CHAPTER-V

INTERNAL CONTROLS

INDUSTRIES AND COMMERCE DEPARTMENT

5.1 Internal Controls in Industries and Commerce Department

Highlights

Internal Control is an integral component of an organisation's management processes which are established in order to provide reasonable assurance that the operations are carried out effectively and efficiently, financial reports and operational data is reliable and the applicable laws and regulations are complied with so as to achieve organisational objectives. A review of internal controls in Industries and Commerce Department showed non-compliance of budget and expenditure controls, funds were drawn from treasury without immediate requirement, rush of expenditure in the month of March and drawal of funds was not being reconciled with treasuries which could lead to serious financial irregularities. Internal audit was also non-functional despite audit staff being in position.

- **Budget was not prepared on realistic basis as there were wide variations between original budget estimates and actual expenditure during 2004-07 under plan schemes.**

(Paragraph 5.1.5.1)

- **Maintenance of cash-book and its reconciliation with the treasury schedules were found to be deficient which was fraught with the risk of misappropriation of funds remaining undetected.**

(Paragraphs 5.1.5.4 and 5.1.5.5)

- **The Director drew funds of Rs 2.67 crore without immediate requirement in violation of Financial Rules and the funds remained outside the Government Account.**

(Paragraph 5.1.5.6)

- **The State was deprived of central share of Rs 91 lakh due to inordinate delay in releasing State share under 'Market Development Assistance Scheme', which occurred due to non-providing of budget for the State share.**

(Paragraph 5.1.7.1)

- **Internal Audit was not conducted inspite of posting of an Accounts Officer and Section Officer by the Finance Department for the purpose.**

(Paragraph 5.1.8.7)

5.1.1 Introduction

Industries and Commerce Department is implementing various schemes for development of large, medium, small scale and cottage industries. The Department also provides testing facilities and technical guidance to industrial units to enable them to evaluate their products according to prescribed standards. Besides, the Department provides guidance to all categories of entrepreneurs regarding various facilities offered by the Government and about the procedures involved in setting up of industrial units.

5.1.2 Organizational set up

The Financial Commissioner and Principal Secretary to Government of Haryana, Industries and Commerce Department is the administrative head of the Department and is responsible for implementation of State Government's policies and programmes relating to various industrial development schemes. The Director, Industries and Commerce Department heads the department as Controlling Officer and is the overall in charge for implementation of various schemes. At district level, the General Manager (GM) heads each District Industries Centre (DIC). Besides, there are 17 other offices such as Quality Marking Centres (QMCs), Heat Treatment Centre, Registration of Firms and Societies, etc.

5.1.3 Audit objectives

Audit objectives were to see:

- Budgetary and financial controls;
- Operational controls to achieve the objectives of the Department; and
- Monitoring including internal audit and vigilance arrangements.

5.1.4 Audit coverage

This review covering the period 2002-07 was conducted during January-March 2007. Records of Directorate and eight[1] out of 37 field offices were test checked. The results of review are discussed in the succeeding paragraphs.

Audit findings

5.1.5 Compliance with State Financial Rules and instructions in the Budget Manual

5.1.5.1 Budget provision and expenditure

Details of budget estimates, revised estimates and expenditure under plan and non-plan during 2002-07 were as under:

Year	Budget estimates (BE)		Revised estimates (RE)		Expenditure		Percentage of excess /less expenditure with respect to BE		Percentage of excess/ less expenditure with respect to RE	
	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan
	(Rupees in crore)									
2002-03	9.92	5.55	11.66	6.98	11.14	6.95	(+) 12	(+) 25	(-) 4	-
2003-04	11.46	5.40	9.96	5.49	8.79	5.44	(-) 23	(+) 1	(-) 12	(-) 1
2004-05	10.38	5.26	30.75	5.65	26.45	5.74	(+) 155	(+) 9	(-) 14	(+) 2
2005-06	34.84	5.66	90.82	5.92	88.77	5.84	(+) 155	(+) 3	(-) 2	(-) 1
2006-07	41.09	5.90	140.89	6.24	136.60	6.30	(+) 232	(+) 7	(-) 3	(+) 1
Total	**107.69**	**27.77**	**284.08**	**30.28**	**271.75**	**30.27**	**152**	**9**	**(-) 4**	**-**

