

CHAPTER – V

INTERNAL CONTROL SYSTEM IN GOVERNMENT DEPARTMENT

RURAL DEVELOPMENT DEPARTMENT

5.1 Internal Control Mechanism in Rural Development Department (RDD)

Highlights

A review of internal control mechanism in the Rural Development Department (RDD) revealed that budgetary and financial management in the Department was poor. The Department prepared its budget without assessing the actual requirement. Monitoring of the expenditure by the controlling officers was absent. Implementation of Centrally Sponsored Schemes suffered due to selection of ineligible beneficiaries, diversion of scheme funds, unfruitful and inadmissible expenditure of scheme funds. There was no mechanism of Internal Audit in the Department.

Budgetary control was deficient as estimates were framed on ad-hoc basis and hence not realistic. There were huge persistent savings and expenditure control was lax.

(Paragraph 5.1.5)

The controlling officers did not monitor the expenditure incurred by the DDOs. Four DRDAs and eight Blocks closed cash books once a week.

(Paragraph 5.1.7 and 5.1.8)

Operational controls of the Department was weak. Assistance of Rs 49.09 lakh under Indira Awas Yojana was paid and assets worth Rs 30.75 lakh under SGSY was provided to ineligible beneficiaries. Rs 1.52 crore was diverted from one scheme to another in violation of the guidelines of the schemes. Besides, 919 IAY schemes involving Rs 1.65 crore remained incomplete.

(Paragraph 5.1.10 to 5.1.14)

Controlling Officer did not inspect accounts records of the DDOs under their control, as required under the Jharkhand Treasury Code.

(Paragraph 5.1.15)

Department had no Internal Audit wing. Finance Department also did not conduct any internal audit of the units of the Department.

(Paragraph 5.1.18)

5.1.1 Introduction

Internal control system is an integral process by which an organisation governs its activities to effectively achieve its objectives. A built-in internal control mechanism and strict adherence to statutes, codes and manuals minimises the risk of errors and irregularities and helps the department against loss due to waste, abuse, mismanagement etc. An evaluation of the internal control mechanism in the Rural Development Department was conducted in audit. The overall objective of the Department is improvement in life and livelihood of the rural people and development of infrastructural facilities in rural areas of the State. The Department plan and execute the Centrally sponsored programmes like Indira Awas Yojana, SGRY, SGSY, MPLADS etc.

5.1.2 Organisational set-up

Rural Development Department is headed by the Secretary, Rural Development. At the district level, the programmes are implemented by the District Rural Development Agency (DRDA). The Deputy Commissioner (DC) is the Chairman of the DRDA, while the Deputy Development Commissioner (DDC) (one each in each district) is the Managing Director of the DRDA. He is assisted by a Director, an Accounts Officer (AO), five Project Officers (PO) and five Assistant Project Officers (APO) in each DRDA. The executing agencies at the block level are Block Development Officers (212).

5.1.3 Scope of audit

Audit review to assess the adequacy and effectiveness of the internal control mechanism, including internal audit arrangements in the Rural Development Department for the period 2001-05 was conducted (April-September 2005) by test check of records at the Secretariat, five¹ DRDAs (out of 22) at the district level and eight² block level offices (out of 44 in five districts). The results of the review are discussed in the succeeding paragraphs.

5.1.4 Audit objectives

Audit objectives were to see whether the internal control system of the department provided a reasonable assurance on the adequacy and effectiveness of the following controls to achieve its objectives.

- Financial controls
- Administrative and Operational controls
- Inventory control
- Internal Audit System

¹ Deoghar, Garhwa, Koderma, Latehar and Ranchi.

² Angara, Chanhoo, Chandwa, Koderma, Manika, Mander, Namkum, and Ratu.

Audit findings

Financial control

Audit observed deficiencies in preparation of budget and monitoring of the expenditure incurred by the units.

5.1.5 Budget preparation

Budget estimates were prepared without any inputs from the field functionaries

Budget Manual prescribes that the budget estimates should receive the careful personal attention of the Controlling Officer so that they are neither inflated nor underestimated and are as accurate as possible. The Principal Secretary, however, stated (October 2005) that the budget estimates of the Department were prepared based on previous year's figures.

Scrutiny revealed that the Department had no information of the actual expenditure of the previous years, as the Drawing and Disbursing Officers (DDO) did not submit monthly expenditure statements to the Department as required under the Jharkhand Financial Rules (JFR).

