

***Internal Control for Operational Effectiveness – Best Practices****Sanjai Singh*

The Session was the last session on the second day of the seminar. The panellists were *Ms. Shailaja Chandra*, Chief Secretary, Government of Delhi (India); *Mr. Vinod Sabgal*, Public Financial Accountability Specialist of World Bank; *Mr. Chris Butler*, Head of Assurance Control and Risk Team of Her Majesty's Treasury in United Kingdom. *Mr. N.P. Silwal*, Acting Financial Comptroller General of Nepal chaired the session.

Initiating the discussion, *N.P. Silwal*, mentioned that to avoid wastage of public funds and to ensure its best utilization, a proper internal control mechanism has to be in place and accountants are to discharge the responsibilities given to them.

*Shailaja Chandra*, stressed that the public has right to know whether the public funds have been well spent and the expenditure is able to achieve the objectives for which funds are provided. She listed some of the initiatives taken by the Government of Delhi recently to improve the level of operational effectiveness from Public Accountability point of view.

“Bhagidari” a concept of partnership between Resident Welfare Associations or Market or Industry Associations and Representatives of various Public Service Providers has worked well in Delhi where jointly a process of identification and solution of public problems is evolved and a public perception is made that wheels of Government are functioning. She explained the process of interaction between Welfare Associations’ representatives and representatives of Public Service Providers and mentioned that the very fact that in few years time the number of Bhagidari associations has now become over 1500 shows that people are getting return for their time spent & through citizen interface the accountability of Public Service Providers e.g. Delhi Development Authority, Municipal Corporation of Delhi, Delhi Police, Delhi Jal Board (Water Supply Undertaking) etc. has improved.

Second step taken by Govt. of Delhi is introduction of ‘Right to Information Act’ where a citizen can apply on a form by paying Rs.50/- seeking information on a subject from the Government and can seek redressal from Public Grievance Commission if the information is not given or his question is not answered. The Public Grievance Commission looks into whether the delay in providing information is acceptable and whether information given is what was asked for and may issue a critical statement or call for explanation if it feels that a case has not been properly handled in prescribed time.

The third step is that the Annual Action Plans of Municipal Corporation of Delhi are now widely available and are also put on official website. It gives the ward wise item wise details of work. This will enhance the public accountability by making available the information about promises

on performance and achievements there against. It will also help audit in measuring physical performance and accountability to audit will also improve.

In the Education sector, in case of government schools some funds are given to “Vidyarthi Kalyan Samitis” which are local committees i.e. small groups within each school consisting of parents, teachers and people living in the locality to attend small complaints/problems relating to repairs etc. without depending upon the Government Works Department. Delhi Government is also taking initiative in outsourcing a large number of Government projects and privatising utility works, e.g. distribution of electricity. At distribution level now the Power Sector in Delhi has been privatised as transmission & Distribution losses were touching 52% due to various reasons. The private companies have been given a time frame of 5 years to set things right. Next major area in the offing is privatisation of water supply as presently problems of indiscriminate use of tap and ground water are being experienced. In the Sales Tax Department, through Internal Assessment Programme, the accountability of Sales Tax Officers is made more focused and their performance is judged by standards and weightages given on set criteria. With this measure, sales tax collections have also increased. Similarly, in the field of Education, Principals & Heads of Departments are given Commendations or called for explanation based upon school results. With these initiatives for improving the levels of public accountability, the Government of Delhi is taking steps towards good governance. While replying to a question, she mentioned that the other steps such as energy audit, “E-Purti” (Public satisfaction through e-governance) and plans for computerizing the whole tendering process, the operational effectiveness of Government functioning is intended to improve.

She mentioned that Controller of Accounts is playing, and has to play an important role in internal control mechanism through presentation of timely Budget and Accounts figures to enable monthly monitoring of plan and non-plan expenditure. Through this mechanism, Controller of Accounts has also to tell whether funds have been spent for the purpose for which it was apportioned and has to alert about the pattern of spending i.e. whether the funds are overspent or underspent. Position of loans is also required to be watched regularly. She emphasized that the functions of Controller of Accounts and Audit machinery are essential ingredients for operational effectiveness.

*Vinod Sahgal* in his presentation starting with distinction between external and internal controls, mentioned that bureaucracy is playing a dominant role in shaping internal control system and for institutionalising it. He also mentioned that World Bank’s Charter specifies that wherever it is involved, internal control systems are needed to exist to ensure that funds are spent for intended purposes and with economy and efficiency. He presented the outline of institutional framework for internal control prevalent in India through Rules and Procedures of Parliament, General Financial Rules, Articles 310 & 311 of the Constitution, Transaction of Business Rules & Freedom of Information Act, 2002. He observed that in India and mostly in other parts of

South Asia, financial rules set by executives under authority of legislature provide main control framework and there is no Organic Public Financial Accountability Law like that in South Africa or Canada in this part of the world. He opined that Freedom of Information Act may act as a driver for new kind of accounting information and may infuse new concept of Public Accountability.

While traditional view of internal control looked at it as administrative tool with focus on Compliance, Rules, Procedures and hierarchies, the more modern view looks at internal control as Management tool with having programme objectives, monitoring to achieve objectives and accounting for results. In the modern system the control is more by direction through controlling steering wheel & control is replacing controls. In this context, Standards & Performance become more important. The setting up of Government Accounting Standards Advisory Board (GASAB) has been a welcome step in India. Accounting has to move to platform of setting standards & measurement there against rather than being based on detailed rules & procedures. *Vinod Sabgal* defined internal control as a management tool used to provide reasonable assurance, which finds out whether management objectives are being achieved. It is affected by people within the organisation. He observed that accounting is becoming a management tool and a matter of public interest to meet the main objective that funds are spent economically and effectively. Internal control works best when the accounting infrastructure within the government provides useful information on inputs (money, material, time etc.) as well as outputs and outcomes (improved health, education, eradication of poverty etc.)