Note: ***Figures for the year 2006-07 are provisional.***

[1] General Managers, District Industries Centre: Ambala, Faridabad, Hisar, Panipat and Yamunanagar; Chief Inspector of Boilers (Haryana): Chandigarh; Quality Marking Centre (Electrical Goods): Faridabad and Quality Marking Centre (Engineering Goods): Jagadhari.

Budget was not prepared on realistic basis as there were wide variations between budget estimates and actual expenditure.

Wide variations between original budget estimates and actual expenditure during 2004-07 under plan schemes indicate that the budget was not being prepared on realistic basis.

The Director stated (April 2007) that supplementary provisions were made during 2004-07 for discharging the liabilities of capital investment subsidy and subsidy on purchase of generating sets and to make payment to land owners whose land was acquired for construction of Express Highway Project. The reply was not tenable as subsidy on capital investment and generating sets had been pending since 1995-96. According to Budget Manual (Paragraphs 12.11 to 12.16), each disbursing officer was to maintain a Liability Register, details of which were to be sent to the controlling officer to facilitate him in the preparation of correct budget estimates. However, no such Liability Register was maintained in the Department and provision for these liabilities could not be made in the original budget estimates. Further, provision was not made in the original budget for payment of land compensation though land acquisition proceedings were in process in the Department. Thus, due to non-maintenance of Liability Register, the Department could not factor these elements in the budget which resulted in wide variation between budget projections and actual expenditure.

5.1.5.2 Rush of expenditure in March

Expenditure in March ranged between 11 and 98 *per cent.*

Punjab Budget Manual as applicable to Haryana State (Paragraph 1.34) provides that expenditure on contingencies should be staggered throughout the year and should not exceed 8.33 *per cent* of the total budget provision in the month of March.

It was, however, noticed that there was rush of expenditure in the month of March in the test checked offices as per details given below:

Year	DIC Ambala	DIC Faridabad	DIC Hisar	DIC Panipat	DIC Yamunanagar	Chief Inspector of Boilers	Q M C (Electrical Goods) Faridabad	Q M C (Engineering Goods) Jagadhari
2002-03	15	53	37	26	41	11	98	84
2003-04	-	33	15	17	27	-	63	58
2004-05	16	38	35	22	37	26	69	49
2005-06	20	41	15	28	34	36	70	31
2006-07	27	35	14	25	25	42	72	27

Note: ***Figures show percentage of expenditure in March with reference to total expenditure during the year.***

The expenditure in the month of March ranged between 11 and 98 *per cent* during 2002-07 which was much beyond the prescribed limit of 8.33 *per cent*. Thus, the Department failed to follow the control system as envisaged in the budget manual. The General Manager, DIC Yamunanagar and Deputy Director, QMC (Electrical Goods) Faridabad stated (April-May 2007) that rush of expenditure in the month of March was due to receipt of budget/sanctions from the Directorate at the fag end of the year.

5.1.5.3 Non-maintenance of expenditure control register

The Director did not maintain the expenditure control register.

According to State Budget Manual [Paragraphs 12.3(1) and 12.10(b)], the Head of Department/Controlling Officer was responsible for monitoring the progress of expenditure in respect of all the Drawing and Disbursing Officers (DDOs) in the department. With a view to ensure proper control over the expenditure the Controlling Officer was required to maintain Form BM-28 indicating DDO wise allotment of funds and actual expenditure under each unit of appropriation/sub-heads, etc. It was noticed that though all the DDOs of the Department were sending expenditure statements in Form BM-26 and BM-29 in the Directorate but required expenditure control register in Form BM-28 had not been maintained at the Directorate. Thus, the Directorate was not enforcing prescribed expenditure control mechanism. The Director while admitting the facts stated (February 2007) that the register of expenditure would be maintained in future.

