

CLIENT EXPECTATIONS FROM INTERNAL AUDIT

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Who are the clients?

- Senior management of the Department
 - The Secretary, Government of India is the Chief Accounting Authority for his Ministry.
- The External Auditor
 - Comptroller & Auditor General of India
- Donors / Lenders

Internal Audit and Internal Control

- Internal control refers to control exercised by Senior Management in ensuring effectiveness and efficiency of operations.
- Internal Audit is the control of all controls
 - helps bring out whether the internal controls are working the way they should
 - Reports to the Chief

Importance of Internal Control in Governance

- To provide reasonable assurance regarding achievements of the organisation's objectives by way of
 - Effectiveness and efficiency of operations.
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations.
- Imperative in view of Union Government expenditure of over Rs. 4 lakh crore and revenue of over Rs.3 lakh crore.

Committee of Sponsoring Organisations (COSO)

According to COSO, in USA, Internal Control is a process to provide reasonable assurance regarding achievement of the following objectives of an organisation

- Economy and efficiency of operations, including achievement of performance goals and safeguarding of assets against loss
- Reliable financial and operational data and reports; and
- Compliance with laws and regulations

INTOSAI Guidelines for Internal Control

- These have extended COSO's definition and objectives of Internal Control to include
 - 'fulfilling accountability obligations' in place of 'reliable financial data and reports'
 - 'executing orderly, ethical, economical, efficient and effective operations' in place of 'economy and efficiency of operations including achievement of performance goals'

- 'Safeguarding resources against loss' has been added as a distinct and separate objective in place of the earlier 'safeguarding assets against loss' included as a part of the operational objective in the COSO definition.
- Ethics has been made an important control objective as ethical behaviour by public servants is considered a key stone of good governance. A practical dimension of this objective would be to have fraud control measures in place.

- On standards for internal control including internal audit, COSO recommended in 1992 that specific Acts and formal setting up of standards ensure accountability.
- Government Departments in India bank on codes and manuals but lack a formal mechanism in the shape of an Act and policy documents.

Objectives of Internal Audit

According to Government Internal Audit Standards, UK, 2001, the objectives are

- To provide an independent and objective opinion to the accounting officer on
 - Risk management
 - Control
 - Governance

by measuring and evaluating their effectiveness in achieving the organisation's agreed objectives

Existing arrangements for Internal Audit

- In India although internationally applicable standards and best practices are available, internal audit continues to focus and report on relatively minor aberrations.
- Internal Audit seeks to
 - check accuracy of accounts
 - prevent and detect frauds
 - point out irregularities

- check initial accounts maintained in the executive offices to ascertain the extent to which rules, regulations, systems and procedures in accounting and financial matters are being followed
- Controller of Accounts prepares an annual report on the results of internal audit
- CGA has the power to inspect the offices through its inspection wing.

- In the Revenue Department the extent of internal audit is based either on a percentage of the number of units or on the number of inspections required to cover all units in a certain span of time.
- Internal audit reviews on Department of Health and Ministry of I&B bring out basically accounts related comments.
 - Scope of audit confined mainly to financial audit.

- Do not conduct audit of
 - Budgetary assumptions and processes
 - Man power analysis
 - Review of programmes and schemes
- Do not undertake audit of autonomous bodies or PSUs under the Ministry

Aspects requiring attention

- While external audit refrains from directly commenting on policies the internal audit can help management in this regard.
- Insufficient man power
- Skills of personnel need to be upgraded through training
- Need for conducting periodic evaluation of adequacy of internal control mechanisms

Comments on Internal audit included in Reports of the CAG of India

- Review of the system of Internal Audit in the Income-tax Department (Report 13 of 2005) revealed
 - Back-log of internal audit
 - Shortfall in cases actually audited vis-à-vis the total auditable cases was around 50% before chain system introduced. Rose to 60% after introduction
- In the Customs Department there was
 - incomplete data base of assessee's profile.
 - Inadequate training of staff

- Ineffective pursuance of objections leading to demand becoming time barred.
- Non-mandatory units taken up for audit at the cost of mandatory units.
- For expenditure ministries of Health, UD and IT
 - Comments on budgeting
 - Non-maintenance of guard files
 - Need for work study
 - Non-conducting of annual physical verification
 - Poor compliance by Ministry on Internal Audit observations

- CAG has introduced a chapter on internal control in the Audit Reports of State Governments two years back
- For the Central Ministries, CAG proposes to examine efficacy of internal control in three ministries every year.

CAG's Expectations

According to CAG a good system of internal control should comprise the following:

- Proper allocation of functional responsibilities within the organisation;
- Proper operating and accounting procedures to ensure the accuracy and reliability of accounting data, efficiency in operation and safeguarding of assets;

- Quality of personnel commensurate with their responsibilities and duties
- Review of the work of one individual by another whereby possibility of fraud or error in the absence of collusion is minimised.

Internal audit, then, will need to check if these aspects have been taken care of.

Road Map for the future

- Modern view is that internal audit should also extend to
 - cost benefit analysis
 - resources utilisation and their deployment
 - matters of propriety
 - effectiveness of the management

Thank You