

CHAPTER-V

INTERNAL CONTROL/INTERNAL AUDIT

PUBLIC HEALTH ENGINEERING DEPARTMENT

5.1 Internal Control/Internal Audit System in Public Health Engineering Department

Highlights

Internal control mechanism in a Government Department is meant to ensure that its activities are carried out according to the prescribed rules and regulations and in an economical, efficient and effective manner. An internal control system and strict adherence to statutes, codes and manuals minimise the risk of errors and irregularities, and help to protect resources against loss due to waste, abuse and mismanagement. Audit review of the functioning of the internal control mechanism during 2000-01 to 2004-05 in the Public Health Engineering Department of the Government of Assam revealed deficient budgetary and expenditure control, poor cash management and poor operational and supervisory controls in the Department.

➤ **In the Department of Public Health Engineering there was deficient control mechanism in planning, budget formulation and resource management leading to obtaining of unnecessary supplementary provisions, incurring expenditure in excess of provision or without any provision and excess over sanctioned estimates.**

(Paragraphs-5.1.6 to 5.1.9)

➤ **For 88 schemes completed during 2003-04, the administrative cost of which amounted to Rs.13.88 crore, payment made to the contractors till date was Rs.16.44 crore. Final bills against most of the works were not prepared and paid. By non-preparation/payment of final bills of completed schemes, the Department avoided audit scrutiny of these bills.**

(Paragraph-5.1.11)

➤ **Lax administrative control led to accumulation of heavy cash balances ranging from Rs0.07 lakh to Rs.58.88 lakh in 14 divisions under the Public Health Department. Also due to non-compliance with prescribed codal provisions and directives issued by the Finance Department for smooth and expeditious materials management, stock and T & P materials worth Rs.1.60 crore were lying unutilised for periods over three years.**

(Paragraphs-5.1.14 & 5.1.15)

➤ **There were no plans and programmes for imparting training to the officers and staff of the department. There was also no system of imparting training to engineers on accounting procedures.**

(Paragraph-5.1.16)

➤ **Internal audit, which is an integral part of the internal control system of a department, has not yet been introduced in the Public Health Engineering Department.**

(Paragraph-5.1.18)

5.1.1 Introduction

Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and adequate manner. The system of internal control in Government departments is the plan of the Government to assist in achieving Government's objective of ensuring orderly and efficient conduct of their business, including adherence to Government policies, detection and prevention of fraud and error and to examine and evaluate the level of compliance of departmental rules and procedures, the accuracy and completeness of the accounting records and timely preparation of reliable information. A good system of internal control should comprise, *inter alia*, proper allocation of functional responsibilities within the Department, proper accounting data, formulation of realistic budget, efficiency in operations and safeguarding of assets. The Public Health Engineering Department (PHED) is entrusted with providing safe drinking water and sanitation facilities to the people. In the Tenth Five-year Plan period top most priority was given to complete piped water supply schemes. As such, there should be a well defined and effective control over the critical areas of administration like formulation of short term and long term plans, budgetary control, material management, cash management, monitoring and evaluation of performance etc.

5.1.2 Scope of Audit

The evaluation of the existing internal control mechanism in the Chief Engineer, PHED was carried out during the period of April-May 2005 covering the period from 2000-01 to 2004-05. Besides, information collected and compiled from Inspection Reports of 24 PHE divisions (*Appendix-XXXVII*) have also been incorporated.