Scrutiny also revealed that the budget estimates for the years 2002-03 to 2004-05 did not mention the actual expenditure of the previous year as required under the provisions of the Budget Manual. Further, the Administrative Department was to obtain inputs from the field units for preparation of the budget estimate, which was not done. Thus, The Department prepared the budget without assessing the actual requirement of funds. The Principal Secretary stated (October 2005) that instructions would be issued to the field units to submit their budget estimates for consolidation by the Department. Preparation of budget was deficient, as evident from huge savings or excess over the grants every year, as shown below:

(Rupees in crore)

Year	Budget Estimate	Expenditure	Excess/ Saving (Percentage)
2000-01 (15.11.00 to 31.03.01)	375.18	183.46	(-) 191.72 (51)
2001-02	944.03	546.79	(-) 397.24 (42)
2002-03	1571.74	611.39	(-) 960.35 (61)
2003-04	1512.67	671.99	(-) 840.68 (55)
2004-05	1855.22	1029.33	(-) 827.42 (45)
Total	6258.84	3042.96	3217.41 (51)

(Source: Appropriation Accounts)

There was large savings ranging between 42 to 61 per cent during the period 2000-2005. There were no reasons recorded for the savings.

Submission of Budget Estimates was delayed

As per the budget calendar, the Controlling Officer was to submit the Budget Estimates (BE) to the Finance Department in the months of September and October every year, however it was seen that the BE for 2002-03 to 2004-05

were sent to the Finance Department after a delay ranging between 31 and 99 days.

5.1.6 Surrender of savings

It was the responsibility of Controlling Officer of the Department to ensure that in the likely event of savings, timely re-appropriation/surrender of funds are carried out.

Savings were not surrendered in time

It was seen that savings were not surrendered in time by the Department and the same were allowed to lapse. Amounts surrendered on the last day of the year, i.e. on 31 March *vis-à-vis* total savings of the year is given below:

(Rupees in crore)

Year	Total savings	Amount surrendered on 31 March	Percentage of surrender
2000-2001 (15 November 2000 to March 2001)	191.72	167.30	87
2001-02	397.24	203.74	51
2002-03	960.35	256.44	26
2003-04	840.68	101.57	12
2004-05	827.89	1.53	0.20

The Controlling Officer did not ensure that funds were either re-appropriated or surrendered in time. As a result, the amounts could not be utilised for other purposes.

Thus, there was absence of budgetary control in the Department as reflected in *ad-hoc* budget preparation, non-adherence to the due date in submitting budget estimates to the Finance Department and delay in surrender of savings every year.

Expenditure control

5.1.7 Monitoring of expenditure

Monitoring of the expenditure incurred by the DDOs was not done by the Controlling Officers

As per Financial Rule, the Secretary, RDD was responsible for monitoring the expenditure incurred by the units under his control. For this, the Controlling Officer was to receive minor/sub-head wise statement of expenditure every month from the DDOs. In order to watch the receipt of such expenditure statements, a broadsheet was to be maintained by him. Based on these statements, the Controlling Officer was to prepare a statement of expenditure under the grant up to the preceding month.

Scrutiny revealed that expenditure statements were not submitted by the DDOs to the Controlling Officer regularly. The Department also did not monitor or insist on the regular submission of these returns. Neither broadsheet nor month wise expenditure statement was prepared by the

Department. Thus, monitoring of the expenditure incurred by the DDOs was absent at the level of the Controlling Officer.

As per the Treasury Code of the State, departmental expenditure was required to be reconciled with the figures of AG (A&E). It was noticed that during the period 2000-05, expenditure figures were reconciled neither by the DDOs nor by the Department with the figures of the AG (A&E).

5.1.8 Maintenance of cash book

As per the provisions of Jharkhand Treasury Code (JTC), all monetary transactions should be entered in the cash book as soon as they occur and the DDO should attest the entry. Scrutiny revealed that during the period 2000-05 four³ DRDAs and eight⁴ Block Development Officers (BDOs) closed the cash books once in a week. Further, it was noticed that cash balance was not physically verified by the DDOs and details of the cash balance not recorded at the end of the each month. Thus, cash management in the Department was weak and fraught with the risk of temporary misappropriation of cash.