5.1.5.4 Deficiencies in the maintenance of Cash-book

A sound financial control system must ensure that no financial transaction is handled by only one person from beginning to end. This principle, called segregation of duties, is pivotal to an effective internal financial control system. State Financial Rules [Rule 2.2(iii)] provide that each head of office should check the totals of cash-book or get it checked from a responsible subordinate other than the writer of the cash-book and record a certificate in the cash-book to this effect. Further, Rule 2.2(iv) provides that at the end of each month, the head of the office should verify the cash balance in the cash-book and record a signed and dated certificate to that effect.

The examination of cash-book for the period 2002-07 maintained in the Directorate, however, revealed that the totals of cash-book had not been checked by the head of the office or by an official other than the writer of the cash-book. Further, closing balances for the period 2002-07 of the cash-book of Directorate and cash-book of DIC, Panipat for the period from January 2003 to February 2005 had neither been verified nor signed by any body with dated certificate in the cash-book. This is fraught with the risk of mistakes in totals remaining undetected leading to possible misappropriation of funds. It is suggested that the codal provisions must be adhered to in the interest of financial discipline.

5.1.5.5 Reconciliation of treasury schedules with cash-book not done.

Reconciliation of treasury schedules with cash-book was not done by six offices test checked.

As provided in the Financial Rules (Rule 2.31), the Head of Office is required to ensure that all amounts drawn from the treasury are entered in the cash-book. For the purpose, the head of the office/DDO should obtain from the treasury by 15th of every month, a list of all bills (treasury schedules) drawn by him during the previous month and trace all the amounts in the cash-book and record a certificate on the list of treasury schedules to that effect. It was noticed that treasury schedules obtained from the treasury were not reconciled with the cash-book during 2002-2007 by six[2] out of nine offices test checked. Besides, no certificate regarding reconciliation had been found recorded on the treasury schedules in these cases. Non-reconciliation of cash-book with treasury schedules is fraught with the risk of serious financial irregularities including fraud, embezzlement, etc. remaining undetected. The incharges of five[3] offices while admitting the lapses stated (February/March 2007) that necessary compliance would be made in future.

5.1.5.6 Drawal of funds in advance of requirement

State Financial Rules (Rule 2.10(b)5) provide that no money should be drawn from the treasury unless it is required for immediate disbursement or recoupment of the amount paid out of permanent advance. Further, the drawal of advance from the treasury for execution of works, the completion of which is likely to take considerable time, just to avoid the lapse of budget grant is not permissible. Retention of Government funds outside the Government account is also irregular.

Funds amounting to Rs 2.67 crore were drawn in advance of requirement.

- The audit scrutiny revealed that the Department had made a provision of Rs 2.20 crore in the budget for the year 2005-06 under Industrial Infrastructure Upgradation Scheme (IIUS). According to terms of sanction, the DDO of the Directorate after drawing the entire amount (January 2006) placed the same at the disposal of Investment Promotion Centre (IPC). The amount was kept in the bank in the shape of Fixed Deposit Receipts (FDRs). Scrutiny of records further revealed that the work under the scheme had not been started mainly due to non-arranging of the land by Panipat Industry Cluster Development Society and the amount was lying unspent (March 2007).

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[2] Directorate, GM, DICs, Faridabad, Panipat, Yamunanagar, Deputy Director, QMC (Electrical Goods), Faridabad and Deputy Director, QMC (Engineering Goods), Jagadhari.

[3] Directorate, GM, DICs, Faridabad, Panipat, Deputy Director, QMC (Electrical Goods), Faridabad and Deputy Director, QMC (Engineering Goods), Jagadhari.

Similarly, the Director had drawn Rs 46.50 lakh (Rs 21 lakh in March 2005 and Rs 25.50 lakh in March 2006) for modernisation/expansion of QMCs and placed the amount at the disposal of IPC which kept the amount in a bank in the shape of FDRs. An amount of Rs 14.33 lakh had only been spent and the balance amount of Rs 32.17 lakh was lying unspent with the IPC (June 2007).

