

Chapter-7

Internal Audit

7.1 Main objectives

Internal audit assists an organization in ensuring adherence to internal controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. Based on the result of risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organization's governance, operations and information systems. This should include:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws, regulations and contracts.

7.2 Internal Audit in Government Departments

Internal audit wings have been set up only in 19 Departments¹¹ under the control of the Directorate of the Departments, which prevents it from functioning independently and objectively. Their functioning is confined mainly to accounting work. The wing, where it existed (19 Departments) did not have a manual or stated mandate.

Information from five Departments out of five test checked departments revealed that in Public Health Engineering and Co-operation Department there was no internal audit wing. The Accounts Officers posted in the Chief Engineer's office and divisions under PHE by Finance Department were engaged mainly in accounting work like pre-check of bills and advising the Chief Engineer and Executive Engineers on financial matters. In other three Departments viz, Agriculture, Industries & Commerce and Animal Husbandry & Veterinary (AH & Vety), although there were audit wings, their activities were very limited. The two internal auditors posted in AH & Vety Department. Directorate had not conducted audit of any unit. Under Agriculture Department one officer from Assam Finance Service and seven to eight departmental assistants of the audit wing covered only six *per cent* of the auditable units during 2001-06. Again under Industries and Commerce Department, two officers from Assam Audit service and three extension officers (Industries) conducted audit of only one unit out of 27 auditable units in 2007-08.

¹¹ 1. Agriculture, 2. Animal Husbandry and Veterinary, 3. Commerce and Industries, 4. Dairy Development, 5. Economics and Statistics, 6. Education (Elementary and Secondary), 7. Education (Higher), 8. Financial Inspection, 9. Fisheries, 10. Forest, 11. Handloom and Textile, 12. Health and Family Welfare, 13. Home, 14. Legal Metrology, 15. Planning and Development, 16. Printing and Stationery, 17. Sericulture, 18. Social Welfare and 19. Sports and Youth Welfare.

In sum, non-existence/non-functioning of internal audit wings in the Departments of the State Government deprived the latter of detecting instances of non-observance, inadequacies (if any) and effectiveness of internal controls. Consequently, a lessons-learnt mechanism, to respond to error signals, could not be put in place by the State Government which led to recurring and serious financial irregularities, often of similar/identical nature, over last several years.

7.3 Response to audit observations in Inspection Reports

The Principal Accountant General (Audit) (AG) arranges to conduct periodical inspection of Government offices to test-check the transactions and verify the due maintenance of significant accounting and other records according to prescribed rules and procedures. Inspection Reports (IRs) are issued to the Heads of the concerned offices with a copy to the Government. Orders of the State Government (March 1986) provide for prompt response by the Executive to the IRs issued by the AG to ensure rectificatory action in compliance to the prescribed rules and procedures. A half-yearly report of pending IRs is sent to the concerned Commissioner and Secretary of the Departments by the Principal Accountant General (Audit) Assam, Guwahati to facilitate monitoring of the audit observations in the pending IRs.

Audit observations by the Accountant General are required to be attended to by the Department within one month from the receipt of the Inspection Reports (IRs). It was however, noticed that 4905 IRs and 25880 Paragraphs were pending for settlement as of May 2010 as detailed below:

Year	Opening Balance		Addition		Settlement		Balance (as on May 2010)		Money Value (Rupees in crore)
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	
2005-06	5,801	29,278	450	3,279	923	7,400	5,328	25,157	1,466.39
2006-07	5,328	25,157	503	3,726	336	3,578	5,495	25,305	2,870.04
2007-08	5,495	25,305	680	4,489	332	2,073	5,843	27,721	2,632.30
2008-09	5,843	27,721	598	3,844	160	1,916	6,281	29,649	4,591.08
2009-10	6,281	29,649	514	3,759	1,890	7,528	4,905	25,880	5,371.39

IRs and Paragraphs therein are error signals to which a State Government should be sensitive to ensure that errors are comprehensively dealt with, those responsible for these are held accountable and these don't recur. More the sensitivity and more the alacrity to act firmer is the Government's resolve to deliver good governance to its people. However, the State Government's sensitivity to IRs and Paragraphs did not infuse the desired confidence in its people/legislature.