5.1.9 Adjustment of AC bills

As per the provisions of Rule 320-vol-I of JTC, Detailed Contingent (DC bills) for the money drawn on Abstract Contingent (AC) bills should be submitted by the DDO to AG (A&E) within a month. However, it was seen in audit that Rs 149.57 crore were drawn on AC bills by five test checked DRDAs during the period 2000-05 for which DC bills were not furnished by the respective DDCs to the AG (A&E) as of October 2005. Details are as under:

**DC bills for
Rs 149.57 crore not
submitted to AG
(A&E)**

(Rupees in crore)

Name of DRDA	2000-01	2001-02	2002-03	2003-04	2004-05	Total
Deoghar	Nil	Nil	13.26	13.42	Nil	26.68
Garhwa	Nil	Nil	Nil	14.27	Nil	14.27
Koderma	Nil	8.98	7.05	6.42	7.04	29.49
Latehar	Nil	Nil	Nil	6.85	Nil	6.85
Ranchi	15.17	24.79	17.81	14.51	Nil	72.28
Total	15.17	33.77	38.12	55.47	7.04	149.57

The Controlling Officer also did not insist on the submission of DC bills of the amounts drawn on AC bills.

Non-submission of the DC bills for a long period was fraught with the risk of financial irregularities including fraud and misappropriation.

³ Deoghar, Garhwa, Latehar and Ranchi.

⁴ Angara, Chandwa, Chanho, Koderma, Mander, Manika, Namkum and Ratu.

Operational Control

The DRDA is the main agency which undertakes developmental schemes in the districts. Several deficiencies were noticed in operational controls of the implementation of these schemes as discussed below:

5.1.10 Selection of beneficiaries

Scrutiny of records of the test checked districts revealed that norms prescribed in the scheme guidelines for selection of beneficiaries were not followed, as discussed below:

- **Indira Awas Yojana (IAY)**

Scheme funds of Rs 49.09 lakh spent on ineligible beneficiaries

As per provisions of Indira Awas Yojana, only Below Poverty Line (BPL) beneficiaries were to be provided Indira Awas. Selection of beneficiaries was to be done in open Gram Sabha and the list was to be scrutinised by the BDO. Final approval of the list of beneficiary was to be accorded by DDC. It was seen that during 2000-01 to 2003-04 in five⁵ Blocks test checked 278 beneficiaries were not eligible as their names were not found recorded in the BPL Survey Register. Total scheme funds spent for such ineligible beneficiaries was Rs. 49.09 lakh. Neither the BDOs exercised the requisite checks nor the DDC scrutinised the list of beneficiaries.

- **Sampoorna Gramin Swarojgar Yojana**

SGSY guidelines envisaged that assets under this scheme was to be sanctioned only to BPL beneficiaries. For this purpose, selection of beneficiaries was to be done from BPL Survey Register for the period 1997-2002. Proper scrutiny of beneficiary list was to be done at block level as well as at DRDA level. In two DRDAs (Latehar and Ranchi), it was noticed that during the period 2002-04, names of 44 beneficiaries of SGSY did not tally with the actual names recorded in the said register. Total amount incurred in disbursement of assets to these ineligible beneficiaries worked out to Rs 30.75 lakh. Requisite checks were exercised neither at block level nor at DRDA level, leading to misutilisation of SGSY funds.

5.1.11 Unfruitful expenditure

919 IAY schemes involving Rs 1.65 crore remained incomplete due to lack of effective monitoring

The works under IAY were to be completed within three months from the award of work order. BDOs were to ensure timely completion of schemes. However, in two Blocks in Latehar District (Chandwa and Manika) and five Blocks in Ranchi District (Angara, Chanho, Mander, Namkum and Ratu) it was seen that out of 2710 works taken up during 2001-04, 919 IAY works involving a total expenditure of Rs 1.65 crore remained incomplete even after lapse of one to three years. Thus, due to lack of monitoring at BDO level expenditure incurred on incomplete schemes rendered unfruitful.

⁵ Angara, Chanho, Manika, Namkum and Ratu.

5.1.12 Accountal of accrued interest on schemes funds

Interest of
Rs. 26.47 lakh
earned on various
scheme funds
parked in a
separate cash book

Interest accrued on deposit of funds of the Centrally sponsored scheme is treated as a part of the scheme itself. Guidelines of these schemes, therefore, lay down that individual scheme funds should have separate bank account and the interest earned on them should be utilised for that scheme. However, it was seen in four blocks (Angara, Chanho, Namkum, Ratu) in DRDA, Ranchi and Chandwa Block in DRDA, Latehar that during 2000-05 separate bank accounts were not maintained for individual scheme and funds of different schemes were amalgamated in one account. Thus, interest accrued at the end of financial year could not be segregated scheme wise. Total amalgamated interest parked in a separate subsidiary cash book worked out to Rs 26.47 lakh. Thus, the BDOs did not exercise the control checks leading to violation of the provision of the guidelines. No action was taken by the Controlling Officer to bifurcate the interest earned on different schemes and to use them for the respective schemes.