5.1.3 Audit objectives

The audit objective was to ascertain the adequacy of various internal controls in the Department, such as:

- Planning Controls
- Budgetary Controls
- Expenditure Controls
- Accounting Controls
- Administrative Controls
- Supervisory Controls

5.1.4 Organizational Set up

The administrative head of the Department is the Secretary, PHED. The Department is functioning under the control of the Chief Engineer (CE), who is assisted by eight Additional CEs (one for Headquarter and others for different Zones/Areas). The Additional CE posted at Headquarters is assisted by four Superintending Engineers (SE) and nine Executive Engineers (EE). Three Additional CEs⁵⁸ are controlling 11 divisions with 24 Sub divisions without any circle office. There are nine circles each headed by a Superintending Engineer (SE). One SE is posted at Headquarters for quality control. The internal control functions are exercised by the Planning and Monitoring branch, Budget branch, Technical branch and Establishment branch headed by the SEs posted at headquarters. Under nine circles, there are 33 divisions and 63 sub-divisions, each of which is headed by one Executive Engineer (EE) and Assistant Executive Engineer(AEE) respectively.

Planning Controls

5.1.5 Formulation of short term and long term plans

Planning plays a vital role in successful implementation of schemes/programmes of the Department within a specified time frame. As such, detailed planning/action plan with work calendar is required to be framed in accordance with approved plan resources which would act as a vital tool of control for effective implementation of schemes/programmes.

The PHED prepared both short-term and long term plans for achieving the objectives of supplying safe drinking water to rural habitations by enumerating targets in terms of NC (not covered) and PC (partially covered) under different programmes/activities. Draft Annual Plans were prepared by the Department by enhancing 15 to 20 *per cent* of the financial outlay of the previous year and not on actual need based assessment.

Further, though the CE collected annual action plans from divisions showing the works to be taken up, their actual inclusion in the final targets fixed for that year and execution thereof was not on record. Thus, the planning process was defective and arbitrary. During the period 2000-05, the Department could not achieve the financial and physical targets, and the expenditure incurred was not commensurate with the physical achievements as shown in **Appendix-XXXVIII**.

The CE in his reply (May 2005) admitted that draft annual plans were framed with 15 to 20 *per cent* increase over previous years' allocation. He also stated that the final annual plan was framed on the basis of approved outlay communicated by the Planning & Development Department. However, it was noticed during test-check of records that consolidated action plan with work calendar for the entire State showing both financial outlay and works planned to be taken up/in process were not available with the CE. Thus, a vital tool of control for smooth implementation of plans/programmes was missing.

⁵⁸ 1) Bodo Tribal Area Development with 4 divisions;(2) Karbi Anglong Autonomous Council zone with 4 divisions and (3) North Cachar Hills Autonomous Council with 3 divisions.

Budgetary controls

5.1.6 Provisions of Budget Manual ignored

Procedures for formulating budget proposals have been laid down in the Budget Manual of the State Government, which acts as a key control designed to provide reasonable assurance for error free budget estimation. The Budget Manual prescribes that the controlling officer is to scrutinise and consolidate the estimates obtained from field officers together with his own estimates into a self-contained budget for each major head of account for which he is responsible. Rules also provide that savings as and when anticipated should be surrendered so that the savings could be utilised by other requiring departments.

It was found, however, that annual budget estimate of the Department was prepared on the basis of total outlay fixed by the Government without taking into account demand for grants from field divisions except for salary component.

Budget provision, actual expenditure and excess/savings in respect of PHED for the period of 2000-2005 are as given in Table-1 below:

Table-1

Year	Budget Provision			Surrender	Expenditure	Rupees in crore
	Original	Supplementary	Total			Excess (+) Saving (-)
2000-2001	188.46	30.40	218.86	Nil	193.86	(-) 25.00
2001-2002	193.22	14.43	207.66	Nil	157.82	(-) 49.84
2002-2003	188.91	10.79	199.70	Nil	165.42	(-) 34.28
2003-2004	214.10	5.64	219.74	Nil	172.59	(-) 47.15
2004-2005	321.31	90.81	412.12	88.66	283.56	(-) 128.56

Source: Appropriation Accounts

From the above table it would be seen that the Department did not anticipate savings and consequently did not surrender savings ranging from Rs.25 crore to Rs.49.84 crore during 2000-2004. Only in 2004-2005, against saving of Rs.128.56 crore, Rs.88.66 crore was surrendered. In addition, the Department obtained injudicious supplementary provisions during all these years indicating unrealistic assessment of funds.

