# CHAPTER V

# INTERNAL CONTROL MECHANISM IN GOVERNMENT DEPARTMENT

# PUBLIC HEALTH DEPARTMENT

## 5.1 Evaluation of internal control mechanism and internal audit system in the Public Health Department

**Highlights**

**Internal control system is an integral process by which an organisation governs its activities to effectively achieve its objectives. Such a system consists of methods and policies designed to prevent fraud, minimise errors, promote operating efficiency and to achieve compliance with established policies to protect resources against loss due to waste, abuse and mismanagement. An evaluation of the internal controls and internal audit system in the Public Health Department during the period 2000-05 revealed weaknesses of the internal controls in vogue in the Department, non-compliance with rules, manuals, codes in the areas of budget preparation, procurement and an ineffective internal audit system.**

**Huge budgeted amounts (7 *per cent* to 16 *per cent*) were not spent in the years 2002-03 to 2004-05 indicating preparation of unrealistic budget estimates owing to lack of adequate budgetary controls in the Departments. Director General of Health Services also did not exercise proper budgetary controls for releasing grants-in-aid to Zilla Parishads.**

(Paragraphs 5.1.5 and 5.1.6)

**Submission of Detailed Contingent bills in respect of 90 Abstract Contingent bills involving Rs 5.84 crore drawn by seven Controlling Officers was pending for periods ranging from one year to over ten years. Non-reconciliation of balances in Personal Ledger Accounts and non-watching of Utilisation Certificates by the head of offices for the amounts advanced were also noticed. Thus, financial controls were also found to be weak and ineffective.**

(Paragraphs 5.1.7, 5.1.10 and 5.1.11)

**Stores items were supplied to five circles/four hospitals far in excess of requirements while two other hospitals had short supplies indicative of weak procurement controls in the Department.**

(Paragraphs 5.1.13 and 5.1.14)

**Huge vacancies existed in Group A posts including Medical Officers (38 *per cent*) and Group B posts including paramedical staff (11 *per cent*) adversely affecting the healthcare delivery services to the public.**

(Paragraph 5.1.16)

**Neither the Director General of Health Services nor the Joint Director of Health Services had conducted the inspections of the subordinate offices during the entire five year period 2000-05. There were huge shortfalls (50 *per cent* to 100 *per cent*) in the inspection of hospitals and other units by the Deputy Directors of Health Services.**

(Paragraph 5.1.17)

**No separate staff was earmarked for conducting internal audit of the units though about 100 units were targeted for each year. There was also no manual for conducting internal audit.**

(Paragraph 5.1.19)

**The settlement of internal audit paras was only a meagre nine to eleven *per cent* leaving huge pendency by the end of each year. As of March 2005, 7,589 internal audit paras were still outstanding.**

(Paragraph 5.1.21)

### 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 is likely to achieve its objectives. A good internal control system should enable managers to ensure efficient, effective and economic utilisation of resources. Internal auditors as an independent entity, examine and evaluate the level of compliance to the departmental rules and procedures and provide independent assurance to the management on the adequacy or otherwise of the existing internal controls.

The Government of Maharashtra administers health services to the public through hospitals and dispensaries and also implements various programmes for controlling water borne, vector borne and other diseases. As of March 2005, there were 26 General Hospitals, 1,814 Primary Health Centres (PHCs) existing in the State. Audit carried out an evaluation of the internal control mechanism and internal audit system in the Public Health Department.

### 5.1.2 Organisational set-up

The Secretary, Public Health Department is responsible for planning and evaluation of programmes at State level. The health services programmes are implemented through the Director General of Health Services (DGHS) who is assisted by three Joint Directors (JD) of Public Health, Leprosy and Malaria and Filaria. The JDs are assisted at circle level by the Deputy Director of Health Services (DDHS) for water-borne diseases and by the Assistant Director of Health Services (ADHS) for vector-borne diseases. The DDHS controls the water-borne diseases through hospitals and PHCs. The ADHS implements the schemes through the District Malaria Officers.

