

## CHAPTER V

### INTERNAL CONTROL MECHANISM IN GOVERNMENT DEPARTMENT

#### AGRICULTURE, ANIMAL HUSBANDRY, DAIRY DEVELOPMENT AND FISHERIES DEPARTMENT

##### 5.1 Evaluation of internal control mechanism and internal audit system in Agriculture department

###### Highlights

Internal control system is an integral process by which an organisation governs its activities to effectively achieve its objectives. An Internal Control system and strict adherence to statutes, codes and manuals minimise the risk of errors and irregularities and helps to protect resources against loss due to waste, abuse and mismanagement. Evaluation of the internal controls and internal audit system in Agriculture Department revealed the weakness of the internal controls in the department, non-compliance with rules, manuals and codes in the areas of budget preparation, expenditure control, cash management and an ineffective internal audit system.

In contravention of financial rules to draw funds for immediate use only, Rs 20.10 crore were parked with Maharashtra Agro Industries Development Corporation during 2000-2004 for utilisation in subsequent years.

*(Paragraph 5.1.5)*

Grants of Rs 846.51 crore paid to Agriculture Universities remained unassessed. Unspent grants of Rs 67.26 lakh were not recovered from Panjabrao Deshmukh Krishi Vidyapeeth. Grants of Rs 11.66 crore were paid to Vasantnao Naik State Agriculture Extension Management Training Institute, Nagpur without prescribing terms and conditions.

*(Paragraphs 5.1.6, 5.1.7 and 5.1.8)*

The Commissionerate drew funds on abstract contingent bills on the basis of incorrect certificate regarding submission of detailed contingent bills. As of March 2004 detailed contingent bills amounting to Rs 4.84 crore were not submitted to the Accountant General (A&E).

*(Paragraph 5.1.13)*

Inspection of subordinate offices was not conducted by the authorities regularly.

*(Paragraph 5.1.16)*

**No separate Internal Audit Wing was in existence and there was huge pendency in internal audit paragraphs. Pendency in compliance to the audit paragraphs indicates non-rectification of the defects and omissions pointed out by Audit.**

