

CHAPTER VII : INTERNAL CONTROL MECHANISM AND INTERNAL AUDIT

AGRICULTURE DEPARTMENT

7.1 Evaluation of Internal Control Mechanism and Internal Audit System in the Agriculture Department

Highlights

Internal Control system is an integral process by which an organisation governs its activities to effectively achieve its objectives. A built-in 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. An evaluation of the internal controls and internal audit system in the Agriculture Department revealed the weakness of the internal controls in vogue in the Department, non-compliance with rules in the areas of cash management, expenditure control and organisational controls.

7.1.1 Introduction

Internal control is an integral part of an organisation's operations and is the principal focus of Internal Audit's attention. Internal control systems provide an excellent tool for managers to ensure efficient, effective and economic utilisation of resources. It also ensures that financial interests and resources are safeguarded and reliable information is available to the administration. 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.

7.1.2 Objective

The primary objective of the Agriculture Department was to accelerate the growth of foodgrain production and also to augment crop productivity levels.

7.1.3 Organisational set up

Under the administrative control of the Principal Secretary, Agriculture (including Minor Irrigation) Department, the Directors of Agriculture (DoA) and Horticulture (DoH) and the Chief Engineer (Irrigation) are responsible for implementation of (i) various agricultural programmes/schemes, (ii) horticultural activities and (iii) minor irrigation projects respectively in the State. They are assisted by Joint Directors, Deputy Directors, Drawing and Disbursing Officers (DDO), Superintending Engineers and Executive Engineers^(a).

7.1.4 Audit objectives

Audit objectives were to see whether the internal control system of the Department provides a reasonable assurance that the system is efficient to achieve its objectives through the following:

- Financial controls
- Compliance to rules
- Expenditure controls
- Organisational controls
- Effectiveness to Internal audit

7.1.5 Audit coverage

Adequacy and effectiveness of the internal control mechanism including internal audit arrangements in the Agriculture Department were reviewed in audit through test-check (April to June and August 2005) of records of the Commissioner and Secretary, Agriculture Department, DoA and four DDOs^(b) under DoA for the period from 2002-03 to 2004-05. Results of the review are discussed in the succeeding paragraphs.

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- (a) Director of Agriculture: Three Joint Directors, three Deputy Directors and 31 DDOs.
Director of Horticulture: Two Joint Directors and 13 DDOs.
Chief Engineer (Irrigation): Two Superintending Engineers and eight Executive Engineers.
- (b) (i) Research Officer, District & Local Research Station & Laboratories, East Khasi Hills, (ii) Research Officer, All India Coordinated Rice Improvement Programme, Upper Shillong, (iii) Agricultural Information Officer, Shillong and (iv) Basic Agricultural Training Centre, Upper Shillong.

Financial controls**Budgetary control**

Budget estimates, revised estimates and actual expenditure of the Department during 2002-03 to 2004-05 were as follows:

Table 7.1

(Rupees in crore)

| Year | Section | Budget provision | Actual expenditure | Savings (Percentage) | Amount surrendered | Unsurrendered savings (Percentage to total savings) |
|---------|---------|------------------------------------------------------|--------------------|----------------------|--------------------|-----------------------------------------------------|
| 2002-03 | Revenue | 67.27 | 44.11 | 23.16 (34) | 11.05 | 12.11 (52) |
| | Capital | 8.27 | 4.79 | 3.48 (42) | 0.17 | 3.31 (95) |
| 2003-04 | Revenue | 57.48 | 47.95 | 9.53 (17) | 8.84 | 0.69 (7) |
| | Capital | 5.62 | 3.58 | 2.04 (36) | 0.01 | 2.03 (99) |
| 2004-05 | Revenue | 72.76 (including supplementary: Rs.0.65 crore) | 51.71 | 21.05 (29) | 1.52 | 19.53 (93) |
| | Capital | 5.80 | 4.35 | 1.45 (25) | ... | 1.45 (100) |

Source: Appropriation Accounts (Grant No. 43).