For urban areas at district level, the public health services are provided by the Civil Surgeons incharge of the General Hospitals, and at taluka level by the Medical Officers of the Rural Hospitals and the Cottage Hospitals. For rural population of villages, the services are provided by the District Health Officers

(DHO) of the Zilla Parishads (ZPs) through the PHCs headed by the Medical Officers (MO).

The Controller of Accounts and Audit (CAA) in the office of the JDHS (Health), Pune is responsible for conducting internal audit of all units of the Public Health Department in the State.

### 5.1.3 Audit objectives

The audit objectives were to examine the adequacy and effectiveness of :

- Budgetary controls,
- Financial controls including administrative and operational controls,
- Procurement controls,
- Manpower management,
- Organisational controls and
- System of Internal Audit.

### 5.1.4 Scope of audit

Audit review of the adequacy and effectiveness of the internal control mechanism, including internal audit arrangement in the Department for the period 2000-05 was conducted at the office of the DGHS, two[*] out of five JDHS including CAA, four[♣] out of eight Regional DDHS, the DDHS (TB and BCG), Mumbai, the Chest-cum-General Hospital at Pune and seven[♦] out of 26 General Hospitals between July and October 2005. The results of the review are discussed in the succeeding paragraphs.

## Budgetary Controls

Budgetary controls in vogue in the Department were found to be weak and ineffective as discussed below:

### 5.1.5 Unrealistic Budget estimates

**Preparation of budget estimates was unrealistic**

The Maharashtra Budget Manual envisages the preparation of budget estimates with due care and diligence so that the estimates prepared are as close and accurate as possible, realistic and not abnormally excessive or substantially less.

Budget provision *vis-à-vis* the expenditure of the Department during 2000-05 was as follows:

[*] JDHS (Health) and JDHS (Malaria and filaria)

[♣] Akola, Kolhapur, Pune and Thane

[♦] Akola, Amravati, Buldhana, Kolhapur, Ratnagiri, Satara and Thane

**(Rupees in crore)**

| Year | Budget provision | Expenditure | Excess (+)/Savings (-) (Percentage) |
|---|---|---|---|
| 2001-02 | 875.81 | 947.84 | (+) 72.03 (8) |
| 2002-03 | 1032.51 | 947.75 | (-) 84.76 (8) |
| 2003-04 | 1087.95 | 912.32 | (-) 175.63 (16) |
| 2004-05 | 1166.82 | 1083.22 | (-) 83.60 (7) |
| **Total** | **4163.09♥** | **3891.13** | **(-) 271.96 (7)** |

Specific reasons for excess expenditure in the year 2001-02 as well as for huge savings in all the other years 2002-03 to 2004-05 were not explained by the DGHS/Government (October 2005). Non-utilisation of huge amounts though budgeted indicated unrealistic preparation of budget estimates attributable to lack of adequate budgetary controls in the Department.

### 5.1.6 Assessment of grants to the Zilla Parishads

**Proper budgetary controls were not exercised by DGHS/JDHS for releasing grants-in-aid to Zilla Parishads**

According to the Government orders of November 1975, the grants released to the ZPs are required to be assessed by the respective administrative departments for the budget heads controlled by them. During the five year period 2000-05, an aggregate sum of Rs 1776.12 crore was released to the 33 ZPs by the Public Health Department.

It was seen that Grants-in-aid paid to 10 ZPs in 2000-01, 25 ZPs in 2001-02, 31 ZPs in 2002-03 and all the 33 ZPs in 2003-05 were not assessed (October 2005)by the JDHS (Health). Consequently, it could not be ascertained whether any amount remained unspent with the ZPs or were the grants diverted for other purposes. The Joint Director (Health), Pune attributed (October 2005) the non-assessment of the grants to the non-filling up of the post of the Administrative Officer in the CAA wing for the period April 2002 to March 2004 and from October 2004 onwards (as of October 2005). Thus proper budgetary controls were not exercised by the DGHS/JDHS for releasing grants-in-aid to the ZPs.

