

CHAPTER-VII

INTERNAL CONTROL AND INTERNAL AUDIT ARRANGEMENTS

Agriculture and Health and Family Welfare Departments

Internal audit and internal control are important mechanisms for ensuring smooth working of a department. While effective internal audit helps in exercising a check on various activities of the department, internal control mechanism acts as an effective tool in keeping a check on expenditure. It also ensures that various systems have been put in place and are functioning properly.

Internal audit system had not been introduced in Health and Family Welfare Department.

The Agriculture Department has introduced Internal audit system under the overall control of Director. The department had a total number of 50 auditable units.

The position of inspection reports (IRs) and paras issued by the internal audit during 1998-2003 and the number of objections outstanding was as under:

Year	Opening balance		Addition during the year		Clearance		Balance		Percentage disposal	
	IR	Paras	IR	Paras	IR	Paras	IR	Paras	IR	Paras
1998-1999	--	--	04	33	--	06	04	27	--	18
1999-2000	04	27	05	30	--	07	09	50	--	12
2000-2001	09	50	02	08	--	--	11	58	--	--
2001-2002	11	58	01	14	--	--	12	72	--	--
2002-2003	12	72	15	46	--	06	27	112	--	05

It would be seen that the percentage of settlement of paras during 1998-2003 ranged between zero and 18 during the aforesaid period.

Check of internal audit and internal control systems in Agriculture and Health and Family Welfare departments revealed the following points:

7.1 Incorrect utilisation of staff

The Internal Audit (IA) wing of Agriculture department is headed by the Deputy Controller (Finance and Accounts) at the Directorate who is assisted by two Section Officers (SO) (SAS) drawn from the State Finance Department. Besides, one Assistant had been provided by the department.

The prescribed duties and responsibilities of SOs were to assist the Director in framing of budget estimates, ensure expenditure control, assist in the disposal of Public Accounts Committee (PAC) paragraphs, help in expeditious issue of financial sanctions and to conduct physical verification of stock during IA and Inspection.

It was noticed in audit that the IA staff had been deployed for conducting special internal audit of 4401-Capital Outlay and 2402-Soil and Water Conservation, routine duties of finalisation of tenders and quotations, scrutiny of annual accounts of agriculture inputs, vetting of pay fixation cases, issue of salary slips and GPF withdrawal cases. No work relating to providing assistance in framing of budget estimates, expenditure control and issue of financial sanctions was allotted to the wing. Special audit of only nine out of 50 DDOs had been conducted by the wing during 1998-2003 besides checking of annual accounts of 10 DDOs during the same period. Quality of inspection notes could not be assessed as these were not produced for audit verification. Director stated (January 2003) that as and when financial irregularities come to notice, the IA wing is called upon to conduct special audit of the concerned DDOs. Thus the performance of prescribed duties by the IA wing had not been ensured by the Director.

The matter was referred to the Government in June 2003; their reply had not been received (August 2003).

7.2 Expenditure and budgetary control in Health and Family Welfare Department

Introduction

7.2.1 Funds for Health and Family Welfare are provided in the Budget of the department through Grant No. 9 – Health and Family Welfare and Grant No. 31- Tribal Development under various major heads¹. Director, Health and Family Welfare (DHS) is the Head of the Department and is responsible for the preparation and submission of budget estimates to Finance Department through the Administrative Department. The budget estimates were dealt with by 106 Drawing and Disbursing Officers (DDOs) and 29 Controlling Officers during 1999-2001 and 104 DDOs and 27 Controlling Officers during 2001-2002 under the control of DHS.

Preparation of budget estimates and control over expenditure, for the period 1999-2002 reviewed in audit during May-July 2003 at Directorate level revealed the following points:

Budget provision and expenditure

7.2.2 The overall position of funds allotted and expenditure incurred thereagainst under two grants during the aforesaid period was as under:

Table: 7.1

(Rupees in crore)			
Year	Total provision	Actual expenditure	Excess(+) Savings (-)
Grant No. 9			
Plan			
1999-2000	73.90	74.19	(+) 0.29
2000-2001	79.84	95.35	(+) 15.51 (19)
2001-2002	79.44	86.48	(+) 7.04 (9)
Non-Plan			
1999-2000	81.99	89.65	(+) 7.66 (9)
2000-2001	91.86	77.92	(-) 13.94 (15)
2001-2002	83.13	82.94	(-) 0.19
Grant No. 31			
Plan			
1999-2000	6.32	6.56	(+) 0.24
2000-2001	10.33	10.26	(-) 0.07
2001-2002	8.75	8.77	(+) 0.02
Non-plan			
1999-2000	5.31	5.30	(-) 0.01
2000-2001	6.49	4.97	(-) 1.52 (23)
2001-2002	4.82	4.69	(-) 0.13
(Figures in parenthesis represent the percentage)			