The following shortcomings in budgetary control were noticed:

7.1.6 Budget estimates

According to the Assam Budget Manual (adopted by the Government of Meghalaya), the departmental estimates are to be sent by the Controlling Officers to the administrative department with a copy to the Finance Department. Contrary to this, the departmental estimates were submitted by the Controlling Officers^(c) direct to the Finance Department thereby giving no opportunity to the administrative department to examine these estimates. Thus, there was no control at the level of the administrative department over the departmental estimates prepared by the Controlling Officers.

Government (Deputy Secretary, Agriculture Department) stated (November 2005) that the Assam Budget Manual would be followed.

7.1.7 Persistent savings

There were persistent savings in all the years 2002-2005. Wide variations between budget provisions and actual expenditure indicated flaws in

^(c) DoA, DoH and Chief Engineer (Irrigation).

budgeting particularly during 2002-03 and 2003-04 (capital section) where the shortfall was more than 30 *per cent*.

Government stated (November 2005) that the persistent savings were mainly due to imposition of economy measures and late release of funds.

7.1.8 Unsurrendered savings

During 2002-2005, 7 to 100 *per cent* of the available savings were not surrendered. Failure of the controlling officers to surrender the savings to the Finance Department for utilisation for other purposes indicated inadequate control over budget provision.

Government stated (November 2005) that the savings could not be surrendered due to non-receipt of funds for some schemes from Government of India, late receipt of Letter of Allotment, *etc*.

7.1.9 Unnecessary demand for supplementary grant

According to the Budget Manual, no supplementary demand will be accepted by the Finance Department unless it is accompanied by a specific statement to the effect that the existing provision under the appropriate Grant has been examined and it has been found that there will be no saving available therefrom to meet the present need.

During 2004-05, savings of Rs.1.52 crore under revenue section were surrendered by the controlling officers despite obtaining supplementary provisions for Rs.65.15 lakh. Evidently, the required statement was either not prepared by the concerned controlling officers or the same was defective, indicating lack of control over the supplementary demands.

Government stated (November 2005) that the demand for supplementary grant was felt as per the projected requirement of funds as well as to check any excess expenditure in case of imposition of 10 *per cent* cut in non-plan budget. The fact remains that the proposal for supplementary demand was made without proper examination as envisaged in the Budget Manual.

7.1.10 Inaccuracy in preparation of revised estimates

According to the Budget Manual, the actuals of previous years and the revised estimates ordinarily form the best guide in framing the budget estimate. The revised estimate should not merely be a repetition of the budget figures of the year, but a genuine re-estimation of requirements.

Few cases of variations between the revised estimate and the actual expenditure during 2002-2004 are given below:

Tale 7.2

(Rupees in crore)

| Sl. No. | Number and name of head of accounts | Revised estimated provision | | Actual expenditure | | Variation Shortfall (Percentage) | |
|---------|-----------------------------------------|-----------------------------|---------|--------------------|---------|----------------------------------|--------------|
| | | 2002-03 | 2003-04 | 2002-03 | 2003-04 | 2002-03 | 2003-04 |
| 1. | 2401-Crop Husbandry | 50.69 | 43.26 | 32.76 | 35.53 | 17.93 (35) | 7.73 (18) |
| 2. | 4401-Crop Husbandry | 0.22 | 0.24 | 0.14 | 0.16 | 0.08 (36) | 0.08 (33) |
| 3. | 4702-Capital Outlay on Minor Irrigation | 7.80 | 5.10 | 4.50 | 3.26 | 3.30 (42) | 1.84 (36) |

Source: Annual Financial Statements for the years 2003-04 & 2004-05 and Finance Accounts for the years 2002-03 & 2003-04 – Government of Meghalaya.

Wide variation between the revised estimate and the actual expenditure indicated absence of proper care in estimating the revised provisions by the DoA as envisaged in the Budget Manual.

Compliance with rules

7.1.11 Irregular cash management

According to Meghalaya Financial Rules, 1981, the Head of office is personally responsible for the accuracy of the cash book and of the cash balance. The cash book should be closed and balanced each day under the dated initial of the Head of the office or his authorised representative. The balance of each column at the end of the month should also be verified with the balance of cash in hand.