## Financial controls

Financial controls in the Departments were ineffective as discussed below:

### 5.1.7 Non-reconciliation of closing balance of Personal Ledger Account

**No reconciliation of the balance in PLA cash book with the treasury pass book was carried out by the Civil Surgeons**

The Civil Surgeons of the Government Hospitals mentioned below were operating personal ledger account, in which user charges collected were deposited and used on maintenance and repairs and contingencies of the hospitals. The balance in PLA cash book at the end of each month is to be reconciled with the balance as per treasury pass book and the difference, if any, is to be set right. It was, however, observed that no such reconciliation

♥ includes grants-in-aid of Rs 1776.12 crore released to ZPs

was carried out by the Civil Surgeons resulting in huge variation between the cash book balances and those of the treasury pass books as shown below:

**(Rupees in lakh)**

| Name of Hospitals | Balance as per Cash Book | Balance as per Treasury Pass book | Difference |
|---|---|---|---|
| Chest and General Hospital, Pune (As on 31 March 2004) | 35.88 | 38.52 | 2.64 |
| General Hospital, Thane (As on 31 March 2005) | 151.41 | 139.52 | 11.89 |
| General Hospital, Ratnagiri (Old PLA) (As on 31 March 2005) | 1.18 | 1.00 | 0.18 |
| General Hospital, Ratnagiri (NewPLA) (As on 31 March 2005) | 114.06 | 112.85 | 1.21 |

In the case of Chest Hospital, Pune even the pass book was posted only up to March 2004 and was not updated thereafter. These were indicative of absence of proper controls at the level of the Civil Surgeons.

### 5.1.8 Financial assistance to Non-Government Organisation run hospitals

**Belated appointment of the special squad for verification of financial assistance to NGOs**

According to the Government orders of April 2000, financial assistance is provided to hospitals run by the Non-Government Organisations (NGOs). It is obligatory on the part of the NGO hospital to provide free treatment to 10 *per cent* patients belonging to BPL category and an additional 5 *per cent* patients at concessional rates. A test-check of free and concessional medical treatment provided by the NGOs was required to be carried out by a special squad to be established by the Government.

During the period 2000-05, total assistance provided to 140 NGOs in the State amounted to Rs 3.34 crore. It was, however, seen that the special squad was established by the Government only in February 2005 though the assistance was being given in the form of grants-in-aid from April 2000 onwards. No reasons were furnished by the Government though called for. The administrative delay in appointing the special squad for five years resulted in non-verification of providing free and concessional treatment to the envisaged 15 *per cent* patients. This indicated lack of adequate financial controls at Government level.

### 5.1.9 Sanctions of House Building Advance

**In 202 cases of HBA, mortgage deeds were neither submitted nor registered by the employees**

As per Rule 134 of the Bombay Financial Rules (BFR), mortgage deed, duly registered should be submitted by an employee to whom House Building Advance (HBA) is sanctioned, failing which the advance was to be recovered in lump sum along with penal interest. Scrutiny of register of sanctions of HBA in the offices of the JDHS, Pune and the DDHS, Kolhapur, however, revealed that in 202 cases of HBA involving sanction of Rs 2.73 crore, neither mortgage deeds were submitted nor registered by the employees. Lack of proper financial controls by the JDHS, Pune and the DDHS, Kolhapur led to non-adherence to the prescribed rules. Thus, submission of necessary

documents to protect the interests of the Government was not ensured while sanctioning HBA.

