CHAPTER-VII

ANIMAL HUSBANDRY AND VETERINARY DEPARTMENT

7.1 Internal Control Mechanism and Internal Audit

7.1.1 Introduction

Internal Control mechanism is an integral and continuous process of any managerial system or organisation designed to appraise the performance of its different formations for attaining targeted objectives with greater accessibility, precision and prudence. The efficient performance of a department depends mainly upon its effective control mechanism. The internal audit process is supplementary to the control mechanism to safeguard the organisation from improprieties and irregularities.

The Animal Husbandry and Veterinary Department was created in Mizoram in September 1981 after its bifurcation from the Agriculture Department with the main objective of promoting rearing of livestock by the common people, to increase livestock and dairy products, to provide veterinary services and to make the State self sufficient in food of animal origin. It maintains 31 livestock farms[54] located in different places of the State and a dairy plant at Lunglei. The veterinary services are rendered through one State level hospital, four district level hospitals, 35 dispensaries and 103 rural animal health centres.

7.1.2 Organisational set-up

At the State level, the Secretary, Animal Husbandry & Veterinary (AH&V) Department is the administrative head. The Director of AH&V is the head of the department, and is assisted by three Joint Directors, two Deputy Directors and one Finance and Accounts Officer at Directorate level. The department administers its activities through its 16 Drawing and Disbursing Officers at district and sub-divisional level.

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[54] *Cattle Breeding Farm: 7; Buffalo Breeding Farm: 1; Mithun Breeding Farm: 1; Pig Breeding Farm: 9; Goat Breeding Farm: 2; Poultry Farm: 7 and Rabbit Production Farm:4.*

Objectives

The general objectives of Internal Control are fulfilment of accountability, obligations, complying with laws and regulations, executing orderly, ethical, economical, efficient and effective accomplishment of targets.

7.1.3 Audit Coverage

To oversee the effectiveness of the internal control mechanism prevalent in the department, a review covering the period from 2002-03 to 2004-05 was conducted (April – May 2005) by test check of records of the Finance Department, the Directorate of Animal Husbandry and Veterinary, Aizawl, Joint Director, Lunglei and 3 District Animal Husbandry and Veterinary Officers located at Aizawl, Lunglei and Serchip.

The important points noticed in audit are discussed in the succeeding paragraphs.

7.1.4 Planning Controls

The planning and monitoring section of the department is headed by a Special Officer, who is responsible for preparation of annual plans and fixation of targets on the basis of production standards laid down in departmental Farm Management Schedule 1997 and Survey Reports published annually by the department to assess the demand of livestock products in the State. The main activities of the department are to produce heifers, broiler chicks, eggs, broiler finishers and exotic varieties of animals *etc*.

The targets fixed for production of different items and achievements of the department during 2002-03 to 2004-05 are as below:

Table 7.1

Particulars	2002-03	2003-04	2004-05
Egg production (Nos. in lakh)			
Target	40.00	40.00	50.00
Achievement	1.84	4.45	3.46
Percentage of achievement	5	11	7
Percentage of shortfall	95	89	93
Milk production (In thousand tonnes)			
Target	28.00	28.50	30.00
Achievement	0.06	0.06	0.06
Percentage of achievement	0.21	0.21	0.20
Percentage of shortfall	99.79	99.79	99.80
Chick production (Nos. in lakh)			
Target	30.00	35.00	50.00
Achievement	0.84	0.77	0.61
Percentage of achievement	1	2	1
Percentage of shortfall	99	98	99

(Source: Information furnished to Audit by the Department)

It would be seen from the above table that the targets for production of heifers and broiler finishers had not been fixed.

This indicated that the planning process was faulty in as much as no target was fixed for certain major activities for which departmental farms were established. Reasons for the poor performance of the departmental farms had not been furnished.

Thus, due to poor planning compounded with failure to ensure proper control over farm management, the objective of making the State self sufficient in food of animal origin remained unfulfilled.