The CE stated (May 2005) that savings in all these years were primarily due to non-receipt of ceiling (FOC)⁵⁹ as per budget allocation. The CE further stated that requirement for only the salary components are obtained from divisional offices for budget preparation. Thus, the grant controlling authorities and the departmental machinery involved in the appropriation and budget control did not take proper and effective measures to regulate budgetary and expenditure control.

⁵⁹ As a control measure over non salary items of expenditure, a system of fixation of ceiling (FOC) was introduced in April 1990 by the Government whereby the Finance Department releases quarterly a part of the annual approved budget to the Administrative Department and the same is apportioned to the Directorate and all DDOs.

5.1.7 Faulty budgeting leading to inadequate non-Plan funds for repair/maintenance

The annual budget estimate of the Department was prepared on the basis of total outlay fixed by the Government without taking into account demand for grants from field divisions except for salary component. As a result there was wide variation between actual requirement for non-Plan funds particularly for maintenance of completed schemes and the budget allotment made by the Government under non-Plan during 2000-05 as shown in Table-2 below:

Table-2

(Rupees in lakh)

Year	Actual requirement of non-Plan funds.	Budget allocation (non-Plan)	Shortfall		Actual expenditure	
			Amount	Percentage	Amount	Percentage
2000-01	149.09	69.81	79.28	53	67.73	97
2001-02	165.64	57.37	108.27	65	41.70	73
2002-03	152.69	44.51	108.18	71	42.50	95
2003-04	146.98	57.32	89.66	61	48.46	85
2004-05	163.22	145.31	17.91	11	126.77	87

Source: Departmental records and Appropriation Accounts.

Non-Plan funds were required for up keep and maintenance of different water supply schemes. Non-availability of 11 to 71 *per cent* of the projected requirement had an adverse effect on these schemes. The CE while submitting (November 2004) the budget proposal for the year 2004-05 to the Government stated that due to shortfall in receipt of funds, 3,323 piped water supply schemes could not be maintained properly and as a result already created assets have deteriorated and many of these were on the verge of collapse depriving people from getting potable drinking water. However, it was found that the expenditure incurred under non-Plan during all these years was less than the actual budget allotment made by the Government indicating the Department's failure to submit a realistic budget estimate after prioritising the main areas.

The CE in his reply (May 2005) to the audit observation admitted that requirement for the salary component only, including liability on account of transfer, posting, annual increment etc., were obtained from divisional offices for budget preparation. However, the CE attributed the shortfall in non-Plan expenditure to non-receipt of ceiling under works component from the Finance/Administrative Department. The reply of the CE is indicative of lack of inter-departmental co-ordination and laxity in following budgetary control procedures prescribed in the manuals.

Expenditure Control

5.1.8 Excess expenditure over budget provision

The CE on receipt of centralised allotment of funds for the entire Department from the Finance Department through Fixation of Ceiling (FOC) makes division-wise sub-allotment of funds. The CE, however, did not maintain a control register showing the monthly and progressive expenditure against the FOC issued to divisions. Thus, due to lack of control in the Department, though there was overall savings under the grants; under certain minor heads there were either excess expenditure over the provision or expenditure had been incurred without any provision as illustrated in *Appendix-XXXIX*. Thus, control over expenditure through the control mechanism viz., fixation of ceiling had not been effective.

The CE, while admitting the lapse, stated (May 2005) that henceforth programme-wise expenditure would be reflected against FOC through regular monitoring of monthly accounts.

5.1.9 Excess expenditure beyond permissible limit

The Department during the period August 1999 to December 2004 incurred expenditure on a number of works in excess of administratively approved amounts as a result of non-monitoring of expenditure by the CE. It was noticed that though in respect of 317 works excess expenditure of Rs.39.16 crore (124 per cent over approved estimate) was incurred over the administratively approved amount of Rs.31.63 crore, revised administrative approval was not obtained as per provisions of the Assam Financial Rules.

