

CHAPTER-V

INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT ARRANGEMENT

5.1 Development and Panchayat Departments

Introduction

5.1.1 Internal Control and Internal Audit System safeguards against errors and irregularities in operational and financial matters. It examines and evaluates the level of compliance of the departmental rules and procedures. It also assures senior management on the adequacy of risk management and internal control framework in the department. In Haryana State, no independent centrally controlled internal audit organisation existed. However, major departments have an Internal Audit System where Chief Accounts Officer, Accounts Officers, Section Officers, etc. are provided by the State Finance Department.

Audit of *Panchayats*, under the control of Panchayat Department, is conducted by the Director, Local Funds Accounts, Haryana.

Audit coverage

5.1.2 Records relating to internal control system of *Panchayat* Department and internal audit arrangement of Development Department for the period 1999-2004 were test checked during March – July 2004 in the offices of the Director, *Panchayat* Department and Special Secretary to Government of Haryana, Development Department respectively. The audit findings are discussed in the succeeding paragraphs.

Internal Control System (Panchayat Department)

5.1.3 The Punjab Financial Rules (PFR), Civil Services Rules (CSR), etc., adopted in Haryana, contain consolidated instructions on various controls in relation to financial management and administrative aspects to be exercised at different levels. The Administrative Reforms Department, Haryana had also issued instructions from time to time to all the departments for evolving effective control mechanism.

Administrative control

Audit observed that the administrative control mechanism was not effective as the Director, Panchayat had not conducted prescribed inspection of field offices, had not followed the system of calendar of events/date of returns in the department, had not monitored the execution of works and important records such as complaint register, branch diary, register of cases/letters received/disposed off were not maintained as discussed below:

Inspection of sub-offices by the head of department

5.1.4 As per instructions of Administrative Reforms Department, the periodical inspections of sub-offices were to be carried out by the Head of Department (HOD). The periodicity for such inspection and procedure to be followed for the purpose was to be framed by HOD under advice to the Government. Similarly, the Administrative Secretaries (AS) were to inspect the offices of the HODs. Scrutiny of records revealed that the periodicity and procedure for inspection were not formulated and records of periodical inspection were not maintained either by HOD or by the Administrative Secretaries.

System of Calendars of dates/events not followed

5.1.5 Each Government Office was required to use/attach calendars of dates/events at various levels while submitting the cases/files to higher authorities in the prescribed form to ensure quick disposal and avoid delay in finalisation of cases. Reasons for detaining the files for more than three days were also to be recorded by concerned officers/officials. However, these instructions were not followed and calendars of dates/events were not used in the Department.

Non-maintenance of complaint register

5.1.6 A complaint register was 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 off and total number of cases outstanding at the end of each month in Government offices for monthly review of complaints. It was seen that no such register was maintained in the Department.

Non-preparation of calendar of returns/charts of statement

5.1.7 Each Government office was to prepare a calendar of returns/charts of statement to ensure timely submission of returns/statements to concerned authorities. It was noticed that calendar of returns/charts of statement was not prepared in the Panchayat Department. As such timely submission of returns/statements could not be verified in audit.

Non-maintenance of Branch Diary

5.1.8 As per instructions, 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 later on. After diarising all the letters in Central Diary, these letters should be entered in the Branch Diary to watch their movement. It was

noticed that while Central Diary was maintained, Diary at branch level was not maintained in the Department.

Non-submission of disposal register

5.1.9 Each Assistant in the directorate was required to maintain a register of cases received during the month and get it checked on the first of each month from the Branch Incharge/Officer. A list of pending letters was to be prepared and submitted to the Branch Officer so that a close watch could be kept on speedy disposal of cases. Scrutiny revealed that the Assistants did not maintain such registers in the absence of which, the pendency of letters could not be verified in audit.

Non-monitoring of works

5.1.10 As per instructions of the Director of Panchayats, the monitoring of works, which were to be executed under matching scheme as well as out of grants-in-aid was to be done by the Additional Deputy Commissioner (ADC) of each district. Scrutiny of records revealed that neither were the monitoring reports prepared by the concerned ADCs nor were these called for by the Director. In the absence of such reports, it could not be verified in audit whether the monitoring of works was done and the grants were utilised properly. Thus, internal control over works executed under these schemes was lacking.

