

CHAPTER - V
**INTERNAL CONTROL MECHANISM AND INTERNAL
AUDIT SYSTEM**

HORTICULTURE DEPARTMENT

5.1 Internal control mechanism and internal audit system in the Horticulture Department

Highlights

Internal control uses a system of rules, orders and procedures to provide management with a reasonable assurance that the entity is functioning in the manner, which is economical, efficient and effective. A built-in internal control system and strict adherence to the provisions of statutes, codes and manuals minimise the risk of errors and irregularities and help to protect organisational resources against loss due to wastage, abuse and mismanagement. An evaluation of the internal controls and internal audit system in the Horticulture Department revealed weaknesses relating to non-compliance with rules in the areas of budgetary control, material management, expenditure control and operational controls.

There were persistent excesses/savings ranging between (-) 44 per cent and 50 per cent indicating poor budgetary control.

(Paragraph 5.1.7.2)

Two Deputy Directors drew funds aggregating Rs.36.61 lakh during the period February 1994 to March 1998 through eight AC bills which have not been regularised through submission of DCC bills for eight to twelve years.

(Paragraph 5.1.9.1)

Internal audit of the accounts of the Directorate of Horticulture has not been conducted.

(Paragraph 5.1.12.1)

5.1.1 Introduction

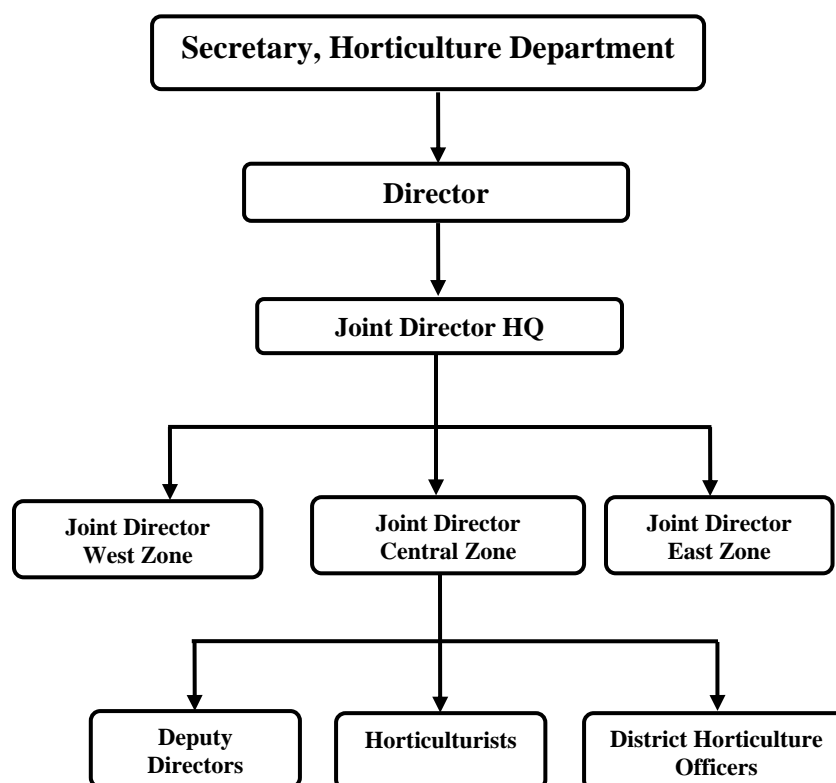
Internal controls provide reasonable assurance to the management that financial interests and resources of the organization are safeguarded and reliable information is available. Internal auditors, as an independent entity, examine and evaluate the level of compliance with the financial and other departmental rules and procedures and provide assurance to the management on the adequacy or otherwise of the existing internal controls.

The primary objective of the Horticulture Department in the State is to accelerate the growth of tropical, sub-tropical and temperate fruits, vegetables, spices and other cash crops such as medicinal and aromatic herbs and plants, ornamental flowers etc.

