

CHAPTER V

INTERNAL CONTROL SYSTEM

COOPERATION DEPARTMENT

5.1 Evaluation of Internal Control System

Highlights

Internal control system is an integrated process by which an organisation governs its activities to effectively achieve its objectives. It consists of methods and policies designed to protect resources against loss due to waste, abuse and mismanagement. The Cooperation Department was established with the primary objective of organising and managing genuine cooperatives on sound lines as per basic principles of cooperation for the promotion of economic interests and welfare of the people and rendering guidance and assistance for the development of cooperative movement in the State. Evaluation of the internal control system in the Department disclosed that controls in budgetary and operational areas were not effective to ensure compliance with established procedures/practices and thus prevent deviations. This was compounded by the absence of internal audit.

Budgetary controls in place were ineffective as there were instances of defective preparation of estimates, non-utilisation of substantial amounts of grants, savings not being surrendered or surrendered only at the fag end of the year.

(Paragraph: 5.1.5)

Non-exercise of prescribed controls effectively, resulted in accumulation of arrears in audit, inquiries and inspections remaining incomplete and misappropriation of Rs.81.67 crore involving departmental employees, office bearers and employees of the societies.

(Paragraph: 5.1.7)

Compliance with orders of appointment of liquidators for wound up societies which held Government stake of Rs.30.20 crore was not ensured.

(Paragraph: 5.1.8)

Cooperative autonomy of the societies was affected by greater investment of Government share capital therein.

(Paragraph: 5.1.9)

Inadequacy of internal controls led to accumulation of outstanding balances of principal and interest on loans.

(Paragraph: 5.1.12)

Non-repayment of Government guaranteed loan by a society resulted in attachment of personal deposit accounts by the Debts Recovery Tribunal and avoidable payment of Rs.3.59 crore to financial institutions.

(Paragraph: 5.1.14.1)

5.1.1 Introduction

Internal control consists of rules, orders and procedures designed to provide management with a reasonable assurance that the entity is functioning in the manner intended and its objectives are achieved.

The primary objective of the Cooperation Department is to organise and manage genuine cooperatives on sound lines as per the basic principles of cooperation for the promotion of economic interests and welfare of the people, and to render guidance and assistance for the development of cooperative movement in the State. The standards of Internal Control in the Department are laid down in the Administrative Hand Book brought out in 1986. There were 32,382 cooperative societies in the State as of March 2006.

5.1.2 Organisational set-up

The Principal Secretary to the Government of Karnataka, Cooperation Department is overall in-charge of the Department at the Government level. The Registrar of Cooperative Societies (RCS) is the Head of the Department entrusted with administration of the Karnataka Cooperative Societies Act, 1959 (Act) as amended from time to time. RCS is assisted by 13 Additional Registrars (three at head office), 72 Joint Registrars (JRCS) (including four at head office) at regional level, 83 Deputy Registrars (DRCS) (including two at head office) at district level and 160 Assistant Registrars (ARCS) (including 14 at head office) at subdivision level. There are 112 Drawing and Disbursing Offices (DDOs) headed by RCS (1), DRCS (28), ARCS (51) and Cooperative Development Officers (32). The Director of Cooperative Audit (Director) is vested with powers to audit the societies.

5.1.3 Audit objectives

The main audit objectives were to examine whether:

- adequate budgetary, financial and operational controls for efficient and effective operations and accurate financial reporting were in place and functioning;
- compliance with the standards prescribed in the Legislations/Hand Book was achieved; and
- internal audit was in place and effective.

5.1.4 Scope and methodology of audit

Records relating to budgetary, financial and operational controls for the period from 2001-02 to 2005-06 were test-checked during February 2006 to

June 2006 at the Office of the RCS supplemented by scrutiny of records of two Additional Registrars at head office, one JRCS at Bangalore, 10[⊙] out of 28 DRCS offices and 17[⊙] out of 51 ARCS offices.

The audit methodology adopted involved examination of records relating to preparation of budget estimates, returns of expenditure and operational control of cooperative societies. The scope and methodology of audit were discussed with RCS in February 2006. Results of the test-check are brought out in the succeeding paragraphs.