The funds were, thus, drawn in advance without immediate requirement in violation of the Financial Rules. The orders of the Government to draw the amount from the treasury and to place the same at the disposal of IPC was an override of controls provided in Financial Rules.

Funds of Rs 27.22 lakh were kept outside the Government Account.

- A provision of Rs 2.48 crore was made in the budget for the year 2005-06 for disbursement of cash subsidy to the units under the Rural Industries Scheme. An amount of Rs 1.93 crore[4] was drawn between December 2005 and February 2006 for disbursement of subsidy. Of this, Rs 27.22 lakh were not disbursed as the units were found ineligible for the subsidy and the GMs concerned returned the same to Directorate in March 2006 and May 2006. This was deposited in treasury in July and September 2006.

Due to drawal of funds without verifying the status of units and inordinate delay in redepositing the money into the treasury, Rs 23.02 lakh remained outside the Government account for seven months and Rs 4.20 lakh for nine months.

The Director replied (March 2007) that the GMs concerned had been called upon to explain the reasons for the lapses and the dealing hand concerned would also be directed to deposit the unspent funds immediately after their receipt in future.

Unspent balance of Rs 5.84 lakh of various schemes lying in bank account.

- Unspent funds under various schemes amounting to Rs 5.84 lakh were lying in the bank account as detailed below:

Sr. No.	Name of the scheme	Amount (Rupees in lakh)	Month from which lying unspent
1	Award to women entrepreneurs	0.98	April 1994
2	Modernisation of Quality Marking Centre	1.56	May 2000
3	Nucleus cell	0.29	March 1995
4	Export Award Scheme	1.01 1.40 0.60	April 2002 October 2004 March 2005
Total		**5.84**	

No action was taken by the department to utilise the amount or to refund the same in Government Account.

4 December 2005: Rs 1.74 crore and February 2006 Rs 0.19 crore.

5.1.5.7 Non-cancellation of paid vouchers

The State Financial Rules [Rules 2.21(5) and 8.13] provide that all paid vouchers must be stamped as "Paid and cancelled" so as to avoid their misuse again for presenting fraudulent claims. Further, as per these rules, contingent sub-vouchers for items not exceeding Rs 1,000 are retained in the offices of drawing officers.

It was, however, noticed in audit that paid vouchers retained in the offices had not been marked as "Paid and cancelled" as per the requirement of Financial Rules by seven[5] out of nine offices test checked. Incharges of six[6] offices while admitting the lapse stated (February-March 2007) that compliance would be made in future. Flouting of established financial rules may result in fraud, misappropriation, etc.

5.1.5.8 Physical verification of stores and stock

State Financial Rules (Rule 15.16) provide that physical verification of all stores and stocks should be done atleast once every year and results of such verification are required to be recorded in stores and stock books for taking corrective measures. It was, however, noticed that five[7] out of nine offices test checked had not carried out physical verification of stores and stock. Four[8] offices assured (February-March 2007) that compliance would be made in future.

5.1.6 Compliance with State Treasury Rules

5.1.6.1 Security from the cashier not obtained

As per provisions in the State Treasury Rules (Rule 3.5), employees entrusted with the receipt and custody of cash are required to furnish security of an amount not less than 10 *per cent* of the maximum amount to be handled by them. Audit observed that no security from cashiers had been obtained in any of the test checked offices.

Director stated (March 2007) that salaries of employees of directorate as well as of field offices were being paid through Bank account and there was no

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5 Directorate, GM, DICs, Faridabad, Hisar, Panipat, Yamunanagar, Deputy Director, QMC (Electrical Goods), Faridabad and Deputy Director, QMC (Engineering Goods), Jagadhari.

6 Directorate, GM, DICs, Faridabad, Hisar, Panipat, Deputy Director, QMC (Electrical Goods), Faridabad and Deputy Director, QMC (Engineering Goods), Jagadhari.