Irregularities noticed in this connection in the DoA and two test-checked DDOs^(d) are discussed below:

Cash Books of DoA

The DoA had been maintaining two cash books for recording the transactions of Central and State funds. Scrutiny of these cash books revealed the following:

- Analysis of closing balance recorded in the cash books did not match with the actual closing balance, as detailed below:

^(d) Research Officer, District & Local Research Station & Laboratories, East Khasi Hills and Research Officer, All India Coordinated Rice Improvement Programme, Upper Shillong.

Table 7.3

| Particulars of Cash Book | Year | Closing balance at the end of the year | Analysis of closing balance | Difference (Shortfall) |
|--------------------------|---------|----------------------------------------|-----------------------------|------------------------|
| | | (Rupees) | | |
| Central | 2002-03 | 9,96,88,868 | 8,49,12,158 | 1,47,76,710 |
| State | | 3,62,18,895 | 3,05,14,066 | 57,04,829 |
| Central | 2003-04 | 11,79,95,244 | 9,77,87,425 | 2,02,07,819 |
| State | | 4,00,22,035 | 3,48,64,633 | 51,57,402 |
| Central | 2004-05 | 13,53,07,114 | 12,43,16,603 | 1,09,90,511 |
| State | | 6,60,46,257 | 5,15,19,297 | 1,45,26,960 |

Source: Cash Books.

The table above shows wide variations between the closing balance and analysis of closing balance. Thus, the cash books did not exhibit the accurate picture as envisaged in the Financial Rules.

- Central sector cash book showed closing balance of Rs.10,65,75,244 as on 10 June 2004. Against this, the opening balance on the next day (14 June 2004) was exhibited as Rs.11,65,75,244. The discrepancy in the cash balance by Rs.1 crore and failure to rectify the same till 31 March 2005, were indicative of the fact that the cash book was not closed properly thereby violating the provisions of the Financial Rules.

- During 1999-2000, the DoA received four Demand Drafts (DD) for Rs.5.16 lakh from the National Oilseeds and Vegetable Oil Development Board, Gurgaon for implementation of National Oilseeds and Vegetable Development and Rice Minikit Programmes. Though all these DDs became stale and could not be encashed, the entire amount was shown in the Central sector cash book as closing balance as of 31 March 2005. This had resulted in overstatement of closing balance by Rs.5.16 lakh, indicating failure of the Head of office in maintenance of cash book accurately as envisaged in the Financial Rules.

Government stated (November 2005) that necessary action was being taken to match the figures and discrepancy of Rs.1 crore was due to oversight which had been rectified.

Cash Books of DDOs

The entries in the cash books maintained by the DDOs were not attested. Physical verification of cash balance with the book balance was not conducted by the concerned DDOs to ascertain the actual cash balance. Thus, the concerned DDOs failed to discharge their responsibilities towards proper maintenance of cash books as envisaged in the Financial Rules.

Expenditure controls

7.1.12 Unreconciled expenditure

Accuracy and reliability of accounts depend, among other things, on timely reconciliation of the departmental figures with the accounts figures. Before annual accounts are finalised, the Heads of the Departments/Controlling Officers periodically reconcile the departmental accounts figures with those booked in the accounts compiled by the Accountant General (AG). But reconciliation of departmental figures of expenditure with those of the accounts maintained by the AG was never carried out by the DoA during 2002-03 to 2004-05.

Government stated (November 2005) that necessary action was being taken for reconciliation of departmental figures with the figures of the AG.

7.1.13 Unregularised drawal on Abstract Contingent Bills

According to the Meghalaya Treasury Rules, the Controlling Officers have to submit Detailed Countersigned Contingent (DCC) Bills to the Accountant General against the drawal of Abstract Contingent (AC) Bills within a month from the date of drawal.

It was noticed that the DoA drew amounts aggregating Rs.2.68 lakh during the months of March of each of the years 2003 (Rs.0.66 lakh), 2004 (Rs.0.75 lakh) and 2005 (Rs.1.27 lakh) through seven AC Bills for farmers' study tour. But DCC bills were not submitted to the AG till the date of audit (June 2005). Consequently, these drawals remained unregularised for four months to over two years. Failure in regularisation of AC Bills indicated a serious deficiency in control over expenditure.