The CE in reply stated (May 2005) that most of the excess expenditures pertained to earlier years and corrective steps had been initiated to get the revised estimates sanctioned in phases.

5.1.10 Irregular payment through hand receipts

Hand receipt is a simple form of voucher intended to be used for miscellaneous petty payments and advances for which none of the prescribed forms of the bills are suitable. To avoid misuse of the hand receipts, the Government in the Public Works Department prohibited (June 1996) payments to contractors through hand receipts. Sixteen PHE divisions (*Appendix-XXXVII*) test-checked during 2004-2005, however, made payment of Rs.10.83 crore to contractors on hand receipts. Payment through hand receipts was made bypassing control directives issued by the Government, and thereby risking misappropriation, double payment and overpayment. The CE in his reply (May 2005) did not furnish any comment on this aspect.

5.1.11 Non-payment of final bills in respect of schemes completed in 2003-04

Information furnished by Chief Engineer (CE), Public Health Engineering Department (PHED) disclosed that 88 schemes were completed during 2003-04, the administratively approved cost of which amounted to Rs. 13.88 crore. Payments made to the contractors against these 88 schemes till date (August 2005) was Rs.16.14

crore. As stated by CE, final bills against most of the works of these 88 schemes were not prepared and paid. Paucity of funds was stated (August 2005) to be the reason for non-payment. The reply was not tenable because during 2004-05, another 204 new schemes were taken up and upto date (August 2005) payments made against those works aggregated to Rs.11.29 crore. Taking up of new schemes without finalisation of bills of already completed schemes indicated serious lacunae at the planning stage of the Department. By non-preparation/payment of final bills of completed schemes, the Department avoided audit scrutiny of those bills, which was a significant drawback in the internal control mechanism.

Further, the CE, PHED could not quantify the total numbers of works (against those 88 schemes) completed during 2003-04, the number of bills remaining unsettled against those works and number of cases in which revised estimates were processed as sought for. This indicated deficiencies in the maintenance of records in the CE's office.

Accounting Controls

5.1.12 Failure in submission of reports/returns and monthly accounts

Procedures laid down in financial rules and departmental codes and manuals are the key controls to detect or prevent the occurrence of significant errors. The procedures are designed to prevent the occurrence of errors and irregularities in the accounting records by submitting monthly/periodical returns, maintaining registers and documents. Codal provisions further stipulate submission of monthly accounts to the Accountant General (A&E) by the 10th of the month following the month to which the account relates. The Department, however, did not maintain records like expenditure control register, contractor's ledger etc., and delayed submission of returns to the higher authority and monthly accounts to the Accountant General (A&E) for periods ranging from two to 246 days during April 2004 to March 2005. As a result of delay in receipt of accounts in the Accountant Generals office, during the period April 2004 to March 2005, monthly civil accounts had to be submitted to the Government excluding accounts of one (June 2004) to 14 (January 2005) divisions. The resultant effect was that monthly civil accounts sent to the Government by the Accountant General (A&E) did not exhibit the actual position of Government transactions and did not reflect the correct cash balance of the State Government. Besides, Detailed Appropriation Accounts sent monthly to concerned controlling officers gave fragmented information which was inadequate to monitor any control of expenditure over budget grant.

The CE stated (May 2005) that timely submission of monthly accounts and monitoring of submission by the SEs would be enforced.

5.1.13 Non maintenance of Contractor's Ledger

As required under codal provisions, Contractor's Ledger should be maintained to ascertain amounts payable/due to a contractor on a particular date. In course of test-audit during 2004-05 it was found that 14 PHE divisions (*Appendix-XXXVII*) did not maintain the said ledger. Non-maintenance of Contractors' Ledger is fraught with the risk of overpayment to the contractors. The CE stated (May 2005) that all

divisional officers had been instructed to maintain and update the ledgers and Superintending Engineers had been directed to check the ledgers during inspection.