Audit findings

Financial Control

5.1.5 Budgetary control

There were huge savings year after year indicating non-observance of the Budget Manual provisions in preparation of the budget

The financial rules framed by the Government including those in the Budget Manual and instructions issued by Government and RCS from time to time stipulate various control measures to ensure proper budgetary and other financial operations.

5.1.5.1 Saving and surrender of funds

The budget provision (original and supplementary) and the expenditure of the Department there against during 2001-06 were as detailed below:

Table 1: Budget provision and expenditure

(Rupees in crore)

Year		Plan			Non-plan		
		Budget provision	Expenditure	Excess (+)/ Savings (-)	Budget provision	Expenditure	Excess (+)/ Savings (-)
2001-02	Revenue*	29.62	3.77	(-) 25.85	41.37	37.64	(-) 3.73
	Capital#	7.83	12.98	(+) 5.15	-	-	-
	Loan	18.61	7.11	(-) 11.50	-	-	-
	Total	56.06	23.86	(-) 32.20	41.37	37.64	(-) 3.73
2002-03	Revenue*	6.32	2.44	(-) 3.88	41.63	37.52	(-) 4.11
	Capital#	14.13	12.88	(-) 1.25	-	-	-
	Loan	22.89	15.20	(-) 7.69	-	-	-
	Total	43.34	30.52	(-) 12.82	41.63	37.52	(-) 4.11
2003-04	Revenue*	20.00	10.08	(-) 9.92	275.81	115.00	(-) 160.81
	Capital#	7.00	1.56	(-) 5.44	-	-	-
	Loan	3.81	0.67	(-) 3.14	-	-	-
	Total	30.81	12.31	(-) 18.50	275.81	115.00	(-) 160.81
2004-05	Revenue*	88.42	63.25	(-) 25.17	206.94	179.17	(-) 27.77
	Capital#	8.92	8.36	(-) 0.56	-	-	-
	Loan	7.33	4.92	(-) 2.41	-	-	-
	Total	104.67	76.53	(-) 28.14	206.94	179.17	(-) 27.77
2005-06	Revenue*	121.31	103.28	(-) 18.03	925.93	927.63	(+) 1.70
	Capital#	0.84	-	(-) 0.84	-	-	-
	Loan	17.29	15.42	(-) 1.87	-	-	-
	Total	139.44	118.70	(-) 20.74	925.93	927.63	(+) 1.70

* Includes subsidies # Includes share capital

⊙ Bangalore (Rural), Bangalore (Urban)-I & II, Bellary, Chickmagalur, Dakshina Kannada, Gadag, Kolar, Mysore, Tumkur

⊙ Bangalore (Urban)-I & II, Bellary, Chickmagalur, Chikkaballapur, Doddaballapur, Gadag, Hospet, Hunsur, Kolar, Mangalore, Mysore, Puttur, Ramanagaram, Tarikere, Tiptur, Tumkur

Substantial part of the saving was surrendered at the fag end of the year

It was noticed that out of the total revenue grants of Rs.803.35 crore received during the years 2001-02 to 2004-05, there were savings of Rs.290.74 crore. Of this, Rs.208.94 crore were surrendered as excessive or not required. However, 97 per cent (Rs.201.72 crore) of this was surrendered only in March of the relevant year defeating the objective of the provision of surrender, that is, their reallocation by way of re-appropriation or supplementary grants.

5.1.5.2 Incorrect and lumpsum provisioning

The savings under revenue, capital and loan sections were mainly due to incorrect, lumpsum or *ad hoc* provisioning of the funds in the budget as detailed in the table below:

Table 2: Analysis of savings

(Rupees in crore)

Year	Section	Savings	Reasons
2001-02	Revenue	24.40	Saving of Rs.24.40 crore was due to inclusion of provision for agricultural marketing in the budget.
	Loan	8.00	Supplementary grant of Rs.eight crore obtained for "loans to other cooperatives" was not utilised.
2002-03	Loan	5.71	Saving of Rs.5.71 crore was mainly due to lumpsum provisioning of funds for loan assistance to various categories of cooperative societies, etc.
2003-04	Revenue	155.30	Out of supplementary grant of Rs.200.30 crore obtained for assistance to credit cooperatives, only Rs.45 crore was utilised resulting in saving of Rs.155.30 crore.
	Capital	6.47	Saving was mainly under share capital assistance to various categories of societies.