### 5.1.10 Non-submission of detailed contingent bills

**In respect of AC bills drawn by COs the DC bills were pending for periods ranging from one year to over 10 years**

As per Rule 303 of the Maharashtra Treasury Rules, 1968 and the Government orders of July 2000, detailed contingent (DC) bill in respect of amounts drawn on abstract contingent (AC) bill should be submitted to the Accountant General (Accounts and Entitlement) or the Pay and Accounts Officer, Mumbai within one month of its drawal. It was, however, noticed that DC bills in respect of 49 AC bills involving Rs 2.64 crore drawn between May 2000 and March 2005 were submitted by five♥ Controlling Officers (CO) after a delay of over two to 28 months. In respect of 90 AC bills involving Rs 5.84 crore drawn by nine COs, the DC bills were pending for periods ranging from one year to over 10 years. The details are given in **Appendix XLV.**

The delays in submission of DC bills were attributed by the COs to non-receipt of vouchers from subordinate offices, indicating ineffective financial and administrative controls at the COs level.

### 5.1.11 Utilisation certificates

The DDHS had been sanctioning/releasing grants under National AIDS Control Programme to various implementing agencies. The DDHS should watch utilisation certificates (UCs) from the implementing agencies. Payment of such grants are also required to be assessed every year. It was, however, noticed that the grants were continued to be sanctioned and paid to various implementing agencies year after year by the DDHS, Pune even though the implementing agencies did not furnish the UCs.

### 5.1.12 Maintenance of cash book

Test-check of records of the JDHS (Health), Pune revealed that daily cash transactions amounting to Rs 1.89 crore noted in the cash book during the period November 2002 to October 2005 in respect of seven♣ schemes operated by him were not authenticated by the Drawing and Disbursing Officer (DDO).

It was also noticed that only one bank account was maintained for the World Bank Aided Projects though separate cash books were maintained for each scheme. Reconciliation of bank balance with reference to cash book balances was, however, not carried out at any time by the CAA during the last five years. Consequently, there was a huge difference of Rs 83.36 lakh between the consolidated cash book balance and the bank balance as on 31March 2005.

Test-check of the records of the DDHS (TB & BCG), the JDHS (Health), Pune and the DDHS, Thane revealed that the heads of offices did not carry out surprise verification of cash balances during the five year period 2000-05.

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♥ JDHS Pune, DDHS Kolhapur and General Hospitals at Kolhapur,Ratnagiri and Satara

♣ MHSDP, SPHL, MCCD and SCD, Nursing, ORP and YAWS

## Procurement controls

Scrutiny of procurement procedure indicated weak operational controls of the department as detailed below:

### 5.1.13 Excess supply of pricking lancets to hospitals

**Store items were supplied in five circles far in excess of requirements**

Scrutiny of procurement records revealed that as against the actual requirement of 25.70 lakh pricking lancets for five circles (Akola, Aurangabad, Kolhapur, Pune and Thane), the JDHS (Malaria and Filaria) supplied (March 2004) 36 lakh pricking lancets to the circles. This resulted in excess supply of 10.30 lakh pricking lancets costing Rs 7.80 lakh.

It was also seen that though there was huge stock of 90.58 lakh pricking lancets available with two circles (Aurangabad and Pune) as of March 2003, still they were supplied with 1.30 lakh pricking lancets in March 2004. The unnecessary procurement and supply of pricking lancets when the circles had substantial stocks was not justified. This indicated lack of adequate procurement controls with the JDHS.

### 5.1.14 Supply of linen to Rural Hospitals not based on needs

As per the procurement procedure laid down in the manual, annual indents are obtained from the rural hospitals for supply of linen and the indents consolidated at each DDHS and tenders are floated by them for supply of linen. The linen supplied by the supplier is required to be distributed to the rural hospitals as per their annual requirement. Scrutiny of supplies made by the DDHS, Pune revealed that the supply to four rural hospitals[*] was much in excess of requirement (533 blankets supplied against the requirement of 281) while it was much lower in two[♣] rural hospitals (40 blankets supplied as against the requirement of 260).

Further, as per the procedure outlined, the indents obtained for annual requirement from rural hospitals should indicate details of balance quantity available, expected quantity to be utilised during current year and additional quantity required. No such details were, however, available with the issuing authority (DDHS, Pune).