Government stated (November 2005) that farmers' study tour could not be conducted within one month from the date of drawal and thus, DCC bills could not be sent within the specified time. The reply is not tenable because the AC bills mentioned in the para remained unregularised for four months to over two years.

Monitoring system controls

Scrutiny revealed that organisational controls were not effective in the Department leading to inaccurate reporting of programme achievements, drawal of funds without requirement, non-utilisation of available funds, *etc.* as brought out in the succeeding paragraphs.

7.1.14 Inaccurate reporting of programme achievements

During 2001-2004, Ministry of Agriculture (Ministry), Government of India released grants-in-aid of Rs.8.17 crore to the State Government for implementation of two schemes, as detailed below:

Table 7.4

(Rupees in crore)

| Sl. No. | Name of scheme | Release of funds by the Ministry | | Fund utilised | Unutilised balance as of March 2005 |
|--------------|----------------------------------------------------------------------------------------|------------------------------------------|-------------|---------------|-------------------------------------|
| | | Year | Amount | | |
| 1. | Central Plan Scheme - Strengthening/Setting up of State Pesticide Testing Laboratory | 2001-02 (Re-validated during 2002-03) | 0.40 | 0.22 | 0.18 |
| 2. | Centrally Sponsored Scheme – National Watershed Development Projects for Rainfed Areas | 2002-03 | 4.15 | 4.09 | 0.06 |
| | | 2003-04 | 3.62 | ... | 3.62 |
| Total | | | 8.17 | 4.31 | 3.86 |

Source: Sanction letters and information furnished by the DoA.

According to the utilisation certificate (for serial 1 above) and the reports on financial targets and achievements (for serial 2) furnished by the DoA to the Ministry in October 2003 and December 2004 respectively, the amount released for the schemes were utilised in full.

It was noticed from the records of the DoA that against Rs.40 lakh (serial 1 above), Rs.22 lakh was released (between December 2003 and November 2004) to the Executive Engineer (Irrigation) for execution of the work under the scheme. According to the information furnished (May 2005) by the Deputy Director of Agriculture (Plant Protection), the physical progress of this work as of April 2005 was 41 *per cent* and the balance amount of Rs.18 lakh was still to be paid. Regarding serial 2 of the table above, the DoA stated (May 2005) that the implementation of the schemes was in progress and the unutilised funds would be released accordingly.

Similarly, Rs.4.70 lakh drawn by the DoA in March 2004 for implementation of a Central Sector Scheme, *viz*, Agriculture Information and Information Technology, was shown as utilised in the achievement report furnished (September 2004) to the State Government, though actual utilisation till November 2004 was Rs.1.49 lakh only.

Thus, the report on utilisation of grants furnished to Ministry/State Government did not represent the actual state of affairs.

Government stated (November 2005) that the amount for the work mentioned at serial 1 above was released in instalments depending upon the progress of work and the unutilised amount under serial 2 was due to non-submission of physical and financial report for 2002-03. The reply was silent with regard to action taken for misrepresentation of facts.

7.1.15 Irregularities in utilisation of scheme funds

During March 2003 to January 2005, the State Government/North Eastern Council (NEC)/Indian Council for Agricultural Research (ICAR) released Rs.2.88 crore for implementation of various Central and State schemes as detailed below:

Table 7.5**(Rupees in lakh)**

| Sl. No. | Name of Scheme | Month and year of according expenditure sanction | Amount released | Amount drawn by the DoA (Date of drawal) | Amount disbursed | Undisbursed balance with the DoA |
|--------------|-------------------------------------------------------------------------------------------------------|--------------------------------------------------|-----------------|------------------------------------------|------------------|----------------------------------|
| 1. | Central Sector Scheme (CSS)–Balanced and Integrated use of fertiliser | March 2003 | 50.00 | 50.00 (March 2003) | 50.00 | ... |
| 2. | NEC Scheme – Strengthening of Basic Agriculture Training Centre | June 2003 | 24.62 | 14.62 (March 2004) | 14.62 | ... |
| 3. | Centrally Sponsored Scheme–Promotion of Agricultural Mechanisation | July 2003 | 25.99 | 25.99 (January 2004) | 2.41 | 23.58 |
| 4. | CSS–Strengthening of Geographical Information System and Establishment of Remote Sensing Work Station | March 2004 | 26.16 | 21.16 (March 2004) | 1.75 | 19.41 |
| 5. | State Plan Scheme–Acquisition of land for setting up of Post Graduate College | March 2004 | 105.54 | 105.54 (March 2004) | 105.54 | ... |
| 6. | ICAR Scheme–Establishment of Krishi Vigyan Kendras | June 2004 to January 2005 | 55.30 | 55.30 | ... | 55.30 |
| Total | | | 287.61 | 272.61 | 174.32 | 98.29 |