It was also noticed that the non-plan estimates had been prepared by including provision for vacant posts which ranged between 999 (2003-04) and 1,146 (2004-05) constituting over one-third of the total number of sanctioned posts.

5.1.5.3 Reconciliation of departmental figures

In order that the departmental accounts are accurate to ensure efficient financial control, the Budget Manual requires that the consolidated accounts of the Chief Controlling Officer (Head of the Department) have to be reconciled with those recorded in the books of the Accountant General. However, wide variations were noticed between the two sets of expenditure figures as under:

Table 3 : Variation in expenditure figures

(Rupees in crore)

Year	Expenditure according to		Variation
	Accounts	Department	
2001-02	61.50	30.83	30.67
2002-03	68.04	26.56	41.48
2003-04	127.31	28.70	98.61
2004-05	255.70	181.71	73.99
2005-06	1,046.33	98.25	948.08

Non-completion of reconciliation of expenditure figures adversely affected the process of financial control besides carrying the risk of non-detection of a possible fraud.

5.1.6 Maintenance of accounts of arbitration fee

There was inadequate control over preparation of arbitration fee accounts leading to their defective maintenance and diversion of funds

The Act provides for settlement of disputes involving the constitution, management or the business of cooperative societies, among others, by an arbitrator appointed by the RCS. The Karnataka Cooperative Societies Rules, 1960 (Rules) empower the RCS to require the parties to deposit in advance the fees determined by him. In June 2003, the RCS re-fixed the rates of fee and the share of Government and arbitrator. Accordingly, in respect of cases referred to arbitrator, one-fourth (one-fifth up to May 2003) of the fees received is to be credited to the Government account as revenue and the balance three-fourth (four-fifths up to May 2003) paid to the arbitrator. A Personal Deposit (PD) account at the District Treasury, Bangalore was operated by the ARCS (Disputes) for accounting of the fees received and payments made out of it.

Details of number of dispute cases filed and disposed of as also fee received and paid to arbitrators and to the Government account as furnished by the Department during the years 2001-02 to 2005-06 were as under:

Table 4 : Arrears in dispute cases

(Rupees in crore)

Details	2001-02		2002-03		2003-04		2004-05		2005-06*	
	Cases	Fee	Cases	Fee	Cases	Fee	Cases	Fee	Cases	Fee
Opening balance	31,300	2.47	30,880	2.75	22,924	2.89	24,563	3.95	31,233	14.09
Filed/received during the year	57,957	1.45	78,436	3.13	64,360	4.77	72,638	3.55	22,049	1.98
Total	89,257	3.92	1,09,316	5.88	87,284	7.66	97,201	7.50	53,282	16.07
Disposal/Payment to arbitrators	62,414	2.09	66,439	2.18	70,648	2.90	75,602	2.09	26,019	1.68
Payment to Government		0.49		0.54		0.90		0.70		0.55
Closing balance	26,843	1.34	42,877	3.16	16,636	3.86	21,599	4.71	27,263	13.84

* Provisional (up to December 2005 only)

The figures furnished by the Department were not reliable as the closing balances of the cases and fee were not adopted as opening balance in the succeeding years. The amount remaining unpaid to arbitrators and to Government in respect of settled cases was also not made available by the Department.

In 14[⊗] offices test-checked, reconciliation between the departmental balance in the PD account and the treasury balance was in arrears for periods ranging from 23 to 3 months between April 2004 and January 2006 and the difference pending reconciliation ranged from Rs.0.03 lakh to Rs.2.32 crore.

The Department had irregularly appropriated Rs.56.04 lakh from the PD account during the year 2005-06 for meeting expenses of training and travelling/daily allowances to Government officers and centenary celebrations of the cooperative movement.