7.1.5 Financial Management/Budgetary Control

The Finance and Accounts Officer (FAO) posted at Directorate of AH&V is responsible for preparation of budget, control over expenditure, maintenance of proper accounts and to ensure internal control over financial management in the department. An analysis of the system of accounting prevailing in the Directorate of AH&V under the FAO revealed the following:

(i) Budgetary Control

The department has no Budget Manual of its own. Initial budget proposals are prepared by the Directorate for onward submission to the State Government after consolidating the estimates received from each Drawing and Disbursing Officer. No checks are, however, exercised to ensure correct estimation with reference to the trend of actual expenditure in previous years. The provision (Animal Husbandry and Dairy Development) made in Budget Estimates (BEs), Revised Estimates (REs) and expenditure of the department during 2002-03 to 2004-05 thereagainst are as under:

Table 7.2

(Rupees in crore)

Year	Provisions made in the		Total expenditure	Variation of expenditure with REs Excess (+) Savings (-)	Percentage of variation
	BEs	REs			
2002-03	13.13	17.22	15.81	(-) 1.41	(-) 9
2003-04	13.29	18.40	21.90	(+) 3.50	(+) 19
2004-05	14.55	60.10	21.70	(-) 38.40	(-) 64

(Source: Budget documents, Finance Accounts and information furnished to audit by the FAO)

It would be seen from the table that there was no rationale between the provisions made in BEs and expenditure. There were wide variation between the actual expenditure and the provisions made in the BE and even RE which indicates that the projections made by the department were not realistic.

While there was excess expenditure of Rs.3.50 crore (19 *per cent*) in 2003-04, there were savings of Rs.1.41 crore (9 *per cent*) in 2002-03 and Rs.38.40 crore (64 *per cent*) in 2004-05. These savings had also not been surrendered by the department although as per the rules the spending department is required to surrender grants/appropriations or portion thereof to the Finance Department as and when savings are anticipated. As a result Finance Department was not able to reallocate the amount to other needy departments.

Thus, it is evident that there was lack of financial management in the department.

(ii) Parking of funds in Civil deposit

According to Rule 290 of the Central Treasury Rules (CTRs) Vol-I, which is being followed in the State, no money should be drawn unless required for immediate disbursement and retained unproductively. Also as per the said Rule, no money should be drawn at the fag end of the year to avoid lapse of budget grants.

It was seen in audit that 40 to 56 *per cent* of the total expenditure was drawn in the last quarter of the years 2002-05 and the amount drawn in March alone accounted for 22 to 45 *per cent* of the total expenditure as shown below:

Table 7.3

(Rupees in crore)

Year	**Total expenditure**	**Amount drawn in**		**Amount retained in Civil deposits from the drawal in March (with percentage in brackets to total amount drawn in March)**
		Last quarter (percentage)	**March (percentage)**	
2002-03	15.81	6.36 (40)	3.53 (22)	1.99 (56)
2003-04	21.90	12.20 (56)	9.93 (45)	3.21 (32)
2004-05	21.70	9.46 (44)	7.73 (36)	3.03 (39)
Total	**59.41**	**28.02 (47)**	**21.19 (36)**	**8.23 (39)**

(Source: Finance Accounts and information furnished to audit by the Department)

Of Rs.21.19 crore drawn in March, funds ranging from Rs.1.99 crore to Rs.3.21 crore were retained in Civil Deposits every year during 2002-2005 without assigning any reason contrary to Rule 290 of CTRs, Vol-I. Immediately after drawal, the amount was shown as expenditure although actual expenditure was made much later. Consequently, expenditure of the department remained overstated distorting the Finance and Appropriation Accounts.

Thus, drawal of funds in advance and in excess of actual requirement and retention of funds in Civil Deposit at the end of each year indicated that fund management in the department was weak.. The Finance Department had also not exercised the required checks on drawal and disbursement of the departments.

Government stated (November 2005) that the money was drawn at the fag end of the year due to late receipt of expenditure sanction from the Finance Department and as per the practice of the Treasury Officer, the same were deposited under Civil Deposit. The fact remains that the money was retained in Civil Deposit in violation of a specific provision in the Rules.