Administrative controls

5.1.14 Laxity in Cash Management

For disciplined cash management, the Assam Financial Rules provide that money should be drawn only for immediate disbursement. This rule acts as a preventive measure against unnecessary accumulation of cash in the departmental chest. Scrutiny of monthly accounts of PHE divisions showed closing balances ranging from Rs.0.07 lakh to Rs.58.88 lakh in 14 divisions during the period of April - October 2004 as shown in *Appendix-XL*. Accumulation of heavy cash balances was fraught with the risk of misutilisation and misappropriation.

The CE stated (May 2005) that unless otherwise allowed by the Finance Department for specific reasons, generally cash transactions are avoided in the Department. The CE, however, did not indicate remedial measures taken for avoiding retention of huge cash balances by the divisions.

5.1.15 Non adherence to prescribed controls in Material Management

To facilitate smooth and expeditious material management in the Public Works and Public Health Engineering Departments, the Finance Department issued directives (May 1998) to the respective CEs for decentralising the system of procurement and payment in respect of all store material. Test-check (April 2005) of records in the CE's Office, however, revealed that in violation of Government orders, the CE procured material worth Rs.18.26 crore centrally at Stores and Workshop division during the period 2000-05 and payments were made by the said division as per ceiling issued by CE. As the Stores and Workshop division made the payments for the stores instead of the user divisions to which the stores were subsequently transferred without any inter-divisional monetary settlement, the work-wise expenditure of the concerned divisions remained understated. Records of Stores and Workshop division revealed that the division was holding stock of material worth Rs.12.79 lakh and Tools and Plant (T&P) worth Rs.3.90 lakh, as of November 2004, which were procured during November 1983 to March 1991 but could not be issued for want of any requirement/indent from divisions. This indicates absence of the system of prior assessment of material requirements.

It was also directed (May 1998) by the Finance Department that all departments concerned should take positive steps to adjust the outstanding value of stock material already utilised in works/schemes from stock account by debit to the work/scheme concerned and contra credit to stock suspense on receipt of usual ceiling. In five divisions test-checked during 2004-2005 there were wide variations in value of store materials ranging from Rs.45.19 lakh to Rupees two crore, between ground balance and book balance, reasons for which had not been analysed. In respect of seven⁶⁰ divisions test-checked during 2004-05, materials worth Rs.1.43 crore were lying idle

⁶⁰ Dhemaji (Rs.5.34 lakh), Barpeta (Rs.6.74 lakh), Rangia (Rs.33.49 lakh), Hailakandi (Rs.0.94 lakh), Karimganj (Rs.19.93 lakh), Tangla (Rs.37.27 lakh) and Howraghat (Rs.39.74 lakh).

for a period of over three years but the Department/division had not initiated any action for their disposal/utilisation.

Thus, non-compliance with Government orders/instructions resulted in idling of stock and T&P materials worth Rs.1.60 crore (Rs.12.79 lakh + Rs. 3.90 lakh + Rs.143.45 lakh).

There was no system of submission and scrutiny of Annual Physical Verification reports of Divisional Stock, Tools and Plants, Material at site Account for the purpose of monitoring and ascertaining the position and status of stores by divisions. Non-monitoring of such vital information was fraught with the risk of mis-utilisation/shortages/pilferages of stores at the divisional level.

The above deficiencies in material management were due to the slack internal control system of store management in the department.

The CE in his reply (May 2005) stated that material had to be procured centrally as the manufacturers from outside the State were reluctant to supply the material to various divisions spread all over the State. The reply was not tenable as the suppliers were required to abide by the conditions stipulated in the supply orders/agreements.

5.1.16 Deficient Training system

Training is an important tool through which an organisation can supplement the knowledge of its employees regarding their duties, so that they can discharge their duties effectively and efficiently. The Public Works Accounts Code prescribed different checks to be exercised by Divisional Officers/Executive Engineers and submission of compiled monthly accounts.