5.1.2 Organizational set up

The organizational set up of the Horticulture Department is detailed below:-

Chart – 5.1



5.1.3 Audit objectives

Audit objectives were to see whether the internal control system of the Department provides a reasonable assurance that the system is efficient to achieve its objectives through the following:

- Budgetary controls
- Financial controls
- Expenditure controls
- Operational controls
- Effectiveness of Internal audit

5.1.4 Audit coverage

Adequacy and effectiveness of the internal control mechanism, including the system of internal audit, in the Horticulture Department was reviewed in audit through a test check (April - May 2006) of the records of the Secretary, Horticulture, Director of Horticulture and six Drawing and Disbursing Officers (DDOs) in six districts⁵² (out of 16 districts) for the period 2001-06.

5.1.5 Audit criteria

The audit objectives were benchmarked against the following criteria :

- provisions of the General Financial Rules;
- provisions of Central Treasury Rules;
- departmental policies/rules and regulations;
- Government notifications/guidelines issued from time to time; and
- procedures prescribed for monitoring, evaluation and internal audit.

5.1.6 Audit methodology

Before taking up this review in April 2006, its objectives, scope and audit criteria were discussed with the Director, Horticulture in an entry conference. Information furnished by the Department in response to audit queries and questionnaires were used as audit evidence. The audit findings were forwarded to the Secretary, Horticulture Department in July 2006. The Department's replies wherever relevant and appropriate have been incorporated in the review.

5.1.7 Budgetary controls

Budget provision and expenditure for the years 2001-02 to 2005-06 along with the excess/savings are given below:

Table - 5.1

(Rupees in crore)

Year	Section	Budget provision (Original + Supplementary)	Actual expenditure	Excess (+)/ Savings (-) (percentage)	Amount surrendered	Un-surrendered Savings (percentage to total saving)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2001-02	Revenue	9.23	8.27	(-) 0.96 (10)	0.11	0.85 (89)
	Capital	1.23	1.81	(+) 0.58 (47)	--	--
2002-03	Revenue	9.36	7.82	(-) 1.54 (16)	0.11	1.43 (93)
	Capital	1.00	0.84	(-) 0.16 (16)	--	0.16 (100)

⁵² Tawang, West Kameng, Kurung Kumey, Papumpare, Lower Dibang Valley, Lower Subansiri.

(Rupees in crore)						
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2003-04	Revenue	14.53	8.14	(-) 6.39 (44)	--	6.39 (100)
	Capital	1.00	0.93	(-) 0.07 (7)	0.03	0.04 (57)
2004-05	Revenue	10.79	16.23	(+) 5.44 (50)	--	--
	Capital	1.00	1.09	(+) 0.09 (9)	--	--
2005-06	Revenue	12.54	11.96	(-) 0.58(5)	0.06	0.52 (90)
	Capital	0.92	0.63	(-) 0.29 (32)	--	0.29 (100)

Source: Appropriation Accounts (Grant No.48)

The following shortcomings were noticed in budgetary control:

5.1.7.1 Budget estimates

The State Government did not have any budget manual of its own and the provisions of the General Financial Rules are followed for formulation of budget and other financial matters. In case of Plan budget, the annual plan outlay is finalised in consultation with the State Planning Department. For effective control over budget as well as for estimation of savings or excess over grants, monthly statements of expenditure are to be obtained from the DDOs. The Director, Horticulture (DH) could not provide any such statement to audit. The Department prepares the Non-Plan budget proposals by compiling the inputs obtained from all the DDOs and submits these to the Finance Department in a consolidated form. The year-wise date of receipt of inputs from the units and submission of the consolidated budget estimates to the Administrative Department, though called for, were not made available to audit by the concerned Department and Controlling Officer (CO).

5.1.7.2 Persistent savings/excess expenditure/un-surrendered savings/unnecessary demand for Supplementary Grant

There were persistent excesses/savings ranging between (-) 44 per cent and 50 per cent indicating poor monitoring and control over budget. The absence of proper monitoring was also evident from the fact that during the years 2001-06, 57 to 100 per cent of the available savings were not surrendered. Further, during the years 2001-02 and 2003-04, the actual expenditure (Revenue Section) did not come up to the original provision in view of which, supplementary provision obtained was unnecessary. During the years 2001-02 (Capital Section) and 2004-05 (Revenue Section) supplementary provision obtained was found to be inadequate.