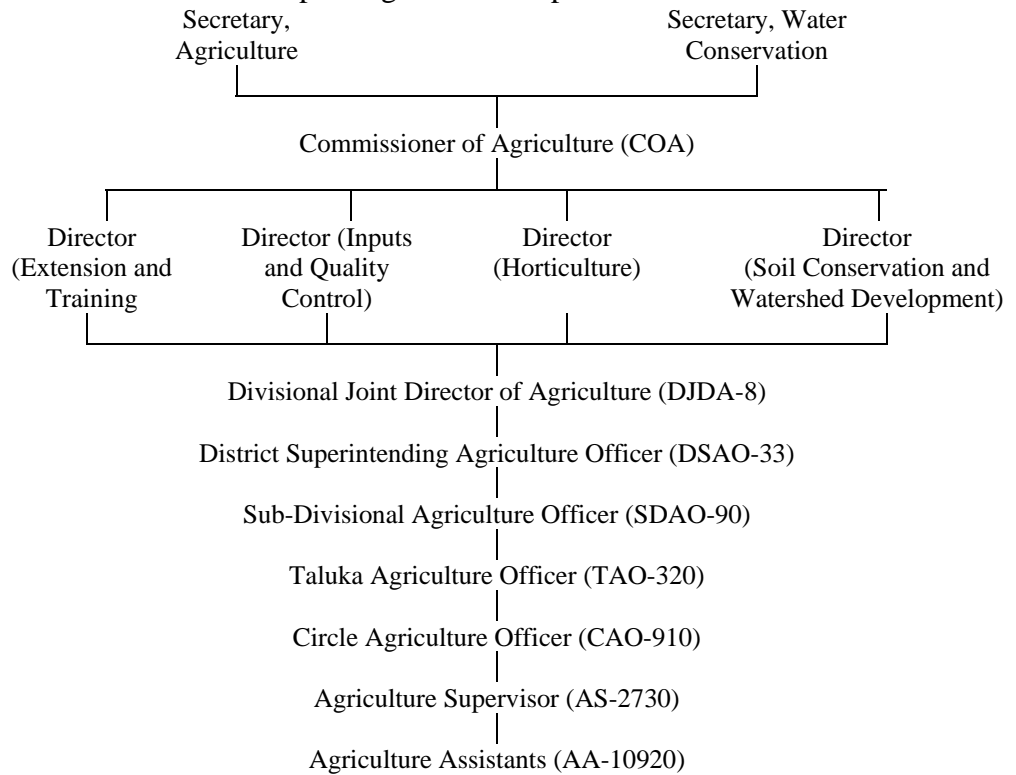
*(Paragraphs 5.1.19 and 5.1.21)*

### **5.1.1 Introduction**

Internal control is a management tool used to provide reasonable assurance that management's objectives of reliability in financial reporting, effectiveness and efficiency of operations and compliance with the applicable rules and regulations are achieved. It also ensures that financial interests and resources are safeguarded and reliable information is available to the administration, entity which examines the level of compliance to the rules and procedures of the department and provides assurance to the management on the adequacy or otherwise of the existing internal controls.

### **5.1.2 Organisational set-up**

The administrative set up of Agriculture Department is as under:



### 5.1.3 Audit objectives

Audit objectives were to examine whether the existing mechanism for internal control provides reasonable assurance to the executive with regard to achievement of the department's objectives through:

- Financial controls,
- Operational controls,
- Manpower control,
- Compliance with the applicable rules and regulations,
- System of Internal Audit.

### 5.1.4 Audit coverage

The records (pertaining to 2000-2004) such as calendar of returns, budget control registers, cash book, demand draft register, register of pending paragraphs, position of staff sanctioned *vis-a-vis* men in position and records relating to supervisory checks exercised in respect of Commissioner of Agriculture (COA), five\* DJDAs, seven♦ DSAOs, six♥ Sub-Divisional Agriculture Officers (SDAOs) and 14▲ Taluka Agriculture Officers (TAOs) were test-checked between April and August 2004. The results of the test-check on adequacy of internal control systems are discussed in the succeeding paragraphs.

### Financial controls

The financial controls exercised by the department were deficient. Grants-in-aid were paid to State Agriculture Universities (SAUs) without assessment of utilisation of grants already paid, as brought out below:

Besides, Government moneys were drawn at the end of financial year, though not required for immediate disbursement and the same were either retained in the form of demand drafts or parked with Maharashtra Agro-Industries Development Corporation (MAIDC).

### 5.1.5 Parking of funds with MAIDC

Although financial provisions do not permit drawal of funds at the fag end of the financial year to avoid lapse of budget grant, the COA drew Rs 21.20 crore and deposited Rs 20.10 crore with MAIDC during the year 2000-2004 since it was the nodal agency for the agribusiness scheme and utilised the funds in

**Rs 20.10 crore were parked with MAIDC during 2000-2004 for utilisation during subsequent years**

\* Kolhapur, Latur, Nagpur, Nashik and Pune.

♦ Akola, Beed, Kolhapur, Latur, Nagpur, Nashik and Pune.

♥ Beed, Kolhapur, Latur, Nagpur, Nashik and Pune.

▲ Ajara, Akola, Balapur, Baramati, Beed, Karveer at Kolhapur, Kaij, Kalmeshwar, Katol, Latur, Niphad, Purandhar at Saswad, Renapur, Sinner.

subsequent years. The funds pertaining to schemes other than agribusiness were also drawn and deposited with the MAIDC at the fag end of March every year.

Action of the COA was contrary to the financial provisions. This resulted in parking of huge funds with the MAIDC, and inflated the actual expenditure reported to the GOI under work plan schemes. The details of drawal and parking of funds with MAIDC are indicated in **Appendix XXXIII**.