(iii) Retention of funds outside Government account

Under Integrated Piggery Development Scheme (CSS), the Government of India released (March 2001) a grant of Rs.62 lakh to the Government of Mizoram for purchase of pigs. The Director, Animal Husbandry and Veterinary Department, Mizoram, without incurring any expenditure, furnished (November 2001) utilisation certificate of Rs.62 lakh to the Government of India. In February 2002, the department deposited Rs.48.75 lakh in Canara Bank, Guwahati being the cost of pigs to be imported from Australia through a Guwahati based firm. However, the entire amount was returned by the bank in February 2003 as the import of pigs was banned.

The department, instead of refunding the unutilised grant to the Government of India, kept (March 2003) the amount unauthorisedly in a current account with the State Bank of India, Aizawl and incurred an expenditure of Rs.35.47 lakh between March 2003 and March 2005 towards office expenses, *etc*. The balance amount of Rs.26.53 lakh was lying in the current account till March 2005. The transactions were not routed through the cash book of the department.

This indicates the absence of an internal control mechanism in financial management of the department.

(iv) Improper utilisation of revenue receipts

As per the Central Treasury Rules, which are being followed in the State, money received by the Government should neither be appropriated for departmental expenditure, nor kept apart from the accounts of the Government and the same should without delay be deposited into the Treasury. In June 2004, the Government instructed all the departments to deposit all receipts in the Treasury and ensure that no receipts were kept in the department. A few instances where the instruction were not followed are given below:

(a) According to information furnished to Audit by the Assistant Project Officer, Animal Feed Plant, Tanhril, Rs.84.32 lakh was received by him as sale proceeds of animal feed from Animal Feed Plant, Tanhril during the years 2003-04 and 2004-05 against which Rs.38.62 lakh was shown as received by the Physio-chemist of the Directorate and utilised unauthorisedly for meeting departmental expenditure without remitting the same to Government account. The balance amount of Rs.45.70 lakh, retained by the Assistant Project Officer, Tanhril was neither deposited into the treasury and accounted for in the cash book nor could the department furnish details as to how the amount was utilised. Consequently, possibilities of mis-utilisation of Rs.45.70 lakh could not be ruled out. Moreover, as a result of such unauthorised appropriation of sale proceeds, the entire transactions remained out of Government account and beyond legislative scrutiny.

The Government stated (November 2005) that in order to maintain the flow of raw materials and to maintain production without interruption, the Department incorporated a revolving fund in the detailed Project Report. The Government further stated that the sale proceeds received were utilised by the department for procurement of raw materials. The contention of the Government is not tenable as the Planning Department rejected (March 2004) the proposal for creation of a revolving fund by the Department (Animal Husbandry & Veterinary). Also, the utilisation of departmental receipts towards meeting the Departmental Expenditure is not permissible under the Treasury Rules in force in the State and hence unauthorised. Further, the reply was silent about the balance amount of Rs.45.70 lakh retained by the Assistant Project Officer.

(b) The District Animal Husbandry and Veterinary Officer (DVO), Lunglei, instead of depositing Rs.1.06 crore received by him as sale proceeds of milk during the years 2002-03 to 2004-05 in the treasury, utilised the amount for payment to different Dairy Co-operative Societies (Rs.0.98 crore) being cost of milk and to run the Dairy Plant, Lunglei (Rs.7.54 lakh) without obtaining orders from the Government.

The DVO, Lunglei also had not maintained any cash book for these transactions and the accounts were not kept in an orderly manner. As such, possibilities of misutilisation of the amount could not be ruled out.

Government stated (November 2005) that separate fund will be provided for maintenance of the plant and the concerned DVO was instructed to maintain strict vigilance over the financial administration and to maintain cash book.

(c) Audit scrutiny of the sales registers of the departmental sales outlet, Aizawl, revealed that Rs.69.25 lakh was received as sale proceeds of animal feed during the years 2002-03 to 2004-05 by the in-charge of the sales outlet and deposited with the Joint Director (Bio Gas Development) of the Directorate from time to time for remittance of the same to the Treasury. But the amount was neither taken into the cash book nor deposited into the Treasury. Reasons for not depositing the amount in the Treasury had not been furnished (June 2005). Consequently, possibilities of mis-appropriation of the entire amount of Rs.69.25 lakh could not be ruled out. Despite issue of instruction by the Government, retention of Government money by the individual/department continued and no action was taken to enforce the rules.