5.1.8 Financial controls

Scrutiny revealed that organizational controls were not effective in the Department leading to doubtful expenditure, loss of revenue, excess expenditure, etc., as brought out in the succeeding paragraphs.

5.1.8.1 Loss of revenue

The District Horticulture Officer (DHO), Lower Dibang Valley, Roing distributed 48,553 orange seedlings from Citrus Nursery cum progeny orchard among the farmers free of cost although the seedlings were to be sold at Rs.8 per seedling. Records revealed that although the DHO wrote (March 2003) to the Government for permission for disposal of the seedlings to other DHOs where there was demand for the seedlings, no such permission was given by the Government. Meanwhile the seedlings became oversized and required to be uprooted. The DHO distributed the oversized seedlings among the farmers instead of other DHOs as requested by him from Government. Thus, failure on the part of the Government to convey the decision resulted in loss of revenue of Rs.3.88 lakh to the Government.

5.1.8.2 Doubtful execution of plantation

Scrutiny of records revealed that in one test checked district (Papumpare), plantation works for various fruits under the scheme Swabhiman Rozgar Yojna for the year 2004-05 were taken up as indicated in the table given below:-

Table – 5.2

Name of seedling	Targeted area (Hectares)	Actual area covered (Hectares)	Requirement of seedlings with respect to actual area	Actual procurement of seedlings	Excess (+) Less (-)
Pineapple	10	10	32,500	25,000	(-) 7,500
Banana	10	13	2,60,000	2,00,000	(-) 60,000
Orange	40	73	21,900	21,900	-
Litchi	50	14	3,150	42,000	(+) 38,850

From the above it may be seen that the Department was short of covering the targeted area in respect of litchi and over covered the area in respect of banana and orange. Further, the Department procured (May 2004) extra seedlings of litchi (38,850 seedlings) which was far in excess of requirement involving wasteful expenditure of Rs.3.40 lakh. Further, the coverage of area in respect of pine apple and banana as claimed (April 2005) by the Department is also doubtful in view of the fact that the Department did not purchase adequate number of seedlings for the said fruits.

5.1.9 Expenditure controls

5.1.9.1 Non-adjustment of Abstract Contingent bills

Rules provide that drawals through Abstract Contingent (AC) bill require subsequent presentation of Detailed Countersigned Contingent (DCC) bill to the CO and its transmission to the Accountant General within thirty days. A certificate is also required to be attached to every AC bill to the effect that

DCC bills have been submitted to the CO in respect of all previous one month old AC bills (drawn more than a month before the date of that bill).

It was noticed that two Deputy Directors drew amounts aggregating Rs.36.61 lakh during the period February 1994 to March 1998 through eight AC bills for mushroom and walnut cultivation, repair of vehicles and purchase of petrol, oil and lubricant. But DCC bills had not been submitted to the AG till the date of Audit (May 2006). Consequently, these drawals had not been regularised for eight to twelve years. Failure to submit the DCC bill indicated a serious deficiency in control over expenditure. The possibility of fraud/misuse of the funds drawn on AC bills also cannot be ruled out in the absence of the corresponding DCC bill. The Department also failed to fix responsibility (May 2006) on the Deputy Directors who had drawn the amount on AC bills and had not submitted DCC bills subsequently.

5.1.9.2 Irregular expenditure in cultivation of fruit plants

For cultivation of kiwi and walnut under an North Eastern Council (NEC) sponsored scheme, Government assistance was to be given to the selected beneficiaries for meeting the cost of barbed wire-fencing, fruit-plants etc., provided that their own contribution towards meeting the cost of jungle clearance, cost of layout, digging and refilling of pits, cost of wooden post, fencing etc., was equivalent to Government assistance. The State Government sanctioned and released Rs.40 lakh on this account to the District Horticulture Officer, Bomdila during 2003-04. The amount was spent on procurement and distribution of inputs for cultivation of 48.50 hectares of fruit gardens during 2003-04. A review of the records of DHO, Bomdila, however, revealed that as against the required beneficiaries' contribution of Rs. 40 lakh, they had contributed only Rs. 1.45 lakh. Thus, in the absence of proper cultivable area, fruitful utilisation of the Government contribution of Rs.40 lakh also remains doubtful.