7 Directorate, GM, DICs, Faridabad, Panipat, Yamunanagar and Deputy Director, QMC (Engineering Goods), Jagadhari.

8 Directorate, GM, DICs, Faridabad, Panipat and Deputy Director, QMC (Engineering Goods), Jagadhari.

sanctioned permanent post of cashier in the Directorate and field offices. Any official could be given the charge of maintenance of cash-book. Therefore, cash security was neither required nor was obtained from the cashier. The reply was not tenable as security should have been obtained from the official holding the charge of the cashier. Further, the cashier also handles all other cash transactions relating to contingent bills, etc. and in the absence of such security, immediate recovery of cash shortage or misappropriated amount, if any, from the cashier is not possible.

5.1.7 Operational controls

5.1.7.1 Non-receipt of Central share due to delay in release of State share

The State was deprived of the Central share of Rs 0.91 crore due to delay in release of State share.

Under Market Development Assistance (MDA) scheme, financial assistance at the rate of eight *per cent* of the sale of handloom products was to be provided to State agencies and cooperative societies. The scheme had been discontinued from April 2000 and the claims of financial assistance of State agencies as well as primary co-operative societies for the period 1995-2000 had been pending.

The Government of India (GOI), Ministry of Textiles directed (August 2004) all the State Governments to send pending MDA claims to them by 1 November 2004 along with matching State share sanction orders, component-wise expenditure certificates and utilisation certificates for earlier releases of Central share. The GOI had also emphasised not to send claims where State Government had not released their matching share. During audit, it was, however, observed that a claim for Central share of Rs 1.24 crore was sent to GOI in November 2004 which was returned (January 2005) mainly because of non-submission of certified utilisation certificates with the claim and non-release of State share by the State Government. It was observed that State share could not be released as no budget provision was made for the purpose during 2000-05. Subsequently, State Government sanctioned Rs 1.24 crore as State share, out of which Rs 0.91 crore were drawn (March 2005) and paid to the beneficiaries. Thereafter, the claim was again submitted (March 2005) with GOI but the same was rejected (December 2006) on the ground that the State Government had not released their matching share in time. Thus, due to not making provision in the budget, the release of funds was delayed and the State Government could not receive the central share of Rs 0.91 crore.

5.1.8 Monitoring including Internal Audit and Vigilance Arrangements

5.1.8.1 Non-maintenance of calendar of returns/charts of statement

According to instructions (April 1989) of Administrative Reforms Department, each Government Office is required to prepare calendar of returns/charts of statement to ensure timely submission of returns and statements to the concerned higher authorities. It was observed that the calendar of returns/charts of statements was not prepared in any of the offices test checked. The Director while admitting the fact stated (July 2007) that required registers would be maintained in future at Directorate as well as in field offices.

5.1.8.2 System for monitoring disposal of files not adhered

Haryana Government instructions issued in 1996 (and periodically reiterated), require each Government office to attach a calendar of dates/of disposal with each file (in prescribed form) so that the time taken at each stage could become clear and delay avoided. Moreover, the reasons for delaying the files for more than three days are also to be recorded by the officials concerned. Audit scrutiny, however, disclosed that these instructions were not being followed and the calendar of dates was not being used in any of the offices test checked. In the absence of this system, the delay in disposal of cases, if any, could not be brought on record and it would be difficult to take remedial measures. The Director while admitting the facts stated (July 2007) that instructions would be followed in future at Directorate as well as in field offices.

5.1.8.3 Non-recording of disposal of letters

Administrative Reforms Department, Government of Haryana issued instructions (March 1989) that each Government office is required to maintain a Central Diary as well as Branch Diary to avoid delay in tracing the letters at any stage. After diarising all the letters in Central Diary, these letters should be entered in the Branch Diary to watch their movement/disposal. It was, however, noticed that central/sectional diaries were maintained in the offices test checked but disposal of letters was not marked in the diary by any of the dealing assistants. In the absence of compliance of controls in disposal of letters and their pendency was not being checked by Head of the Offices. The Director while admitting the fact stated (July 2007) that compliance would be done in future at Directorate as well as in field offices.

