

## PERFORMANCE AUDIT ON FUNCTIONING OF INTERNAL CONTROLS

### 1. Introduction

Internal controls are essential for 'good governance'. These are activities and safeguards that are put in place by the management of an organisation to ensure that its activities are proceeding as planned. Internal controls are pervasive and continuous processes designed to provide reasonable assurance about the achievement of the objectives of an entity in three broad categories, viz. effectiveness and efficiency of operations; reliability of financial reporting and compliance with applicable laws and regulations. The control procedures are broadly categorised as preventive, detective, corrective, directive and compensating controls.

### 2. Audit objectives

Performance audit of internal controls in selected ministries/departments is conducted to assess whether these provided reasonable assurance that the following general objectives were being achieved:-

- fulfilling accountability obligations;
- complying with applicable laws and regulations;
- executing orderly, ethical, economical, efficient and effective operations;
- identifying and minimising the risks which the organisation faces in achieving its objectives;
- safeguarding resources against loss.

### 3. Audit criteria

The criteria used to assess the internal controls were:-

- whether internal controls have been prescribed and documented;
- whether the systems were adequate (if not, what were the deficiencies);
- whether the management was implementing these in the manner prescribed;
- whether the management periodically reviewed the internal control structure through internal audit and took corrective action; and
- whether internal audit was planned after making appropriate risk assessment of the procedures and follow-up was adequate and effective.

#### **4. Audit methodology**

Performance audit of the effectiveness of internal controls instituted in the Department of Health (Ministry of Health and Family Welfare), Department of Information Technology (Ministry of Communications and Information Technology) and Ministries of Urban Development and Urban Employment and Poverty Alleviation covering the period 2002-03 to 2004-05 was conducted during September-November 2005. These departments/ministries were selected in view of the importance of health care and prevention, control and eradication of communicable diseases, information technology and urban development as well as urban employment and poverty alleviation in the overall context of our socio-economic development. The audit was conducted through sample checks of records in the selected departments/ministries including their subordinate/attached offices and also the systems and practices followed with reference to the provisions of the Central Secretariat Manual on Office Procedures (CSMOP), government rules, orders and instructions. The sample for audit, inter-alia, covered records relating to budget and expenditure, manpower policies, internal audit and various control registers. The audit findings are discussed in the succeeding paragraphs.