### 5.1.15 Physical verification of stock

In the six test checked hospitals, certificate of verification of stores and stock was recorded in the relevant registers by the respective Civil Surgeons. It was, however, seen that in General Hospital, Kolhapur, 7,951 metres of linen (green cloth) costing Rs 4.74 lakh received on 6 April 2004 did not reflect in the closing balance. Further, the stock account revealed (October 2005) that the account was maintained upto 18 January 2005 only and was not updated thereafter. The fact that this discrepancy was not noticed by the Civil Surgeon

[*] Indapur, Khed, Rui and Supa

[♣] Ghodegaon and Nimgaon Ketki

during the physical verification indicated that the verification was done in a routine and casual manner.

The above points indicated inadequate and ineffective procurement/inventory controls at the level of the DDHS/JDHS.

## Manpower Management

**Huge vacancies existed in key posts**

Adequate administrative and technical/professional staff in key posts is essential for the effective functioning of an organisation. Overall, manpower management in the department was not commensurate with the programme implementation work.

**5.1.16** As against the sanctioned strength of 1,215 Group A posts including Medical Officers, only 756 were in position leaving a large number of 459 posts (38 *per cent*) vacant. Similarly, as against the sanctioned strength of 6,582 Group B posts including para-medical staff, the men-in-position were 5,848 and the shortage was 734 posts (11 *per cent*). Reasons for not filling the vacancies were not forthcoming from the DGHS (November 2005). Huge number of vacancies including that of Medical Officers would adversely affect the delivery of health services to the public.

## Organisational Controls

The organisational controls were also found to be weak and ineffective in the Department as discussed below:

**Departmental inspections ignored both by the DGHS and the JDHS. Huge shortfalls in inspections by the DDHSs**

**5.1.17** In order to ensure the standard of efficiency of subordinate offices a system of periodical inspection of the working of the offices is essential. The Civil Medical Code, 1976 (CMC) prescribes the periodicity of these inspections. The CMC prescribes annual inspection by the DGHS of the offices of the JDHS at Mumbai and Pune. The JDHS should also inspect the offices of the DDHS (Circles) annually. Similarly, the DDHS incharge of circles should inspect the hospitals and the District Health Officers at least once a year. It was, however, observed that no such inspection was conducted either by the DGHS or the JDHS for the entire five year period 2000-05. The DDHS, Pune circle did not conduct any inspection of the hospitals while the DDHS, Thane, Kolhapur and Akola circles conducted the inspection of only one to five out of 44 hospitals, one to six out of 60 hospitals and 10 to 14 out of 29 hospitals respectively during 2000-05. Though the JDHS (Health), Pune stated (November 2005) that they had conducted the technical inspections, no records could be produced by him nor did he maintain any inspection notes for the said inspections.

### 5.1.18 Lack of response to audit

One of the important functions of the CAA wing of the JDHS (Health) was to co-ordinate with the various offices of the department and expedite the

settlement of paragraphs contained in the Inspection Reports issued by the Accountant General.

It was, however, seen that as of June 2005, 433 Inspection Reports containing 871 paragraphs issued by the Accountant General were outstanding for several years. The year-wise pendency is as follows:

| Year | Number of Inspection Reports pending | Number of Paragraphs pending |
|---|---|---|
| Upto 1998-99 | 105 | 129 |
| 1999-2000 | 40 | 58 |
| 2000-01 | 43 | 81 |
| 2001-02 | 62 | 119 |
| 2002-03 | 94 | 219 |
| 2003-04 (upto December 2004) | 89 | 265 |
| **Total** | **433** | **871** |

The above pendency indicates lack of proper response to audit by various functionaries of the Department owing to ineffective organisational controls at the DGHS/JDHS level as well as at the Government level.