#### **5.1.6 Non-assessment of grants**

**Grants of Rs 846.51 crore paid to Agriculture Universities remained unassessed**

Grants for research and educational activities were paid to the State Agriculture Universities according to the formula approved by the Government (October 1995).

The Maharashtra Council for Agriculture Education and Research, (MCAER), Pune, an apex body created for co-ordinating the working of the SAUs was to assess the grants given during April and May every year and submit an assessment report to the Government by 30 June to enable them to adjust the excess payment/unspent balances, if any, from the grants payable subsequently. Though grants of Rs 846.51 crore were paid during 2000-2004 to the four\* State Agriculture Universities, MCAER, Pune did not assess the grants. As a result, necessary adjustment could not be carried out by the Government while releasing the grants. The MCAER, Pune attributed the failure to non-availability of staff.

#### **5.1.7 Non-refund of unspent balances**

**Unspent grants of Rs 67.26 lakh was not recovered from PDKV, Akola**

Scrutiny revealed that funds released to Dr. Panjabrao Deshmukh Krishi Vidyapeeth (PDKV), Akola for conducting training and implementation of various agriculture related programmes were not properly monitored. As a result, grants of Rs 67.26 lakh pertaining to the years 1998-2004 remained unspent with the university.

#### **5.1.8 Release of grant-in-aid to Vasantao Naik State Agriculture Extension Management Training Institute, Nagpur**

**Grant-in-aid of Rs 11.66 crore released to VANAMATI, Nagpur without prescribing terms and conditions**

In order to impart training to the officers/officials involved in agriculture development works, the Vasantao Naik State Agriculture Extension Management Training Institute (VANAMATI), Nagpur (an autonomous body) was declared as an apex body and seven\* regional training institutes were affiliated to it (July 1998). The COA was nominated to carry on the affairs of the institute. Government released recurring grants for meeting the expenditure on training, pay and allowances of staff and contingencies and non-recurring grants for construction of buildings.

---

\* Mahatma Phule Krishi Vidyapeeth, Rahuri; Dr.PDKV, Akola; Marathwada Krishi Vidyapeeth, Parbhani and, Dr. Balasaheb Sawant Konkan Krishi Vidyapeeth,Dapoli.

\* Amravati, Aurangabad, Daund, Khopoli, Kolhapur, Nagpur and Nashik.

During 2000-2004, the Government released funds of Rs 11.66 crore. Of this, only Rs 2.50 crore were utilised and the balance amount meant for strengthening of training institute was lying with VANAMATI. It was noticed that Government did not prescribe any terms and conditions for utilisation of the grants-in-aid and continued to release grants without ensuring utilisation of moneys already released.

Audit also observed that the institute was registered under Societies Registration Act, 1860 but the annual accounts were not prepared and got certified from the statutory auditor.

### **Expenditure control - Cash management**

Scrutiny of the cash book maintained by the COA and other test-checked offices revealed retention of cash in the form of demand drafts, non-adjustment of temporary advances etc. as discussed below:

#### **5.1.9 Deficient maintenance of cash book**

Though the cash book was required to be written and closed daily, four offices<sup>2</sup> did not close it daily and the cash books for the months of March 2004 to July 2004 were completed at the instance of audit conducted during April to July 2004. The monthly surprise verification of cash balances was not carried out in respect of all the offices visited.

#### **5.1.10 Retention of cash in the form of demand drafts**

The COA drew amounts of subsidy and grant-in-aid payable to the Maharashtra State Seeds Corporation Limited (MSSCL), Akola, MAIDC, Maharashtra State Seed Certification Agency (MSSCA) and VANAMATI, Nagpur and amount payable to the suppliers. The amount so drawn was converted into demand drafts (DDs) and the DDs were shown as disbursed in the cash book. It was noticed that the DDs for Rs 53.79 lakh drawn during August 2002 to October 2003 were delivered after three to nine months from the date of disbursement shown in the cash book and 18 DDs amounting to Rs 3.51 lakh were pending at the end of September 2004 due to non-receipt of release orders from the concerned branches of the COA.