The evolution taking place in South Asia is that public is getting into center stage where demand for information is increasing and supply of information is improving which is technology driven. As a result, accounting information is becoming progressively current and accounting for results is emerging. Governance is becoming more demanding. The new framework for control emerging around the world is driven by clarity of purpose, commitment to organisational objectives, capability of the system and human resources, and monitoring and learning capacity. There is more emphasis on vision and Govt. departments are developing perspective plans and a public debate on that is being welcomed. World Bank is getting support from Governments for diagnostics to develop roadmap for speeding up the capacity building. But the key to success will be 'action' based on capabilities & commitment.

Presenting an Outsider's perception of four different sectors, he mentioned that while Government set up is risk adverse and has micro emphasis on 'Controls' which are rule based having a Compliance culture and accounting for inputs, in Public Sector Undertakings there is much more demand for financial reporting where culture is that of the Government but trappings are of private sector. The private sector is a mix of rules & standards where culture of performance is prevalent and accounting for results is practiced. Non governmental organisation (NGO) sector functioning depends on leadership provided to NGO.

Presenting World Bank diagnostics, *Vinod Sabgal* mentioned that the 'Cup is half full'. He underlined the need for attention for Capacity for Accounting for Results. Some of the positive developments taking place in the region are modernization of internal control, more openness in the Budget process, preparation of 'Accounts at a Glance' i.e. presentation of accounting information in a simplified, user-friendly format; use of electronic means e.g. web page, more timely accounts & audits, desire to be best in the region and media and public becoming more active. The five areas which need focused attention are the enforcement of spirit behind the rules, widespread computerization & quality thereof, transparency, clarifying accountability and need for capacity building. He also felt that the role at the top remains unclear and Role of Secretaries to Government as Chief Accounting Authorities and Controlling Officers need to be made clear. Further, more clarity is needed for accountability for results rather than just spending within limits. Budget Realism is needed and Budget forecast especially revenue forecasting in states has to become more realistic. While highlighting the role of computerization in the process of internal control he opined that bureaucratic and political will is needed to improve quality of computerization. *Vinod Sabgal* concluded that there is a need for Capacity Building for improving the management and accounting for results. Internal control need to be further modernized and public centred and Government are to move forward to compare inputs with outputs.

*Chris Butler* presented the initiatives taken in the United Kingdom during last six years to establish internal control system triggered by experiences of some failures in corporate governance. The main principles are that the Accounting Officer or Chief Executive is responsible for not just business but also for having a control system giving reasonable assurance. He is equivalent to a Board in Private Company and is responsible and accountable to Parliament through Public Accounts Committee for Cash Management, Compliance with Rules, Regularity, Propriety and Value for money. With certain measures, the accountability of Accounting Officers is endeavoured to be improved and these measures followed certain stages, viz, the statement on Internal Financial Control, 1997; Statement on Internal Control 2001-2002 & updated Statement on Internal Control 2003-04. These steps have led to developing concern about boundary of Bureaucrats and Ministers on policy issues and boundary of Internal Controls, which are linked to policy outcomes. Through this process, accountability of Accounting officers is clarified and they are assigned responsibilities. The accounting has evolved from traditional areas of Cash and Accounts, projects, rules, value for money to modern areas of safeguarding assets now reinforced by accrual accounting, better procurement, risk management and delivery of objectives. He underlined the need for cost effective controls properly managing risks. Accountability now depends on Management of delivery i.e. Performance Management with clear objectives, Public Service Agreements, Targets, Monitoring/tracking of delivery progress and accountability for results. Subsidiary bodies are also used for delivery mechanism. However, many objectives cut

across organisations, which have to work together to achieve it, and in some cases private sector is also used for delivery mechanism.

Internal Control Statements developed are broad in scope delineating the responsibility of Accounting Officer and are designed to manage rather than eliminate risk of failure. Internal Control need to provide reasonable assurance and is based on process of risk identification and management during whole accounting period. These also incorporate the summary of processes Accounting Officer uses for review of effectiveness and action taken to deal with material internal control aspects of significant problems.

The updated SICs for 2003/04 provide provisions for confirmation that results of review of effectiveness of internal control have been discussed by board and audit committee machinery and mentions the way in Govt. tackles internal and public risk e.g. in sectors of health and rail. It also recognizes need for continuous improvement in internal control. The tools are being developed by treasury for self-assessment by departments on state of risk management, control & review processes.

As a part of accountability structure, *Chris Butler*, highlighted the role of Audit Committees. Accounting Officers need to have Audit Committees to address and advise them about internal Control System and Accounting. There is a move towards more non-executive independent members chairing the Audit Committees. Most of Government departments now have Audit Committees and the intention is to support and advise accounting officers and not to supersede or undermine their authority. It is based on principle that expertise of outside persons is valuable in providing stimulus for development of Internal Control. He opined that Audit Committees need to be established in all Central Government Bodies to provide support to Accounting Officers. A good Accounting Officer will benefit from independent and friendly challenge provided by Audit Committee headed by non-executive member. This will also enhance the objectivity of advice by Audit Committee.

#### **Conclusions & Recommendations:**

- ❖ Accounting function within government should provide useful information on inputs as well as outputs and outcome.
- ❖ Modern Internal control systems should be designed to provide reasonable assurance that organizational activities are in synergy with organizational goals.
- ❖ Internal controls should be based on risk identification and management during the whole accounting period. While properly managing risks controls should be cost-effective.
- ❖ The accountability of managers should be clearly defined. Forms of a modernized internal control system should move from mere compliance of rules and regulations to an output-orientation.