicity of audit was maintained to monitor audit coverage. No action was taken to impart training to audit personnel.

Review of 25¹ out of 102 inspection reports (IRs) issued during 1998-2003 revealed that IRs contained 88 paragraphs on minor objections of improper maintenance of cash book, excess expenditure over allotment, idling/expiry of stock of medicines, non-maintenance of registers and records, delay in remittances of hospital revenue, diet irregularities, etc. Follow up action/pursuance of IRs of the Internal Audit Wing was also not on record. Out of 19 districts in the State, not a single unit of two districts viz. Purulia and Uttar Dinajpur was taken up for audit during 1998-2003.

Engagement of audit personnel in day to day works other than actual audit restricted the audit coverage to only 4 to 37 of the targeted units frustrating the very objectives of setting up Internal Audit Wing in the department.

Inspectors of Accounts were also supposed to assist the local offices in furnishing the replies of the Accountant General's Inspection Reports and submit a quarterly report to the directorate showing the progress of settlement of statutory audit objections. No such reports however, were sent by them. The Principal Accountant General's inspection reports issued during 1985-2003 revealed that Rs 85.67 lakh were defalcated in 40 units of the department. In the absence of adequate functioning of internal audit the recurrence of misappropriation/defalcation could not be ruled out considering the large spending of the department.

No specific record was available on the remedial measures taken/suggested on the basis of reports of Accountant General

¹ 11 BPHCs, 9 sub-divisional hospitals, 3 rural hospitals, 1 PHC and 1 Dy CMOH – IV

The matter was referred to Government in November 2003; reply had not been received (December 2003).

5.1.2 COMMERCIAL TAXES DEPARTMENT

Internal Audit system in the Commercial Taxes Department started functioning from May 1991; as a permanent in-house mechanism for scrutinising and detecting irregularities in the assessment of sales tax cases including checking of different registers. This Wing was also responsible for taking follow-up action on audit observations of the inspection reports issued by the Accountant General (LBA), West Bengal.

The Commissioner of Commercial Taxes, West Bengal who was the head of Internal Audit Wing, was assisted by the following personnel between 2000-2001 and 2002-2003 for promoting enforcement of compliance with laws rules and departmental instructions.

Year	Men-in-position					
	Additional Commissioner	Deputy Commissioner	Assistant Commissioner	Commercial Tax Officer	Assistant Commercial Tax Officer	Audit Officer
2000-2001	-	1	6	6	-	1
2001-2002	1	3	7	-	2	-
2002-2003	1	4	4	-	3	-

In West Bengal, there were 68 charge offices excluding checkpoints. Before undertaking audit in a year, the Internal Audit Wing should prepare an audit plan on the basis of norms regarding periodicity and coverage of audit as prescribed in the Internal Audit Manual. The Department, however, did not produce any such plan to Audit, as such the periodicity and coverage of internal audit could not be ascertained.

On this being pointed out, the Department stated in September 2003 that Internal Audit Department conducted audit on the basis of complications/potentiality of files and endeavour would be made to audit a particular charge in every 3 years.

The number of objections issued during the year during 1999-2003 and pendency of internal audit objections as stated by the Department are furnished below :

Year	Opening balance of Internal Audit para	Addition during the year	Disposal during the year	Balance at the end of the year
1999-2000	1692	446	72	2066
2000-2001	2066	396	17	2445
2001-2002	2445	183	29	2599
2002-2003	2599	148	16	2731

The Department, however, failed to furnish the number of internal audit inspection reports issued during the above years, their pendencies and year-wise analysis of pendencies though called for in audit. Moreover, these internal audit inspection reports had not quantified the money value of any objection.

As to the reasons for pendency of paras, the Department stated in September 2003 that the cases pending before the Appellate Authority/Board/Certificate Officer took considerable time for disposal.

Internal Audit System prevailing in the Commercial Taxes Department did not have proper audit planning and coverage. Special emphasis has to be given on updating the Internal Audit Manual.

5.1.3 PUBLIC WORKS DEPARTMENT

There were two Directorates under Public Works Department (PWD) viz. Public Works Directorate and Public Works (Construction Board) Directorate. Neither the Department nor any of the Directorates had internal audit system of its own.

The Internal Audit Wing of Finance Department conducted audit of 13 Public Works divisions between May 1999 and March 2000. No methodology was adopted for conducting inspection of these divisions. A consolidated inspection report was issued in April 2001 to the department giving three weeks' time for submission of compliance report. But the compliance report was not received till September 2003.

Subsequently, through statistical sampling the Internal Audit Wing selected 36 divisions in 7 districts and conducted their audit between July 2001 and June 2003 for one year accounts (2000-2001).

Review of Inspection Reports of three divisions² revealed that the reports were comprehensive and had wide coverage. The time taken for conducting such audit ranged between 31 days and 51 days. Out of the divisions audited, inspection reports were issued in respect of 17 divisions till September 2003. Delay in issuance of inspection report ranged between 3 and 16 months.

Departmental compliance report was not received in respect of any inspection report nor the wing fixed any time limit for submission of compliance report.

Special Audit in respect of one division³ was conducted in May 2003 and the inspection report was issued in September 2003.

Government stated (November 2003) that shortage of manpower was the reason for delay in issuance of Inspection Reports. The reply is not tenable as the Inspection Reports must be issued shortly after completion of audit. They further stated that compliance reports in respect of three divisions/departments had been received. Actual compliance could not be ascertained and the same would be done during next audit.

² Executive Engineer, City Division, PWD – 51 days,
Executive Engineer, Howrah Highway Division – 37 days
Executive Engineer, Burdwan Highway Division – 31 days.

³ Executive Engineer, Kalyani Electrical Division, PWD.

Thus, it is held that against the periodicity of annual audit, the internal audit took as much as 24 months to conduct audit of one year's accounts in 36 selected divisions. Immediate steps should be taken to reduce the time taken for audit to contain the accumulation of arrears in audit. Further, the delay in issuance of inspection reports frustrated the purpose of Internal Audit and in the absence of compliance report, the effectiveness of such audit could not be ascertained.

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