5.1.8.4 Non- maintenance of complaint register

Administrative Reforms Department, Government of Haryana, issued instructions (March 1989) that a complaint register is required to be maintained in the prescribed form indicating total number of cases at the beginning of the month, cases received during the month, cases disposed of and total number of cases outstanding at the end of each month in the Government offices for monthly review of complaints. It was, however, seen during audit that no such register was being maintained in the offices test checked; as a result of which, the monthly review of complaint cases could not be carried out by the head of offices. The Director assured (July 2007) that the complaint register would be maintained in future at Directorate as well as in field offices.

5.1.8.5 Lack of inspection of offices

The Chief Secretary, Government of Haryana issued instructions in August 1988 that periodic inspections of sub-offices should be carried out by Heads of Department and offices of Heads of Department by the Administrative Secretaries. It was noticed that periodic inspections had not been carried out either by the Administrative Secretary or by the head of the department during 2002-07 as no records viz. inspection notes, evaluation/monitoring reports, etc. relating to periodic inspections were made available to audit. As such, it is suggested that Chief Secretary's instructions should be followed in letter and spirit for ensuring effective monitoring of the Department's operations.

5.1.8.6 Non-preparation of annual administrative report

As per Government instructions (July 1991), Annual Administrative Report showing the annual activities of the department is to be prepared and placed before the Council of Ministers every year. It was, however, noticed that the Department had not prepared Administrative Reports for the years 2004-2007. In the absence of Annual Administrative Reports, the activities/performance of the Department during the year could not be made public.

5.1.8.7 Internal audit arrangement

Internal audit was not conducted, despite the audit staff being in position.

One Accounts Officer and one Section Officer were posted by the State Finance Department and their main duty was to conduct internal audit of the accounts kept in the office of head of department and its subordinate offices in the field.

These officers never conducted internal audit of the Directorate and its subordinate offices. This negated the purpose of their deployment and denied the management of an independent internal feedback on operations.

5.1.8.8 Vigilance arrangements

No vigilance cell is in existence in the Department as Haryana Government have not issued any instruction to create vigilance cell whereas Vigilance Department of neighbouring State of Punjab had made it mandatory to create Vigilance Wing in each Department. The Director intimated (April 2007) that a vigilance cell would be created as and when such instructions are received from the Government.

5.1.9 Conclusions

There were non-compliance of budget and expenditure controls and funds management. There were wide variations between original budget provision and actual expenditure, funds were drawn from treasury without immediate requirement, rush of expenditure in the month of March making thorough pre-scrutiny of bills difficult and drawal of funds was not being reconciled with treasuries which could lead to serious financial irregularities. Calendar of returns was not being maintained to ensure timely submission of returns to higher authorities, system of monitoring for disposal of files to avoid delay was not adhered to, disposal of letters was not being recorded in the dairies to watch their disposal and pendency, etc. As such prescribed monitoring mechanism for controlling various activities was weak. Moreover, the internal audit system also remained non-functional despite audit staff being in position.

5.1.10 Recommendations

- The department should maintain the Liability Register so that liabilities could be factored while framing budget estimates. The system of regular reconciliation of drawal of funds with treasury to avoid chances of misappropriation should be streamlined;
- The department should create a post of cashier;
- The monitoring systems such as preparation of calendar of returns, calendar of dates for disposal of files, recording of disposal of letters in diaries, etc. should be enforced so that information can reach the management in time for necessary action; and
- Internal Audit system should be strengthened and Vigilance Cell should be created to keep a vigil over the Directorate and field offices.

These points were reported demi-officially to the Financial Commissioner and Principal Secretary to Government of Haryana, Industries and Commerce Department in May 2007; their reply had not been received (August 2007).

Chandigarh **(Jagbans Singh)**
Dated: **Accountant General (Audit), Haryana**

Countersigned

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