[⊗] Subdivisions at Bangalore (Rural), Bangalore (Urban)-I, Bellary, Chikkaballapur, Doddaballapur, Gadag, Kolar, Mangalore, Mysore, Tiptur, Tumkur, District offices at Tumkur, Mysore and Head Office at Bangalore

Inadequate controls over preparation of arbitration fee accounts led to their defective maintenance and diversion of funds.

Operational control

5.1.7 Control over cooperative societies

Control over the affairs of the cooperative societies was inadequate leading to accumulation in arrears of audit, inquiries/inspections remaining incomplete and misappropriation of Rs.81.67 crore

In order to regulate the activities of the cooperative societies to conform to its provisions, the Act envisages audit, inquiry, inspection and levy of surcharge as instruments of control over societies by the RCS.

5.1.7.1 Arrears in audit

The Act provides that the Director shall audit or cause to be audited by a person authorised by him, by general or special order, the accounts of every cooperative society at least once in each year.

According to the data furnished by the Director, the number of societies due for audit and that actually covered during the years 2001-02 to 2005-06 were as under:

Table 5: Progress in audit of cooperative societies

Year	Number of societies due for audit	Number of societies audited	Percentage of coverage	Number of societies not covered
2001-02	30,415	17,993	59	12,422
2002-03	31,206	20,115	64	11,091
2003-04	31,877	22,411	70	9,466
2004-05	32,259	22,511	70	9,748
2005-06	32,602	22,814	70	9,788

The Director attributed (July 2006) the arrears to non-production of books of accounts, incomplete books of accounts, books being in court, whereabouts of the societies not being known and severe shortage of staff.

The Rules prescribe fees at specified rates for conduct of the audit. In the event of a cooperative society failing to pay the fees, the said Rules also empower the Director to call upon the financing bank of the concerned society to remit the fees on receipt of demand. The unpaid amount is also liable to be recovered as arrears of land revenue.

It was noticed that despite these powers, audit fees of Rs.10 crore was outstanding for recovery from the cooperative societies as of March 2006. The Director stated (July 2006) that the financial position of some of the societies did not permit them to pay the audit fees and that some societies had brought stay of recovery on the ground that the fee was exorbitant.

5.1.7.2 Arrears in inquiry proceedings

The Act enjoins on the RCS to hold an inquiry by himself or by a person authorised by him into any matter specified by him touching the constitution,

working and financial condition of a cooperative society. Such inquiry may be of his own motion but shall be held on the application by a cooperative society to which the society is affiliated or by a majority of the members of the managing committee or by not less than one-third of the total number of members of the society. The inquiry shall be completed within a maximum of 12 months including extension by six months by the State Government on the recommendation of the RCS.

The position of inquiries ordered, completed and pending during the years 2001-02 to 2005-06 was as under:

Table 6: Progress of inquiry proceedings

Year	Opening balance	Ordered during the year	Total	Completed during the year	Closing balance
2001-02	94	98	192	114	78
2002-03	78	109	187	89	98
2003-04	98	134	232	149	83
2004-05	83	128	211	111	100
2005-06	100	83	183	70	113

It was noticed that six cases were pending for over two years and 24 cases for more than one year. The Department did not adhere to the provisions of the Act of completing the inquiry proceedings within the time period laid down therein.

5.1.7.3 Arrears in inspection

The Act provides that the RCS may, of his own motion or on the application of a creditor of a cooperative society, direct any person authorised by him to inspect the books of the society.

The position of inspection of books ordered, completed and pending during the years 2001-02 to 2005-06 was as under:

Table 7 : Progress of inspection

Year	Opening balance	Ordered during the year	Total	Completed during the year	Closing balance
2001-02	66	172	238	172	66
2002-03	66	179	245	155	90
2003-04	90	92	182	148	34
2004-05	34	50	84	50	34
2005-06	34	87	121	96	25

No definite time frame had been fixed for completion of inspections and action thereon.