The above instances indicate that failure of the departmental officers to comply with the statutory requirement of financial discipline and to follow the instructions issued by the Government in this regard had resulted in improper utilisation and unauthorised retention of revenue receipts. Such unauthorised utilisation of receipts could have been avoided had there been effective internal control in the department.

(v) Non-reconciliation of accounts with Treasuries

In June 2002, the department decided that the Finance and Accounts Officer would reconcile monthly expenditure of the department with those recorded in the Treasury so that accounts were maintained properly, but no reconciliation was made till date of audit (May 2005). During 2002-03 to 2004-05 the department received a total grant of Rs.1.62 crore from the North Eastern Council for various developmental schemes against which the department incurred an expenditure of Rs.2.36 crore without provision in the State budget, which resulted in an excess expenditure of Rs.0.74 crore. The actual expenditure, however, remained unreconciled with the records maintained in the treasury concerned.

This indicated that though orders had been issued for regular reconciliation, there was no control mechanism to ensure that the orders were complied with.

Government stated (November 2005) that reconciliation was being done to avoid excess and savings in respect of various schemes with effect from September 2005.

7.1.6 Operational Controls

Per Capita availability of livestock products

The per capita availability of major livestock products in the State remained far below the recommended minimum level during the years 2002-03 and 2003-04 (figures for 2004-05 had not been compiled) as shown below:

Table 7.4

Particulars/Product	Recommended minimum level	Per capita availability during		Percentage of increase/decrease
		2002-03	2003-04	
Milk (grams/day)	240 gms/day	45.40	45.00	(-) 0.88
Egg (Nos/year)	180 Nos/year	34	35	(+) 2.94
Meat (grams/day)	15 gms/day	9.98	9.78	(-) 1.99
Percentage of households to the total households in the State rearing		**Per household availability**		
		2002-03	**2003-04**	
(a) Bovines	---	6.32	6.21	(-) 1.74
(b) Poultry	---	56.80	55.82	(-) 1.72
(c) Pigs	---	50.79	49.65	(-) 2.24

(Source: Report on Integrated Sample Survey for estimation of annual production of milk, egg and meat for the years 2002-03 and 2003-04)

There was little improvement in the availability of milk, eggs, meat, bovines, poultry and pigs.

In May 2001, the department conceded that the present set-up of farms was not compatible with new farm management, and called for more specialisation of managers and staff. But even after more than four years the department had not taken any action to make these farms economically viable.

Government stated (November 2005) that the department tried its level best to increase the availability by way of giving incentives to the farmers but the availability of major livestock in the State remained far below the recommended minimum level.

Operational loss

The farms were established to increase production of exotic varieties of cattle breeds, poultry birds for demonstration purposes but the initial concept was succeeded by commercial oriented approach which calls for economical management.

It would be seen from the table below that against a total expenditure of Rs.8.24 crore incurred by nine farms[55] during the years 2002-03 to 2004-05, the department earned a revenue of Rs.1.33 crore resulting in operational loss of Rs.6.91 crore. High cost of establishment (Rs.6.50 crore) which constituted 79 *per cent* of the total expenditure contributed to the loss.