There were no laid down plan and programme for imparting training to the officers and staff of the Department. There was also no system of imparting training to engineers of the Department for familiarising them with accounting procedures.

A Human Resources Development Cell functioned in the Department during November 19997 to March 2003 and imparted different trainings after which no training programme was carried out. Neither the details of the training programme carried out nor records of impact assessment of training could be made available to Audit. The Chief Engineer also could not show any training schedule/programme to be carried out in future. This was indicative of the fact that the aspect of training had not been accorded importance by the Department.

The CE stated (May 2005) that proposal for training has been mooted.

Supervisory Controls

5.1.17 Non-revision of Schedule of Rates

To facilitate preparation of estimates for works as also to serve as a guide in settling rates in connection with contract agreements, a schedule of rates (SOR) for each kind of work commonly executed is required to be maintained in the division and kept up to date. SOR of the Department had not been revised and updated since 1998-99, rendering a vital tool of control for preparation of estimates and settling rates ineffective/redundant. The CE stated (May 2005) that revision of SOR was in the final stage of completion.

5.1.18 Absence of Internal Audit

Internal Audit, as an independent entity within or outside the department, is to examine and evaluate the level of compliance with the departmental rules and procedures so as to provide independent assurance to management on the adequacy of the risk management and internal control framework in the department. It was found that Internal Audit, which is an integral part of the internal control system of a department, has not yet been introduced in the Department.

The Finance Department of the Government of Assam had posted one Accounts Officer in the Chief Engineers Office and one Accounts Officer in each Division. They are assisted by one or two Deputy Accounts Officers and one to three Assistant Accounts Officers deployed by the Director of Accounts and Treasuries. The duties of the Accounts Officers were restricted to pre-checking of bills, maintenance of connected records and advising the Chief Engineer and Divisional Officers on financial matters.

In the absence of an Internal Audit wing, periodical inspection of records were never carried out either at the Chief engineers Office or at the Divisional offices. This has affected the sense of accountability in the lower formations besides leaving deficiencies in implementation of the schemes undetected.

5.1.19 Monitoring and evaluation

Monitoring is an important weapon of the departmental control mechanism. Efficiency of monitoring is reflected in the timely submission of the prescribed reports and returns to the appropriate authority. PHED being a works department, progress of works and maintenance of schemes were required to be monitored to achieve the targets for covering human habitations. All the reports/returns showed the targets and achievements in terms of habitation coverage only. There was no monitoring system in the form of reports and returns for the works executed and being executed, completed works which were maintained and the action taken for repair and maintenance. As a result status of works and repair/maintenance were not available with the higher management at regular intervals.

The CE stated (May 2005) that Superintending Engineers would be instructed to incorporate this aspect in their divisional inspection reports.

5.1.20 Conclusion

For ensuring an effective internal control system in any department, the prime requirements are tight budgetary controls, effective internal audit system and proper monitoring system. The internal control viz., budget control, expenditure control, accounting control, internal audit, administrative control and monitoring mechanism were inadequate and ineffective in the Department. The basic checks such as submission of reports and returns, maintenance of relevant registers, proper cash management were disregarded. Internal audit was totally absent. General failure to observe internal control procedures had increased the risk of misappropriation and fraud taking place and remaining unnoticed.

Recommendations

- The Department of Public Health Engineering should immediately set up an Internal Audit Wing for better control. Internal audit coverage of the divisions and offices under the Department should be planned in such a way that all units are covered in a cycle of one to three years.
- A plan and programme for imparting training to the officers and staff on different activities of the department should be drawn up and arrangement made for imparting training. In particular, accounts training may be imparted to Engineers of the Department for better understanding of codal provisions, documentation and inherent accounting risks specific to the Department.

The matter was reported to Government in June 2005; their replies had not been received (July 2005).

Guwahati
The

(Sword Vashum)
Principal Accountant General (Audit) Assam

Countersigned

New Delhi
The

(Vijayendra N. Kaul)
Comptroller and Auditor General of India