5.1.7.4 Misappropriation cases

The Act provides for recovery of loss or deficiency caused to a society by way of initiation of surcharge proceedings against the committee of management or any other person in cases of payment contrary to the Act, Rules or bye-laws of the society, deficiency caused in the assets of the society by breach of trust or

negligence, misappropriation/fraudulent retention of money/property of the society found during an audit, inquiry, inspection or winding up of a society. According to the data furnished by the Department, the number of misappropriation cases increased from 9,821 (2003-04) to 10,079 (2005-06) involving an amount of Rs.81.67 crore in 5,923 societies by 10,569 persons. These persons included 9,318 employees of the societies, 160 departmental employees, 860 office bearers of the societies and 231 others. This was indicative of lax monitoring of the affairs of the cooperative societies by the Department.

5.1.8 Appointment of liquidators

RCS did not ensure compliance with his orders of appointment of liquidators for societies which held Government stake of Rs.30.20 crore and were wound up

The Act provides that where the RCS has made an order for winding up of a cooperative society, he may appoint a liquidator (from among the subordinate officers) for the purpose. The Administrative Hand Book specifies that a liquidator has to be appointed within two months from the date of such order. The RCS directed in August 1995 that the liquidator should take charge within 15 days from the date of appointment.

During the period from 2001-02 to 2005-06, the number of liquidators appointed, the number who had not taken charge and Government's stake in the wound up societies concerned were as under:

Table 8 : Appointment of liquidators

Year	Number of liquidators		Government stake (Rupees in crore)
	Appointed	Not taken charge	
2001-02	3,810	757	22.91
2002-03	3,578	688	22.56
2003-04	3,265	625	25.97
2004-05	3,029	136	25.31
2005-06	2,739	186	30.20

Owing to non-assumption of charge of the societies by the liquidators, assets of the societies could not be disposed of resulting in locking up of Government investment of Rs.30.20 crore in those societies. The RCS had not ensured compliance with orders appointing liquidators.

5.1.9 Contribution of excess share capital by Government

Cooperative autonomy of the societies was affected by greater investment of Government share capital therein

In May 1964, Government had prescribed the terms and conditions governing the State participation in the share capital of cooperative credit societies. Accordingly, in the case of a primary agricultural credit society, the share capital contributed by the State should not exceed the contribution made by members of the society.

It was, however, noticed in four offices that in respect of each of 149 such societies, members' contributions aggregated Rs.75.20 lakh, while Government share capital was Rs.3.65 crore, as detailed in the **Appendix 5.1**. Release of Government share without ensuring recovery of the members'

contribution by the Department was in violation of the policy of the Government.

Since cooperatives were to be controlled by their members actively participating in setting their policies and in decision making, the excess share capital by Government also affected the cooperative autonomy of the societies.

5.1.10 Receipt of share certificates from cooperative societies

The terms and conditions of sanction of contribution of share capital investment by Government stipulate that the recipient society shall issue share certificate in the name of the Governor of Karnataka and send the same to the Government in the Cooperation Department through the RCS immediately on receipt of the sanctioned amount.

Scrutiny of investment registers maintained in the test-checked subdivisions revealed that as of March 2006 share certificates were yet to be received by the Department in respect of investment of share capital of Rs.35.63 lakh made by Government in 27 cooperative societies of three subdivisions.

This indicated that the supervision exercised by the Departmental Officers during inspection was not effective.

5.1.11 Recovery of dividend

Departmental interest was not served by not recovering the declared dividend

The Act authorises a cooperative society to pay dividend to its members from the net profits available after making transfers/contributions to specified funds and in accordance with its bye-laws. According to the procedure in vogue, on declaration of dividend by societies, the concerned field officers were issuing demand notices for payment. The amount of dividend receivable by the Government from all the societies in the State which had declared dividend during the years 2001-02 to 2005-06, amount received and balance due at the end of March 2006 were as under:

Table 9 : Recovery of dividend

(Rupees in lakh)

Year	Receivable		Received		Balance due	
	Number of societies	Amount	Number of societies	Amount (Percentage)	Number of societies	Amount
2001-02	842	155.03	784	143.49 (92.55)	61	11.54
2002-03	275	45.72	270	44.56 (97.46)	05	1.16
2003-04	737	134.44	721	126.71 (94.25)	20	7.73
2004-05	851	146.31	837	139.61 (95.42)	14	6.70
2005-06	847	168.96	51	26.62 (15.75)	806	142.34

Thus, as at the end of March 2006, Rs.1.42 crore was due from 806 societies. Though the percentage of recovery of dividend during the years 2001-02 to 2004-05 was over 90 *per cent*, it had reduced to less than 16 *per cent* during 2005-06. The age-wise break up of the outstanding amount was not furnished.