Table 7.5

(Rupees in lakh)

	2002-03			2003-04			2004-05		
	Total expen-diture	**Expend-iture on salaries/ wages**	**Revenue realised**	**Total expen-diture**	**Expendi-ture on salaries/ wages**	**Revenue realised**	**Total expen-diture**	**Expend-iture on salaries/ wages**	**Revenue realised**
1. Champhai	17.46	13.57	2.82	19.15	18.36	3.34	18.70	17.57	3.61
2. Kolasib	27.35	24.52	4.40	28.41	27.26	6.81	31.89	28.81	6.72
3. Lunglei	38.01	24.24	6.08	49.12	39.09	5.62	42.53	39.60	4.73
4. Mampui	11.93	9.48	1.94	11.17	7.61	1.66	11.41	9.89	1.35
5. Saiha	9.53	8.40	3.10	11.15	9.57	1.40	12.02	10.04	1.74
6. Serchhip	6.69	6.34	0.28	7.52	6.12	2.70	7.91	7.31	1.73
7. Selesih	66.59	49.99	11.35	76.14	59.23	17.10	92.02	60.60	14.03
8. Tanhril	26.46	19.17	6.51	32.33	21.47	7.01	31.18	22.80	5.85
9. Thenezawl	45.53	34.78	3.92	48.16	36.59	4.80	43.74	37.60	2.07
Total	**249.55**	**190.49**	**40.40**	**283.15**	**225.30**	**50.44**	**291.40**	**234.22**	**41.83**

(Source: Information furnished to Audit by the Finance and Accounts Officer of the Department)

In May 2001, the department in its proposal for reorganisation suggested that some of the uneconomic establishments should be closed down. But even after a lapse of almost four years no action was taken (June 2005) by the department to identify the uneconomic farms.

To evaluate the performance of all the farms and to recommend for continuance, expansion or otherwise of each farm, the department decided (March and September 2002) that a team of experts was to inspect all the departmental farms. But neither was the team formed nor were these farms inspected (May 2005) and performance of the farms was not evaluated.

Government stated (November 2005) that the idea of closing down some farms had been dropped and efforts were being made to strengthen departmental farms.

Dairy management

The department set-up a dairy plant at Lunglei during 2001-02 at a cost of Rs.3.49 crore with a production capacity of 5000 litres per day (LPD). The plant started functioning from August 2001. The milk was procured from different

[55] *Champhai, Kolasib, Lunglei, Mampui, Saiha, Serchip, Selesih, Tahril and Thenezawl.*

Dairy Co-operative Societies, processed and pasteurised in the plant and marketed in poly-packs through commission agents. The quantity of milk procured and marketed during 2002-05 is shown below:

Table 7.6

Particulars	2002-03	2003-04	2004-05
Population of Lunglei district as per 2001 census (in lakh)	1.37	1.37	1.37
Average milk procured (in LPD)	426	440	522
Average milk marketed (in LPD)	430	445	524
Percentage of capacity utilised	9	9	10
Per capita availability of milk per day in grams – Recommended - Actual	 240 3	 240 3	 240 4

Thus, 90 *per cent* of installed capacity of the plant remained unutilised. Against the recommended level of 240 grams/per day, actual per capita availability of milk per day in Lunglei district from the plant was a meagre four grams. The department had neither analysed the reasons for such poor performance of the plant nor taken any action to increase production level of the plant.

For procurement and marketing of milk, neither was any provision made in budget nor any fund allotted by the department to run the plant compelling the District Veterinary Officer, Lunglei to utilise sale proceeds of milk to run the plant. This only indicates the faulty planning process of the department and lack of internal control in improving capacity utilisation.

In their reply (November 2005), Government agreed that the full capacity of the plant could not be utilised as the supply of milk in that area was far below the requirement. However, efforts are on to increase milk production in the area.

Non-maintenance of basic records

As per departmental Farm Management Schedule 1997, each farm was to maintain 3 to 12 basic records[56] depending upon the category of the farm. But none of the farms maintained any such records and inventory of livestock population. In the absence of these basic records/registers, detailed performance of each of the farms remained unknown to the department. The department had not also maintained any of the basic records[57] as required under GFRs for

[56] *Birth Register, Young stock Register, Adult stock Register, Livestock stock account Register, Livestock Return Register, Disposal Register, Mortality Register, Veterinary Register, Milk record Register, Feed Register, Egg Register, Egg collection and sale Register, Sow record etc.*

[57] *Registers showing expenses by Heads of Account. Consolidated Accounts, Broadsheets for watching receipts of returns from Heads of Departments, Sale Account, Register of Assets, Liabilities Register, Registers showing estimates of receipts, statements of accepted estimates of expenditure.*

ensuring control over budgetary process, expenditure etc, in the absence of which, the internal control mechanism in the department remained grossly ineffective.