Maintenance of vehicles

5.1.11 The Controlling Officer is required to maintain a record of all the Government vehicles under his control indicating the registration number, model, engine number, chassis number, date of purchase/receipt, cost, etc. Details showing date-wise expenditure on repairs, spare parts replaced, insurance of the vehicle, etc. were also to be maintained. However, no such records were maintained in respect of any of the two vehicles (Jeep and Car) under the control of Director of Panchayat.

Scrutiny of log books of vehicles revealed that monthly abstract to check fuel consumption was not prepared in respect of one Jeep during 1999-2004. From January 2002 onwards, the journeys were not got verified from the officers/officials who used the vehicle.

Further, inventory of old and used spare parts, tyres and tubes of vehicles was not maintained during 1999-2004.

All Government vehicles should invariably be got insured against 'Third Party Risk', as required under State Government's instructions issued in January 2000. The Panchayat Department did not get the Jeep insured during 1999-2004.

Financial controls

Test-check of records brought out deficiencies in maintenance of cash-book, non-reconciliation of treasury schedules with cash-books, non-drawal of

funds/grants and non-adherence to condition of sanctions for advances for purchase of conveyance/computers as discussed below:

Deficiencies in maintenance of cash-book

5.1.12 Financial Rules 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 cash book to this effect. The examination of cash-book for the period from 1999-04 maintained at the Directorate revealed the totals of the cash book were not found checked by an officer/official other than the writer of cash book as no such certificate was found recorded in the cash-book.

5.1.13 As laid down in Financial Rules, at the end of each month, the head of the office should physically verify the cash balance in the cash-book and record a certificate to that effect. A monthly abstract of the cash balance should also be prepared and signed by the head of the office. Scrutiny of cash-book of the Directorate office revealed that physical verification of cash balance was done in respect of 20 months out of 60 months during 1999-2004. Further, monthly abstract was not prepared in respect of 37 months during the same period.

Non-reconciliation of treasury schedules with cash-book

5.1.14 As provided in Financial Rules, the head of office was required to ensure that all amounts drawn from the treasury were entered in the cash-book. For this purpose, the head of office/Drawing and Disbursing Officer (DDO) should obtain, from the Treasury Officer, by the 15th of every month, a list (treasury schedule) of all bills drawn by him during the previous month and trace all the amounts in the cash-book and record a certificate on the schedules to that effect. It was noticed that treasury schedules obtained from the treasury officer were not reconciled by the DDO in the Directorate of *Panchayat* Office with the cash-book during 1999-2004 as no certificate regarding reconciliation was found recorded on the treasury schedules.

Non-drawal of funds/grants

5.1.15 The Government of India, on the recommendations of the 11th Finance Commission, sanctioned Rs 14.71 crore during 2002-03 under Panchayati Raj Institutions (PRI) Scheme, which were further released by the State Government in October 2002. Out of this, Rs 20 lakh meant for Information Technology Plan at Directorate office for the development of data base of this scheme were not drawn by the Director, Panchayats due to oversight and the funds thus lapsed. The Directorate did not maintain the register for expenditure control vis-à-vis budget provision to watch the utilisation of allocated funds as required under the provisions of Budget Manual.

Non-adherence to conditions of sanction of conveyance/computer advance

5.1.16 As per the terms and conditions mentioned in the sanctions, the vehicles/computers should be purchased by the loanees within one/two months of the drawal of advance and the loanees were required to submit mortgage deed, insurance policy, registration copy and seller's invoice in support of purchase of vehicles/computers to the DDO. In case the vehicles/computers

were not purchased within the stipulated period, the entire amount of advance was to be recovered in lumpsum along with penal interest. Scrutiny of records relating to conveyance/computer advances revealed that the necessary documents in respect of 8 cases (out of 16 during 2001-04), involving advance of Rs 4.20 lakh, were not obtained. The amount of advance in lumpsum along with penal interest was also not recovered from the concerned officers/officials.

The conditions of sanction should have been rigorously enforced for which the department should have followed appropriate control mechanism and procedure.