#### **5.1.11 Non-maintenance of demand draft register**

Demand Drafts (DDs)/cheques were received from the MAIDC, the COA, the DJDA for disbursement of subsidy to the beneficiaries. The register for recording the dates of receipt and delivery of DDs/cheques was not maintained by the DSAO, SDAO and TAO. As a result, the position of DDs lying undisbursed with them could not be ascertained. It was noticed (April 2004) that a DD of Rs 10 lakh payable to M/s Pradeep Chordia was lying with DSAO, Pune since March 2002. It was also noticed that cheques worth Rs 8.30 crore issued by the MAIDC during 2000-2004 and routed through

---

<sup>2</sup> DJDA, Kolhapur, SDAO, Latur and Nashik, TAO, Niphad.

DSAO, SDAO, TAO towards additional subsidy for drip and sprinklers were not presented to the banks for encashment by the beneficiaries. Of these cheques, Rs 58.18 lakh pertained to March 2003. This indicated that a large number of DDs/cheques were either not delivered or disbursed late to the beneficiaries.

#### **5.1.12 Non-adjustment of temporary advances**

Temporary advances granted to the officials for meeting emergent expenses like petrol, oil and lubricants were not adjusted within a reasonable time or even before granting second and subsequent advances. As a result, advances of Rs 27.80 lakh remained outstanding as of February 2004. Out of this advances Rs 8.27 lakh pertained to the period 1999-2003. Abnormal delays in adjustment of temporary advances indicated poor monitoring and possible misutilisation of funds.

#### **5.1.13 Non-submission of detailed contingent bills**

**Detailed Contingent bills amounting to Rs 4.84 crore were not submitted to the AG (A&E) as of July 2004**

As per the Financial Rules and Government orders of July 2000, detailed contingent bills are to be submitted within a month from the date of drawal of abstract contingent (AC) bills. Contrary to these, detailed contingent (DC) bills for Rs 4.84 crore drawn on 261 AC bills during 1999-2004, were not submitted by the COA, as of July 2004. Scrutiny revealed that Drawing and Disbursing Officer furnished an incorrect certificate to the effect that DC bills in respect of all AC bills drawn earlier had been furnished while presenting the AC bill for payment, though the DC bills were not in fact submitted. The AC bill register was not maintained in the prescribed format.

It was seen that the temporary advances were paid out of the funds drawn on AC bills and remained unadjusted due to delay in adjustment of the temporary advances by the officials.

### **Organisational control**

Scrutiny revealed that organizational controls were deficient due to lack of records relating to checks exercised by field officers, lack of system of verification of assets created out of Government assistance and insufficient inspection of subordinate offices.

#### **5.1.14 No evidence of exercising prescribed checks**

To ensure that implementation of the schemes by the field offices as per guidelines, annual percentage checks were to be exercised by field officers at all levels as prescribed\*.

---

\* 2 per cent by DJDA; 3 per cent by DSAO; 10 per cent by SDAO; 5 per cent by ADO, ZP; 20 per cent by TAO; 50 per cent by CAO/AO and 100 per cent by AS. For the drip and sprinkler, 5 each in each district every month by DJDA and DSAO; 10 per cent by SDAO; 25 per cent by TAO and 100 per cent by Circle Agriculture Officer/Agriculture Officer and Agriculture Supervisor.

Scrutiny revealed that except in the cases of soil conservation works, records relating to the checks actually exercised by the officer were not maintained.

The DJDA, Nagpur stated that due to shortage of manpower (in all cadres) in the region, the required checks could not be exercised by the field officers. The COA did not furnish (July 2004) the information regarding the prescribed checks actually exercised by the field officers. This indicated that the field officers did not furnish any report on the prescribed checks conducted or otherwise. Shortfall, if any, in exercising the checks might affect the quality of works/expenditure.