It would be seen that persistent excesses ranging between 9 and 19 per cent occurred in plan section during 2000-2002 and in non-plan section during 1999-2000 under Grant No. 9. Savings to the extent of 15 and 23 per cent also occurred in non-plan section of Grant Nos. 9 and 31 during 2000-2001. It would thus appear that the budget estimates were not framed on realistic basis.

Non-submission of budget estimates by DDOs

7.2.3 Scrutiny of records in audit, revealed that budget estimates were not submitted by 9 to 17 per cent DDOs during 1999-2002 as detailed below:

Table: 7.2

Year	Total number of DDOs		Number of DDOs who did not submit budget proposals	
	Plan	Non-plan	Plan	Non-plan
1999-2000	106	105	18 (17)	18 (17)
2000-2001	106	105	10 (9)	10 (10)
2001-2002	104	103	9 (9)	9 (9)

(Figures in parenthesis represent the percentage)

The DHS stated (July 2003) that the budget proposals were made on the basis of previous year's expenditure of the DDOs in the absence of the receipt of budget estimates from them. No action against the defaulting DDOs had been taken. The budget proposals were thus not prepared on realistic basis.

Delay in submission of budgetary returns

7.2.4 It was noticed in audit that various budgetary returns such as budget estimates, statements of excesses and surrenders and final statement of excesses and surrenders were not submitted by DHS to Finance Department during 1999-2002 on the dates prescribed in the Budget Manual. Delay in individual cases ranged between 5 and 131 days. DHS thus failed to comply with the provisions of the Budget Manual.

Unrealistic estimation

7.2.5 In two cases, expenditure far exceeded the funds allotted, as detailed below:

Table: 7.3

(Rupees in lakh)

Sr. No.	Head of Account	Year	Budget provided	Expenditure	Excess expenditure
1.	2210-Medical and Public Health, 01-Urban Health Services, 001-Direction and Administration, 01-Directorate (Plan)	1999-2000	17.50	27.90	10.40 (59)
		2000-2001	30.00	39.16	9.16 (31)
		2001-2002	36.59	201.57	164.98 (451)
2.	2210-Medical and Public Health, 01 Urban Health Services, 001-Direction and Administration 02-District Establishment (Plan)	1999-2000	11.40	19.34	7.94 (70)
		2000-2001	20.00	52.60	32.60 (163)
		2001-2002	46.16	62.58	16.42 (36)

(Figures in parenthesis represent the percentage)

DHS stated (July 2003) that the excess was due to payment of salaries of the staff, assured career progression increments, DA instalments and TA of the staff. The contention is not tenable as these factors should have been foreseen and budget demanded accordingly.

7.2.6 Rule 2.10 of the Himachal Pradesh Financial Rules stipulates that no money should be drawn from the treasury unless it is required for immediate disbursement. It was noticed in audit that Rs 2.55 crore were provided by Government of India (1998-99: Rs 2.19 crore and 2001-2002: Rs 0.36 crore) under various schemes/projects². The amount was drawn by the DHS at the end of respective financial year and kept in the shape of cheques/bank drafts/FDRs as of June 2003. While admitting the facts, DHS stated (July 2003) that no provision was made in the budget estimates and the funds were provided by Government of India of its own at the fag end of the respective years. He further stated that to avoid lapse of these funds the department had no other option than to draw the amount. DHS thus failed to exercise budgetary control over the expenditure which resulted in retention of sanctioned funds outside the Government account.

Unnecessary demand of supplementary grant

7.2.7 It was noticed that supplementary provision of Rs 5.35 crore during 2000-2001 in five cases proved unnecessary as the expenditure in each case

was even less than the original provision as detailed below:

Table: 7.4

(Rupees in lakh)

Sr. No.	Major/minor/sub-head of account	Original budget	Supplementary grant	Expenditure	Saving
1.	2210-01-110-03	3441.39	130.05	3276.94	294.50
2.	2210-03-110-01	4004.73	11.53	3228.04	788.22
3.	2210-03-800-04	100.00	12.68	22.45	90.23
4.	2210-03-107-01	Nil	21.10	Nil	21.10
5.	2210-01-110-06	Nil	360.00	Nil	360.00
Total:		7546.12	535.36	6527.43	1554.05

DHS stated (July 2003) that additional funds were demanded for payment of salary on the basis of first four months expenditure and could not be utilised because lesser arrears were paid. He further stated that funds for purchase of machinery were received late and the purchase process could not be completed. The contention is not tenable because the demand for funds was not assessed on realistic basis.