Internal Audit Arrangements (Development Department)

5.1.17 An Internal Audit Wing comprised of one Chief Accounts Officer, one Accounts Officer and five Section Officers functioning under the administrative control of the Financial Commissioner and Principal Secretary to Government Haryana, Development and Panchayat Department, is responsible for conducting internal audit of Panchayat Samities.

Internal Audit Wing was required to conduct audit of accounts of 115 units and to render guidance in respect of proper maintenance of accounts and help in clearance of audit objections.

Test-check of records revealed the lack of audit plan, absence of in-service training to Audit staff, pendency of audit, delay in issue of inspection reports and large number of outstanding audit objections as discussed below:

Planning of internal audit

5.1.18 The department had not fixed any norms to work out the number of mandays required for audit of each unit for drawing audit plan. Selection of priority units was being made by the Internal Audit Wing on the basis of longer pendency of the units.

No training was imparted to the internal audit staff during 1999-2004.

Pendency of audit

5.1.19 The detail of total number of units, units audited and those pending during 1999-2004 was as under:

| Sr. No. | Year | Number of units | Number of units audited | Pending for internal audit | Percentage of auditee units |
|----------------|-------------|------------------------|--------------------------------|-----------------------------------|------------------------------------|
| 1 | 1999-2000 | 111 | 37 | 74 | 33 |
| 2 | 2000-01 | 113 | 110 | 03 | 97 |
| 3 | 2001-02 | 114 | 89 | 25 | 78 |
| 4 | 2002-03 | 114 | 68 | 46 | 60 |
| 5 | 2003-04 | 115 | 81 | 34 | 70 |

Special Secretary to Government Haryana, Development and Panchayat Department, while admitting the pendency, stated (April 2004) that the pendency was due to shortage of staff, assignment of special/detailed audit and

restriction of tours beyond fifteen days in a month. The reply was not tenable as there was no shortage of staff in comparison to the sanctioned strength. The department should have planned the time allotment after determining high, medium and low priority units to complete the audit after preparing a scheduled programme according to priority of the units in a phased manner.

Delay in issue of Inspection Reports and settlement of old objections

5.1.20 The Inspection Reports (IRs) were required to be issued to auditee units within six weeks from the completion of audit. Out of 161 IRs test checked, 94 were issued late by one to three months, 36 by four to six months and four by more than six months. Out of 1,929 paragraphs issued during 1999-2004, 634 paragraphs were settled and 1,295 paragraphs were outstanding as of March 2004.

No reasons for delay in issue of IRs were furnished. Even first reply was not received in respect of 56 IRs (April 2004).

Further, no register indicating the date of audit, date of issue of IR, etc. was maintained to watch timely issue of IRs. Consolidated unit-wise data regarding number of paragraphs outstanding and the amount involved therein was also not maintained.

The outstanding paragraphs were increasing every year, which indicated ineffective pursuance of old outstanding objections and also inaction on the part of the auditee units. The lack of monitoring and non-arranging of meetings for clearance of audit objections further aggravated the pendency of Audit Paragraphs. Thus, the internal audit system failed to bring out substantial improvement in the department.

Conclusions

5.1.21 As brought out in the forgoing paragraphs, the internal control system in Panchayat Department was not followed adequately, which was fraught with the risk of serious financial irregularities and mis-management of departmental activities, if not activated in time.

The objectives of the establishment of internal audit system in Development Department largely remained unfulfilled as evidenced by pendency in audit, inordinate delay in issue of audit notes and increase in number of outstanding paragraphs.

Recommendations

5.1.22 Panchayat Department should consider appropriate measures to activate the internal control system by way of:

- prescribing periodicity and procedure for inspection of its sub-offices;
- preparation of calendar of events/returns;

- proper maintenance of cash-book;
- regular reconciliation of drawal of funds with treasury; and
- monitoring the execution of works.

Development Department should consider:

- preparation of proper internal audit plan and fix norms in terms of mandays to be provided for audit of each unit;
- determination of high, medium and low priority units to cover them in a phased manner till adequate staff is sanctioned. Alternatively, the department should also consider recommending to Government for relaxing the restriction of tours beyond 15 days in a month for Internal Audit Wing which in itself may help in completing the Audit of all units within the year; and
- securing compliance of audit objections to make the internal audit effective.

These points were referred to Government in August 2004: their reply had not been received (August 2004).

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