7.1.7 Human Resources Control

High cost of establishment

Expenditure (Rs.31.12 crore) on salaries and wages constituted 52 *per cent* of the total expenditure (Rs.59.41 crore) of the department during the years 2002-2005. Retention of staff much in excess of the recommended strength (as discussed below) resulted in such high cost of establishment that affected the developmental activities of the department.

Uneven deployment of manpower

The department had not followed the standards laid down in its Farm Management Schedule 1997 in deployment of staff in farms and establishments. There was also lack of uniformity in posting of staff in district offices where duties and responsibilities remained almost same.

In May 2001, the department recommended that 19-20 staff would be required for each district office. Against the recommended 120 staff, 411 staff were posted in six districts (Aizawl, Champhai, Kolasib, Lunglei, Saiha and Serchhip) resulting in retention of 291 excess staff (242 *per cent*). Despite deployment of 291 staff in excess of the recommended norms, the department also had 158 persons on muster rolls justification for which was not furnished to audit. The Department had not reviewed its manpower requirement as per its own recommendations. In May 2001, the department observed that creation of posts for Rural Animal Health Centres, which were established under public and political pressure, was not permitted by the Government necessitating the department to engage workers on muster rolls. Government, however, stated (November 2005) that present number of regular staff appointed in each district is not sufficient to man various establishments under the districts and engagement on muster roll was necessary. In view of retention of 291 excess staff, the government's contention is not tenable. Failure of the department to exercise proper control resulted in excess staff.

7.1.8 Inspection and monitoring

In March 2002, the department instructed all the District Veterinary Officers and Sub-Divisional Veterinary Officers to inspect field offices at least once in a quarter and submit inspection notes. No inspection note was available in the Directorate.

No instruction was also issued by the department requiring its higher/supervisory formations to conduct periodic inspection of the departmental farms, dairy plant *etc*. The department had not prepared any schedule requiring its farm managers to submit monthly/periodic reports showing performance of the farms, plants *etc*.

In the absence of any inspection schedule, periodic reports and returns, the entire control mechanism remained grossly ineffective.

Government stated (November 2005) that instructions had been issued to submit report to the Director in future.

7.1.9 Internal audit

The department had no internal audit wing although the Government stated in January 1996 that effective internal audit would be introduced. The irregularities and improprieties pointed out in the foregoing paragraphs were facilitated by the absence of any internal audit. The Director of Accounts of the State Government had also not inspected the transactions of the Department during the years under report.

Absence of an Internal Audit Wing hampered effective internal control resulting in a weak financial, farm and manpower management. Consequently it could not achieve its objectives even after 24 years of its establishment.

7.1.10 Conclusions

It may be concluded from the above audit findings that the department had little control over its budgetary process. Wide variations of expenditure even with the revised estimates indicated that budgeting was unrealistic and faulty. Due to parking of funds in Civil Deposit, unauthorised utilisation of departmental receipts to meet expenditure and non-accountal of revenue receipts, the financial management of the department was flawed.

Due to poor farm management, per capita availability of livestock products in the State remained far below the recommended level nullifying the department’s objectives of making the State self sufficient in food of animal origin. Against the recommended 120 staff, 411 staff were posted in six districts resulting in retention of 219 excess staff (242 *per cent*).

7.1.11 Recommendations

- The department should strengthen its Internal Control at all levels to achieve the desired objectives.

- Provision of the rules should be scrupulously followed and the planning process should be more realistic so that targets are achieved.

- Farms should be made economically viable.

- The department should review its manpower and deploy it evenly in all the districts.
- An internal audit system should be established at the earliest to ensure effective internal control in the department to attain the desired objectives.

Shillong
The

(Rajib Sharma)
Principal Accountant General (Audit)
Meghalaya, Arunachal Pradesh and Mizoram

Countersigned

New Delhi
The

(Vijayendra N. Kaul)
Comptroller and Auditor General of India