#### **5.1.15 Follow up of utilisation of grants given to beneficiaries**

Government granted financial assistance of Rs 21.20 crore during 2000-2004 to the beneficiaries under agribusiness support scheme for creating infrastructure facilities like food processing units, rice processing units, market information centres (MICs) and onion sheds. This infrastructure created was expected to be used atleast for a period of five years by the beneficiary concerned who was also required to submit periodical reports. An undertaking to refund Government assistance in case of non-use/misuse of the infrastructure, atleast for five years, was to be obtained from the beneficiaries.

It was revealed that the department had neither evolved any system of verification of continuous use nor obtained the progress reports regularly.

The DSAOs and TAOs stated that during field visits (April to August 2004), utility of the infrastructure was verified. However, in the absence of any directives, periodical reports of utility were not prepared and submitted to the higher authorities. It was noticed that facilities like MICs were not functional since inception, and no effective action was taken for making them functional.

#### **5.1.16 Inspection of the subordinate offices**

In order to step up standard of efficiency of the sub ordinate offices, administrative inspection should be conducted periodically.

Administrative inspection of the offices of eight DJDAs and one district office was to be conducted annually at the Commissionerate level. Inspection of the District, Sub Division and Taluka Agriculture offices was to be conducted by the DJDA, DSAOs SDAOs and TAOs. However, the number of offices actually inspected were not monitored by the COA. As such arrears in inspection could not be ascertained. Scrutiny of records of the five divisions revealed that inspections of nine offices and six offices of Kolhapur and Nagpur respectively were not conducted by the respective DJDAs during the period 2000-2004. Information was not furnished by DJDA, Nashik and Pune. Administrative inspection of the subordinate offices was not conducted by the DSAOs Kolhapur, Nashik, Latur, Akola and information was not available in respect of Pune and Nagpur. Non-conducting of inspections of subordinate might adversely affect the efficiency in working.

### **5.1.17 Vigilance Squad**

For speedy disposal of the public complaints alleging misappropriation of Government funds and other irregularities like misappropriation of subsidy for drip and sprinkler set and distribution of seeds a 12 member vigilance squad including one Deputy Director was created in July 1998. It was, however, revealed that out of 257 cases received during 1998-2004, 186 cases were disposed off and 71 cases were pending as of March 2004. Of the pending cases, 41 were more than three years old.

The department attributed (May 2004) the slow progress to inadequate staff at field level and delay in getting replies. It was further stated that to ensure speedy clearance, the nodal officers at regional levels have been appointed and their work is being reviewed periodically.

## **Manpower management**

### **5.1.18 Non-implementation of recommendations of expert committee**

Government implemented (July 1998) one window delivery system from July 1998 for agriculture related activities by merging three separate Directorates functioning in the State

Even after introduction of the system, anomalies in deployment of staff were noticed. To review the present staffing pattern, a private expert committee was appointed (April 2000). The expert committee recommended (September 2000) adequate provision of computer facilities and online data transfer between different offices and save considerable manpower.

In pursuance of these recommendations, the Government decided (February 2001) to transfer thirty seven schemes to ZPs and to surrender 5425 posts. However, the new staffing pattern has not been implemented (August 2004).

## **Effectiveness of Internal Audit**

Internal Audit is responsible for examining and evaluating the level of compliance to the departmental rules and procedures, and provides assurance to senior management on the adequacy of the risk management and internal control framework of the department.

### **5.1.19 No separate Internal Audit Wing**

There was no separate IAW in the COA. The Assistant Director of Accounts, (under the Director of Horticulture) was responsible for conducting internal audit of Divisional Joint Directors of Agriculture (DJDA). Accounts Officers in the offices of the DJDA and District Superintending Agriculture Offices (DSAO) were responsible for conducting internal audit of 33 district offices, 539 subdivisions and Taluka Agriculture Offices respectively.

**No separate Internal Audit Wing was in existence and there was huge pendency in internal audit paragraphs**



**5.1.20 No Internal Audit Manual**

There was no manual of Internal Audit or Auditing Standards prescribing the principles and practices, which the Internal Auditor was required to follow. The audit of expenditure was conducted with reference to prescribed financial rules and account code.