5.1.13 Expenditure on inadmissible items

Purchase of vehicles is prohibited under 'DRDA Administration', a Centrally sponsored scheme. Scrutiny revealed that Rs 18.13 lakh were spent by two DRDAs, Deoghar and Ranchi for purchase of vehicles from the funds of DRDA administration, contrary to the provisions of the guidelines. In reply, it was stated that the vehicles were purchased as per the orders of the Government. The reply was unacceptable as the guidelines prohibit such purchase out of the scheme funds. Compliance of scheme guidelines was not ensured by the controlling officer.

5.1.14 Temporary diversion of scheme funds

Irregular diversion
of funds (Rs 1.52
crore) from one
scheme to another

Scrutiny of records of the schemes undertaken by the DRDAs in the test checked districts revealed that large amounts of funds were diverted temporarily during the period 2001-04 from one scheme to another at the instances of DDC though the scheme guidelines forbid diversion of funds from one scheme to another. The details of diversion are as under:

(Rupees in lakh)

Name of district	Amounts diverted
Deoghar	32.87
Latehar	54.80
Koderma	43.03
Ranchi	21.26
Total	151.96

It was noticed that the amounts diverted from the schemes have not been recouped as of September 2005. Details of the diversion of scheme funds are given in *Appendix 5.1*. No reason was furnished for the diversion of the scheme funds.

Supervisory control

5.1.15 No inspections carried out

Poor monitoring of the field units

Jharkhand Treasury Code enjoins that the Controlling Officer should inspect the account records of DDO under his control at least once a year. It was noticed that the Controlling Officers carried out no such inspection during 2001-05. Thus, the monitoring of the field units of the Department was poor.

5.1.16 Constitution of separate wings in DRDA

As per the provisions of the guidelines of DRDA Administration, separate wings are to be set up for self employment, women's, wage employment and monitoring and evaluation in each DRDA for proper implementation and monitoring of schemes. It was noticed that separate wings were not set up in any of the test checked DRDAs. Absence of separate wings would affect the administration of the DRDAs.

Inventory Control

5.1.17 Maintenance of asset register

Non-maintenance of assets register

A register of assets created under various schemes in the district was required to be maintained by the DRDAs and the blocks. It was noticed that no such asset register was maintained in any of the districts test checked during the period 2001-05.

5.1.18 Internal Audit

Internal audit mechanism not existed

The Department did not have an internal audit wing. The internal audit wing of the Finance Department was responsible for internal audit of Rural Development Department. It was noticed that Finance Department also had not conducted internal audit of any of the test checked units. Thus, the Department did not have any mechanism which could make it aware of the risks faced by the Department in its operations and provide the management with the information regarding the functioning of the field functionaries.

5.1.19 Response to the Inspection Reports

Poor response to Audit Inspection Reports

The irregularities noticed during test checks by the Accountant General (Audit) are communicated to the heads of the offices through Inspection Reports (IRs) with a copy to the Head of the Department.

As of August 2005, 46 IRs and 681 paras issued on the various units of the Department during the period were pending settlement. Of these, in respect of 33 IRs, even initial replies were not furnished by the Department. No steps were taken by the Department for the speedy settlement of these outstanding paras. Details of the outstanding paras are as under:

Year	No. of IRs	No. of Paras	Reply of IRs received	Reply of IRs not received
2000-01	19	302	04	15
2001-02	07	122	02	05
2002-03	10	135	05	05
2003-04	03	30	02	01
2004-05	07	92	00	07
Total	46	681	13	33

5.1.20 Conclusion

The budgetary controls, expenditure controls, operational controls and monitoring mechanism were weak in the Department. Budget estimates of the Department were prepared without any inputs from the field offices. There were huge savings every year and most of the savings were surrendered on the last day of the year. There was no monitoring of expenditure incurred by the DDOs and amounts drawn on Abstract Contingent bills remained unadjusted. Selection of ineligible beneficiaries under various schemes, diversion and unfruitful expenditure of scheme funds indicated weak operational control. There was no mechanism of internal audit and no efforts were taken by the Department for the settlement of paras raised in the Inspection. All these would have adverse impact on the effective implementation of various programmes/schemes undertaken by the Department.

5.1.21 Recommendations

- Budget estimates should be prepared after obtaining inputs from the field functionaries and same should be submitted to Finance Department in time.
- It should be ensured that expenditure statements from all DDOs are sent to the Department regularly.
- Cash books in the field units of the Department should be written and closed daily.
- Supervisory control should be strengthened and regular inspection of works should be ensured.
- An Internal Audit wing should be established in the Department. The Department should ensure timely response to the observations raised by the Accountant General.