Non-inclusion of agreed additionality in supplementary demand for grants

7.2.8 The Finance department provided additional funds of Rs 22.91 lakh during 1999-2000 under various heads of account for procurement of machinery equipment and medical reimbursement. The provision was to be made in the supplementary demands for grants of the department. It was noticed in audit that the department incurred expenditure out of additional funds without including them in the supplementary demand for grants. This resulted in excess expenditure of Rs 22.91 lakh.

The DHS while admitting the facts stated that the additionality could not be included in the supplementary demands because of late receipt of excess and surrender statements from the field units. Thus the DHS failed to exercise control over expenditure.

Control records not maintained

7.2.9 Important control records such as register of sanctions, ledger account of appropriations and liability register were not maintained by DHS as required under the budget manual. In the absence of aforesaid records the DHS could not prepare realistic estimates and exercise effective control over the expenditure. The DHS attributed (July 2003) non-maintenance of records to shortage of staff.

These points were referred to the Government in August 2003; their reply had not been received (August 2003).

7.3 Reimbursement of inadmissible medicines

Central Services (Medical attendance) Rules, as adopted by the State Government, prohibit reimbursement of certain medicines, foods and tonics under various systems of medicine.

Test-check in central audit (2002-2003) of vouchers of medical reimbursement vouchers of various Drawing and Disbursing Officers (DDOs) of the departments revealed that the reimbursement claims had not been regulated in

accordance with the provisions of the aforesaid rules and reimbursement of inadmissible medicines valued at Rs 0.22 lakh made as detailed below:

Table: 7.5

						(Rupees)
Head of Account	Total number of vouchers	Total amount paid	Total number of vouchers selected for audit	Total value of vouchers Audited	Number of vouchers in which overpayment detected	Amount overpaid
2401-Agriculture	3,293	81,83,046	275	7,22,916	68	19,932
2210-Medical	5,148	3,24,00,644	428	21,17,662	37	1,625
Total:						21,557

The vouchers were selected for audit to the extent of 8.33 *per cent* of the total number of vouchers by Random Sampling Method. Had all the vouchers drawn under the aforesaid heads of account been audited, it is likely that overpayment would have been to the extent of Rs 2.59 lakh.

It would thus appear that the checks prescribed under Central Services (Medical Attendance) Rules for reimbursement of medical claims were not exercised by the concerned DDOs.

These points were referred to the Government in August 2003; their reply had not been received (August 2003).

7.4 Overpayment of travelling allowance

Supplementary Rules (Travelling Allowance) (TA), as adopted by the State Government, provide that when a government servant travels by a Government vehicle to outstation and returns to his headquarters daily, the government servant cannot draw full daily allowance at the rate applicable to the place of temporary duty. In such cases, the journeys will have to be treated as local and regulated accordingly.

Test-check in central audit (2002-2003) of TA vouchers of various Drawing and Disbursing Officers (DDOs) of the departments revealed that the claims had not been regulated in accordance with the provisions of the aforesaid rules and overpayment of Rs 0.15 lakh made as detailed below:

Table: 7.6

						(Rupees)
Head of Account	Total number of vouchers	Total amount paid	Total number of vouchers selected for audit	Total value of vouchers Audited	Number of vouchers in which overpayment detected	Amount overpaid
2401-Agriculture	3,304	90,67,139	274	6,22,112	22	4,660
2210-Medical	4,071	1,29,41,871	338	13,03,354	30	10,102
Total:						14,762

The vouchers were selected for audit to the extent of 8.33 *per cent* of the total number of vouchers by Random Sampling Method. Had all the vouchers drawn under the aforesaid heads of account during the aforesaid period been

audited, it is likely that overpayment would have been to the extent of Rs 1.77 lakh.

It would thus appear that the checks prescribed under the aforesaid rules were not exercised by the DDOs while regulating the TA claims.

These points were referred to the Government in August 2003; their reply had not been received (August 2003).

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