## Internal Audit

Internal audit was to examine and evaluate the level of compliance to the departmental rules and procedures so as to provide assurance to the management on the adequacy of the internal control system of the Department. Internal audit in the Department was, however, quite inadequate and ineffective as discussed below:

### 5.1.19 Absence of separate internal audit wing

**No separate staff for internal audit**

Separate wing for internal audit accountable to the Head of the department provides reasonable assurance of a free and independent internal audit system. The CAA is entrusted with both the audit functions and accounting functions relating to budget, appropriation accounts and assessment of grants. No separate staff was, however, earmarked for the audit functions. There was no manual of internal audit and no norms or procedures were prescribed for conducting the audit and pursuing audit objections. The audit of expenditure was conducted only with reference to prescribed financial rules and accounts code. This adversely affected the effectiveness of internal audit system as discussed below:

### 5.1.20 Arrears in internal audit

**Huge arrears in internal audit**

There were huge arrears in conducting internal audit of units (upto 71 *per cent*) as follows:

| Year | Number of units proposed for audit | Number of units audited | Arrears | Percentage of arrears to total number of units |
|---|---|---|---|---|
| 2001-02 | 111 | 90 | 21 | 19 |
| 2002-03 | 97 | 86 | 11 | 11 |
| 2003-04 | 90 | 47 | 43 | 48 |
| 2004-05 | 86 | 25 | 61 | 71 |

Though there was steady decrease in the number of audits proposed since 2001-02, the arrears in audit increased (48 *per cent* in 2003-04 and 71 *per cent* in 2004-05).

The JDHS (Health) replied (July 2005) that it was not possible to adhere to the annual plan as the wing of CAA was entrusted with the responsibility of both accounting and audit functions. The CAA also stated that with the increase in number of health institutions in the State, there was no corresponding increase in the strength of accounts and audit wing. The JDHS, however, did not indicate the efforts initiated by him, if any, (with the Government) to strengthening the internal audit wing. The reply was untenable since the internal audit of all the units has to be conducted for all the years.

### 5.1.21 Arrears of outstanding internal audit paras

**7,589 internal audit paras were outstanding**

The status of outstanding paras at the commencement of the year and objections settled during 2000-01 to 2004-05 were as under:

| Year | Pending objections as on 1 April | Objections settled during the year | Percentage |
|---|---|---|---|
| 2000-01 | 6874 | 608 | 9 |
| 2001-02 | 7200 | 788 | 11 |
| 2002-03 | 7394 | 693 | 9 |
| 2003-04 | 8155 | 794 | 10 |
| 2004-05 | 8429 | 840 | 10 |

The extent of settlement of objections during 2000-05 ranged between a meagre nine and eleven *per cent* indicating that the Department had not made any serious effort for settlement of the internal audit paras.

The records of CAA also revealed that inspection reports were issued after a delay of over three to twelve months.

It was also seen that whenever the internal audit of a wing is taken up by the CAA he was conducting internal audit of the subordinate offices and hospitals for the period of only one previous financial year ignoring the audit of all the earlier accounting years though internal audit of those years was pending.

### 5.1.22 Conclusion

Internal controls, *viz.,* budgetary controls, administrative and operational controls, procurement controls and organisational controls were inadequate and ineffective in the Department. The DGHS and the JDHS have altogether neglected the departmental inspections of the subordinate offices. There were also huge shortfalls of inspection of hospitals and other units by the DDHSs.

No standards for internal audit were prescribed. There was no serious effort on the part of the DGHS for settlement of the internal audit paras. Arrangements for internal audit too were inadequate. As a result, huge internal audit paras were pending settlement for several years.

### 5.1.23 Recommendations

- Budget control system should be strengthened to ensure allotment of funds on a realistic basis and to avoid persistent savings. Financial controls should also be strengthened.
- Procurement system should be streamlined and supplies to hospitals made as per the requirements.
- Departmental inspections should be conducted regularly and reports issued promptly to ensure efficient functioning of the district offices/hospitals and to facilitate prompt rectification of deficiencies.
- Annual Plan for internal audit should be drawn up to cover all the units within a cycle of two to three years. Timely corrective action suggested in the internal audit reports should be ensured.

The matter was referred to the Secretary to the Government in October 2005. No reply has been received (December 2005).

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