5.1.9.3 Excess procurement & utilization of barbed wire

As per estimate of the "Swabhiman Rojgar Yojana" scheme, barbed wire was to be issued to the beneficiaries at the rate of 450 Kg/hectare to fence the plantations. Three test checked districts, (Tawang, West Kameng and Kurung Kumey) were allotted 130 hectares, 135 hectares and 111 hectares of plantations respectively, for which 1,69,200 Kg of barbed wire was to be procured by the DHOs. Instead, the DHOs had purchased 1,73,842.71 kgs and distributed the entire quantity to the beneficiaries. An excess quantity of 4,642.71 kgs amounting to Rs.2,03,350/- at Rs.43.80/Kg was procured and distributed unauthorisedly as shown below:

Table – 5.3

Name of district	Hectare sanctioned	Requirement of barbed wire		Procurement done (Kg)	Excess procurement (Kg)	Rate/kg	Excess amount involved (Rupees)
		Per hect (Kg)	Total qty (Kg)				
Tawang	130	450	58,500	60,103	1603	43.80	70,211
West Kameng	135	450	60,750	62,414.27	1664.27	43.80	72,895
Kurung Kumey	111	450	49,950	51,325.44	1375.44	43.80	60,244
			1,69,200	1,73,842.712	4642.712		2,03,350

Sources: Information furnished by the DHOs

5.1.9.4 Excess payment

(a) The State Government fixed the rate for purchase of barbed wire at Rs.43.80 per kg inclusive of all taxes and FOR (sales tax @ 8 per cent) destination although as per Government notification dated October 2001, barbed wire was not included in the list of items taxable under Sales Tax. In two test checked districts, (Papumpare and Tawang), it was seen that Rs.48.60 lakh was paid (March 2005) to suppliers without deducting the excess amount included in the rate. Thus there was an excess payment of Rs.3.60 lakh (Rs.48.60 ÷ 108 x 8).

(b) In one of the test checked districts (Papumpare), it was seen that an amount of Rs.22,27,513/- was paid to five suppliers for supply of 47,094 kgs of barbed wire at the rate of Rs.47.50 per Kg against Rs.43.80 per Kg, fixed by the Government (March 2004). Thus, there was excess expenditure of Rs.1.74 lakh on procurement of barbed wire at higher rates.

5.1.10 Operational controls

5.1.10.1 Absence of plans/action plans

For the successful implementation of schemes/programmes, detailed planning including an action plan indicating targets for achievement and key performance indicators are required to be framed. Scrutiny of records, however, revealed that the Department did not maintain any records of plans/action plans in respect of centrally sponsored schemes. Similarly in respect of the State plan schemes; the Department did not evaluate achievements against the targets.

Besides above, scrutiny of records of the test-checked districts revealed the following shortcomings in operational controls.

5.1.10.2 Absence of scheme evaluation/monitoring

The Horticulture Department spent Rs.6.50 crore during 2004-05 on procurement of seedlings under the scheme meant for generation of employment through gardening over an area of 1840 hectares among the unemployed youth. The Government orders in this regard provided for monitoring of the implementation of the scheme by an empowered committee. However, no information regarding formation of such a committee was made available to Audit. The Department had also not carried out any physical verification/inspection to see as to whether the district level units had distributed the seedlings procured under the scheme to the genuine and eligible beneficiaries.

5.1.10.3 Non-maintenance of records

Production of apples was confined to the State Horticulture Farm, Bomdila. The farm was established in 1976-77 covering an area of 120 hectares. The basic objective of setting up this farm was introduction, trial and adoption of fruit crops under local agro-climatic condition.