The departmental officers not enforcing recovery of the declared dividend from the societies did not serve the financial interest of the Department.

5.1.12 Loans and interest outstanding from cooperative societies

The Act envisages giving loans or advances to cooperative societies. The Act enables recovery of all sums due from a cooperative society as arrears of land revenue on a certificate issued by RCS. The executive duties of JRCS, DRCS and ARCS as prescribed in the Administrative Hand Book include attending to recovery of loans granted to the societies in accordance with the terms of their sanction and instructing the field staff to improve the recovery performance.

Inadequacy of internal controls led to accumulation of outstanding balances of principal and interest

According to the procedure in vogue in the Department, Demand, Collection and Balance Registers were maintained and demand notices served as and when the instalments of principal/interest fell due. A review of such registers revealed that as at the end of March 2006, overdue instalments of loans aggregating Rs.24.96 crore granted to 4,291 cooperative societies were outstanding for recovery. Interest of Rs.31.32 crore was also outstanding from 3,654 societies as on that date. Year-wise details of demands/recovery of principal and interest were as under:

Table 10 : Principal outstanding for recovery

(Rupees in crore)

Year	Receivable		Received		Balance due	
	Number of societies	Amount	Number of societies	Amount	Number of societies	Amount
2001-02	956	2.77	548	0.64	706	2.13
2002-03	908	2.71	418	0.60	779	2.11
2003-04	3,974	15.91	1,568	2.27	3,264	13.64
2004-05	4,162	20.23	492	1.80	3,809	18.43
2005-06	4,698	26.92	673	1.96	4,291	24.96

Table 11 : Interest outstanding for recovery

(Rupees in crore)

Year	Receivable		Received		Balance due	
	Number of societies	Amount	Number of societies	Amount	Number of societies	Amount
2001-02	956	2.70	255	0.35	706	2.35
2002-03	908	2.60	418	0.38	779	2.22
2003-04	3,974	20.38	1,568	1.06	3,264	19.32
2004-05	3,561	29.35	202	2.09	3,396	27.26
2005-06	3,691	31.65	53	0.33	3,654	31.32

Reasons attributed (March 2006) by DRCS/ARCS for low pace of recoveries were drought/flood conditions and societies being under losses.

5.1.13 Recovery of redeemable share capital

Redeemable share capital of Rs.10.60 crore due for recovery was not recovered

According to the terms and conditions governing the sanction of redeemable share capital to cooperative societies under various schemes, the amount is to be recovered in instalments as stipulated under the respective schemes. Test-check revealed that in nine[Ⓢ] districts, redeemable share capital of Rs.10.60 crore due from 1,137 societies was pending recovery. The monitoring mechanism for recovery of Government dues was not adequate.

5.1.14 Other points

5.1.14.1 Avoidable payment of guaranteed amount

Failure to avail the benefit of OTS resulted in avoidable payment of Rs.3.59 crore to financial institutions

A cooperative society availed a loan of Rs.4.40 crore (between April 1987 and October 1998) from three financial institutions on State Government's guarantee, for establishment of a sugar factory at Bhoosnur village in Aland taluk. After discharging liabilities towards principal of Rs.3.66 crore and interest and other charges of Rs.4.56 crore till 1994-95, the society defaulted. As a One Time Settlement (OTS), the three financial institutions agreed (January-March 2000) to the repayment of outstanding principal of Rs.1.09 crore and waiver of all interest and liquidated damages, provided the amount was paid by 31 March 2000. This was not complied with by the society or by the State Government. The State Government, however, approved (March 2002) the proposal (July 2001) of the society to obtain a loan of Rs.1.09 crore from the District Central Cooperative Bank, Bidar on Government guarantee for making repayment. But, this was also not pursued. The Debts Recovery Tribunal (DRT), Bangalore acting on an application (2000) by the consortium of the three financial institutions ordered (August 2003) the society/State Government (defendants) to pay jointly and severally Rs.2.72 crore with interest up to date of realisation to the financial institutions. As this was also not complied with, nor was an appeal preferred within 90 days available, DRT attached (July 2004) six Government accounts held by officers of the Cooperation Department and ordered release of Rs.4.68 crore in its favour. This was complied with by the Treasury between July 2004 and January 2005 releasing Rs.4.60 crore.