**5.1.21 Arrears in Internal Audit**

The IAW was required to prepare an annual audit plan before the commencement of the financial year for conducting audits during the year. The IAW functioning under the COA, DJDA and DSAO did not prepare an annual audit programme during 2000-2004. Evidently, there was no planned effort to cover offices under their jurisdiction on a periodical basis.

There were huge arrears in conducting internal audit and settlement of pending audit objections as of March 2004. The pendency of internal audit paras ranged from one year to eight years as indicated below. The internal audit of DSAOs and other offices was pending since the introduction of one window system in 1998-99.

**Number of audit years in arrears**

	COA	DJDA	DSAO	Total
Number of offices to be audited*	8	36	539	583
Number of audit years in arrears*	34	193	2763	2990

**Number of internal audit paragraphs pending settlement**

Period of pendency	Commissionerate IAW wing	DJDAs wing	DSAOs wing	Total
More than five to eight years	--	7134	36429	43563
More than four years	100	99	1852	2051
More than three years	67	58	120	245
More than two years	308	-	34	342
More than one year	137	66	6550	6753
<b>Total</b>	<b>612</b>	<b>7357</b>	<b>44985</b>	<b>52954</b>

The register of outstanding paragraphs was not maintained at COA, DJDA or DSAO levels. Obviously compliances of the outstanding audit observations were not followed up.

The internal audit in respect of DSAO, Kolhapur for the period from July 1998 to March 2000 was conducted during December 2003 and the report was issued only at the instance of audit in April 2004.

The COA stated (July 2004) that no separate IAWs existed in the department. The internal audit was an additional work assigned to the Assistant Director of Accounts at COA level and Accounts Officer at DJDA and DSAO levels and

---

\* Information as furnished by the Department.

due to shortage of manpower, timely action could not be taken for completion of internal audit and settlement of audit paragraphs.

### **5.1.22 Non-response to Audit**

**Pendency in compliance to the audit paragraphs**

As per orders, all Executives, the Heads of offices and the higher authorities are required to comply with the observations contained in the Inspection Reports and rectify the defects and omissions promptly and report their compliances to the Accountant General.

The position of the inspection reports and paras issued by the Principal Accountant General (Audit) upto 31 December 2003 and not settled upto June 2004 by the department due to non-compliance was as under:

Year	Agriculture Department	
	Number of Inspection reports pending	Number of paragraphs pending
Upto 1998-99	168	216
1999-2000	18	31
2000-01	37	62
2001-02	90	140
2002-03	84	176
2003-04	74	321
<b>Total</b>	<b>471</b>	<b>946</b>

### **5.1.23 Conclusion**

There were weaknesses in the internal control mechanism, which failed to provide the necessary assurances to the executive. As a result, expenditure exceeded the budget grants and funds were kept outside Government account and temporary advances remained unadjusted for long period. Due to delay in assessment of grants-in-aid paid to State Agriculture Universities, the excess grants if any, could not be adjusted. Internal auditing standards have not been prescribed by the Government. There was no separate Inter Audit Wing.

### **5.1.24 Recommendations**

- Government should ensure close monitoring of funds given to various corporations and autonomous bodies for ensuring utilisation of funds provided under various schemes and for getting refund of unspent balances promptly.
- Government should ensure that long outstanding temporary advances in Commissioner of Agriculture's office which are given to officials for meeting office expenses since non adjustment could lead to misutilisation of funds.
- Government should consider setting up a system for periodic check on utilization of the infrastructure and submission of reports regarding assets created from its financial assistance under the agribusiness support scheme.

- Streamlining the internal audit set up to avoid persistent financial irregularities.

The matter was referred to Secretary to Government in September 2004. No reply has been received (December 2004).

Mumbai,  
The

**(RAGHUBIR SINGH)**  
Principal Accountant General (Audit)-I,  
Maharashtra

Countersigned

New Delhi,  
The

**(VIJAYENDRA N. KAUL)**  
Comptroller and Auditor General of India