It was seen in audit that no inventory register of plantation of fruit trees was maintained in the farm. Information furnished by the Horticulturist, Bomdila revealed that during, the period the average yield of apple per tree ranged between 28 to 29 kg. No authenticated document regarding yield of apple fruit per plant/standard norm in this regard was produced to Audit. The Department also did not fix any specific production target for apple trees. Thus, in the absence of any norm, the actual productivity could not be verified.

5.1.10.4 Loss in production of Black Pepper Seedlings

Scrutiny of records of the Central Black Pepper Nursery, Naharlagun revealed that during 2002-03 and 2003-04, the Department incurred an expenditure of Rs.8.52 lakh and a total number of 1,78,748⁵³ live plants were produced. Of this, 69,198 plants were distributed to Government Departments/ beneficiaries, 64,460 plants were lying in the nursery and there was no account of 45,090

53

Year	Total numbers of seedling produced	Number of seedlings dried/damaged	Total numbers of live seedlings available for distribution	Year wise total expenditure incurred on production of seedlings (Rupees in lakh)	Cost of production per seedling (Rupees)	Numbers of seedlings distributed to Government Departments/beneficiaries	Balance of seedlings lying undistributed	Remarks
2002-03	1,05,000	5,000	1,00,000	4.12	4.12	42,310	12,600	45,090 numbers of seedling remained unaccounted for
2003-04	1,00,000	26,340	78,748	4.40	5.58	26,888	51,860	
Total	2,05,000	31,340	1,78,748	8.52		69,198	64,460	

plants valued at Rs.1.86 lakh. The plants lying in nursery (64,460 plants) costing Rs.3.41 lakh had also deteriorated due to delay in distribution and plantation. Thus, there was loss to the Government to the tune of Rs.5.27 lakh due to missing plants (Rs.1.86 lakh) and delay in distribution of plants (Rs.3.41 lakh).

5.1.11 Failure to enforce accountability for non-settlement of Inspection Reports of the Principal Accountant General

The irregularities noticed during the local audit conducted by the Principal Accountant General (PAG) are communicated through Inspection Reports (IRs) to the heads of offices with a copy to the next higher authority. A half yearly report of pending IRs are sent by the PAG to the Secretary of the concerned administrative Department to facilitate monitoring of action on the reports.

As of June 2006, 164 paragraphs relating to 41 IRs issued between April 1989 to December 2004, relating to Director of Horticulture (DOH) and 14 other DDOs were outstanding either due to non receipt of replies or the replies being incomplete.

Large pendency of IRs indicated failure of the concerned controlling officers to initiate action with regard to the points raised in the IRs. The concerned Secretary of the administrative Department also failed to ensure timely action by the concerned controlling officers.

5.1.12 Internal audit

5.1.12.1 Non existence of internal audit

Internal audit is necessary to evaluate the efficacy of internal controls. In June 1999, a separate Directorate, viz., Directorate of Audit and Pensions, was created, entrusting, *inter-alia*, the responsibility of internal audit of accounts of various Government Departments in the State.

According to the information furnished (May 2006) by the Finance and Accounts Officer, Internal Audit of Accounts of the Directorate of Horticulture was not conducted during the five year period ending March 2006.

Thus, the adequacy and effectiveness of the accounting and internal control system were not evaluated by the Director of Horticulture through an independent agency.

The matter was reported to the Government (July 2006); reply had not been received (November 2006).

5.1.13 Conclusion

Internal controls were inadequate and ineffective in the Horticulture Department. Arrangements for internal audit too were inadequate. This would adversely impact implementation of horticultural programmes/schemes.

5.1.14 Recommendations

On the basis of the shortcomings and deficiencies pointed out in the foregoing paragraphs, the following recommendations are made:

- **Evolve a comprehensive monitoring and evaluation system both at the district level as well as the State level to achieve desired implementation of schemes;**
- **Detailed plans indicating targets in respect of Centrally Sponsored Schemes and State Plan Schemes should be framed; and**
- **Internal audit should be undertaken to evaluate the efficacy of the internal control system.**