Audit scrutiny revealed that though both the defendants had called the applicants' claims to be false, fictitious and frivolous in written submissions to DRT, this was not followed up by providing evidence and by way of arguments.

Thus, inadequate monitoring of repayment of principal/interest by the society and improper handling of litigation before the DRT resulted in having to suffer attachment of accounts. Also, failure to avail the benefit of OTS resulted in avoidable payment of Rs.3.59 crore to the financial institutions.

[Ⓢ] Bangalore (Rural), Bangalore (Urban), Gadag, Kolar : Rs.6.11 crore (as of March 2005)
Bellary, Chickmagalur, Mangalore, Mysore, Tumkur : Rs.4.49 crore (as of March 2006)

5.1.14.2 Delay in obtaining refund of unspent grant

Unutilised grant of Rs.43.80 lakh remained locked up for over five years

The National Cooperative Development Corporation (NCDC) sanctioned (February 1999) a loan of Rs.131.40 lakh being 90 *per cent* of the block cost of Rs.146 lakh to the Government in the form of reimbursement finance for establishment of an Integrated Sericulture Development Project (ISDP) by a society at Kolar. The balance of Rs.14.60 lakh (10 *per cent*) was to be met by the members' contribution. Though the project was to be completed and the unit commissioned by March 2001, the State Government released Rs.43.80 lakh (Rs.21.90 lakh each as share capital and term loan) only on 27 March 2001, that is, at the fag end of the project period. This amount was got credited by RCS to the account of a cooperative bank at Kolar only in June 2001 to hold it till further release orders were received. However, in March 2003, RCS reported to Government that the society had been unable to implement the project by acquiring land and collecting members' contribution. Though Government ordered (July 2003) recall of the amount of Rs.43.80 lakh, the amount had not been refunded (May 2006).

Thus, formulation of proposal even before firming up of availability of land and capacity of the society to raise its contribution and failure to monitor the utilisation of the funds released resulted in locking up Rs.43.80 lakh for over five years.

5.1.15 Internal audit

Internal audit was not in existence

Internal audit is an independent appraisal of operations to assess the internal financial, administrative and other controls and help implementation of policies and programmes. The Finance Department issued (December 1992) guidelines to improve the quality of functioning of Internal Audit Wing (IAW) of Government Departments to enhance fiscal discipline. However, no IAW had been constituted (March 2006) in the Cooperation Department though it has been in existence for 100 years.

5.1.16 Conclusion

Budgetary control mechanism in place was not effective as there were instances of defective preparation of estimates and huge savings which were either not surrendered or surrendered only at the fag end of the year. Operational control of cooperative societies was ineffective as there was accumulation of arrears in audit, inquiries and inspections remained incomplete and misappropriation involving departmental employees as also office bearers and employees of the societies. The recovery of outstanding balances of principal and interest was tardy because of ineffective monitoring. The internal audit system had not been introduced in the Department.

5.1.17 Recommendations

- Budget estimates should be prepared after assessment of requirement of funds realistically instead of making lump sum provision and provision for vacant posts.
- The mechanism for control over cooperative societies should be streamlined to ensure completion of audit every year, and inquiry and inspection within a definite time frame.
- The cases of misappropriation should be investigated and remedial action taken in a time bound manner to prevent their recurrence.
- The recovery of dues from the societies should be effectively monitored.
- Internal audit should be introduced in the Department.

5.1.18 The above points were referred to Government in August 2006; reply had not been received (October 2006).

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THE**

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COUNTERSIGNED

**NEW DELHI
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