Source: Government sanction letters, cash book and letter indicating disbursement of funds.

The following irregularities were noticed:

- Rupees 50 lakh (serial 1 above) drawn by the DoA in March 2003 was paid (August 2003) to the Meghalaya Urban Development Agency (MUDA) for construction of a compost plant at Mawiong, after retention of funds in civil deposit for four months. Information regarding utilisation of the said amount by the MUDA and the status of work were not on record.

Similarly, Rs.14.62 lakh and Rs.1.06 crore (serial 2 & 5 of above table) drawn by the DoA in March 2004 were paid (February 2005) to the Basic Agricultural Training Centre (BATC), Upper Shillong and the Meghalaya State Electricity Board respectively for strengthening the centre and as cost of land (part payment), after retention of the same in his current account for about 10 months.

The above action of the DoA was contrary to the State Treasury Rules, 1985, which prohibits drawal of money in anticipation of demands or to prevent lapse of budget grants. Moreover, Rs.14.62 lakh paid (February 2005) to the BATC was yet to be utilised because of non-receipt of guidelines from the DoA.

- Rupees 25.99 lakh (serial 3 of above table) was released (January 2004) for providing power tillers and pump sets to 95 and 113 beneficiaries respectively. Against this, only Rs.2.41 lakh had been disbursed (11 and four beneficiaries were provided with the power tillers and pump sets respectively) till the date of audit, thereby frustrating the objective of the scheme.
- According to the Status Report of the Scheme (serial 4 of above table), the DoA incurred expenditure of Rs.1.75 lakh on execution of the work under the scheme till March 2005. Failure in utilisation of Rs.19.41 lakh even after one year of drawal resulted in locking up of funds and consequential delay in completion of the scheme.
- Rupees 55.30 lakh paid (June & November 2004 and January 2005) by the Indian Council for Agricultural Research to the DoA for establishment of Krishi Vigyan Kendras at Upper Shillong, Jowai and Nongstoin was lying unutilised (May 2005) in the bank account of the DoA for four to 10 months. According to the Joint Director of Agriculture (Research & Training) (May 2005), the funds could not be utilised due to non-receipt of administrative approval of the scheme from Government, though proposal was sent in January 2005. This indicated lack of co-ordination between the administrative authority and the implementing authority.

Government stated (November 2005) that effort would be made to obtain utilisation certificates (serial 1 above), the work was in progress (serial 2), the district authorities had been instructed to see that all the selected beneficiaries utilise the allotted amount immediately (serial 3), quotations had been sent to the technical committee to establish work stations (serial 4) and the delay was due to delay in handing over the land by the MeSEB (serial 5). The fact remains that there was lack of proper control in timely utilisation of available funds to achieve the desired objectives.

7.1.16 Absence of scheme evaluation

According to the guidelines for “Macro Management Mode”, concurrent evaluation of the scheme was to be undertaken by some independent agency. But no such evaluation was made by the DoA thereby violating the provisions of scheme guidelines.

Government stated (November 2005) that the directorate would take up such evaluation for the programme to be implemented in 2004-05 and 2005-06.

7.1.17 Procurement control

During 1995-96 to 2003-04, the DoA purchased various workshop machines worth Rs.21.60 lakh for distribution to the different District Agriculture Officers. Of this, machines worth Rs.7.43 lakh only were issued till March

2003 and the balance worth Rs.14.17 lakh were still lying unutilised (May 2005). The stock register of the machines maintained by the DoA also did not indicate physical verification of stock by the competent authority.

Thus, control over procurement was lacking, since the machines were purchased by the DoA without immediate requirement which resulted in idle investment of Rs.13.88 lakh.

Similar was the position in respect of two test-checked DDOs^(e), where the physical verification of stores was never conducted by the concerned DDOs. In another test-checked DDO, viz., BATC, Upper Shillong, records in support of issue/utilisation of materials like sports goods, electrical appliances, tools and equipment, etc. worth Rs.7.27 lakh, procured during 2002-2005, were not maintained. The Principal, BATC stated (August 2005) that the omission was due to oversight. Thus, control over the materials procured by the DDO was deficient.

Government stated (November 2005) that the stock book of the Directorate recorded only the type of machines purchased and the stock was to be maintained by the Assistant Agricultural Engineer (Mechanical). Reasons for not issuing the machines worth Rs.14.17 lakh by the DoA had not been stated.

7.1.18 Failure to enforce accountability for non-settlement of inspection reports of the Accountant General

The irregularities noticed during the local audit conducted by the Accountant General (Audit) (AG) are communicated through Inspection Reports (IRs) to the Heads of offices inspected with a copy to the next higher authorities. A half-yearly report of pending IRs is sent by the AG to the Secretary of the concerned administrative department to facilitate monitoring of the action on the reports.

As of June 2005, 201 paragraphs relating to 54 IRs relating to DoA, Director of Horticulture (DoH) and the Chief Engineer (Irrigation) (CE) were outstanding either due to non-receipt of replies or the replies being incomplete. The details are as under:

Table 7.6

| Year | Number of outstanding IRs | | | Number of outstanding paragraphs | | |
|---------------|---------------------------|----------|-----------|----------------------------------|-----------|-----------|
| | DoA | DoH | CE | DoA | DoH | CE |
| Up to 2001-02 | 13 | ... | 17 | 28 | ... | 38 |
| 2002-03 | 1 | ... | 4 | 3 | ... | 20 |
| 2003-04 | 4 | 3 | 1 | 8 | 20 | 9 |
| 2004-05 | 8 | 3 | ... | 50 | 25 | ... |
| Total | 26 | 6 | 22 | 89 | 45 | 67 |

^(e) Research Officer, District & Local Research Station & Laboratories, East Khasi Hills and Research Officer, All India Coordinated Rice Improvement Programme, Upper Shillong.

Large pendency of IRs indicated failure of the concerned controlling officers to initiate action in regard to the points raised in the IRs. The concerned Secretary of the administrative department also failed to ensure timely action by the concerned controlling officers and thus the control of the administrative department on the controlling officers was not adequate.

Internal Audit

7.1.19 Non-existence of Internal Audit

Internal audit is necessary to judge the efficacy of an internal control system. Government notification of October 1990 empowers the Examiner of Local Accounts, Meghalaya to examine and carry out the audit of accounts of various Government departments. Such audit is taken up by the ELA only when a request comes from the respective heads of the departments/offices.

According to the information furnished (April 2005) by the Joint Director (Administration & Accounts), internal audit of accounts of the DoA was never conducted during the three years period ending March 2005.

Thus, the adequacy and effectiveness of the accounting and internal control system were not evaluated by the DoA through an independent agency.

Government stated (November 2005) that necessary instruction was being issued for conducting audit of the accounts/cash books of the district officers/drawing and disbursing officers. Reasons for not taking such action earlier had not been stated.

7.1.20 Conclusion

Internal controls were inadequate and ineffective in the Agriculture Department. Arrangements for internal audit too were inadequate. This would have adverse implication in implementation of agricultural programmes/schemes.

7.1.21 Recommendations

On the basis of shortcomings and deficiencies pointed out in the foregoing paragraphs, the following recommendations are made:

- Cash books should be maintained in accordance with the relevant rules to avoid serious lapses like misappropriation or fraud.
- Proper and timely utilisation of available funds needs to be ensured to achieve the desired objectives of various programmes/schemes.

- Internal audit should be undertaken to evaluate the efficacy of the internal control system and the adequacy of the accounting system.

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