CHAPTER-V

Internal Control System in Government Departments

FINANCE DEPARTMENT

5.1 Internal Control Mechanism in Finance Department

Highlights

Internal Control Mechanism (ICM) in an organisation is meant to ensure that its operations are carried out according to the applicable laws, rules and regulations in an economical, efficient and effective manner. The Government has an internal control system where the overall financial control (budgetary controls, expenditure controls, internal audit etc.) is exercised by the Finance Department whereas, administrative and operational controls over specific functional activities are exercised by the respective departments themselves. Audit review of the functioning of the ICM during 2001-05 in Finance Department (FD) revealed deficient budgetary and expenditure control, lapses in cash management, inadequate controls in stores management, purchases made without observing the prescribed purchase procedure, and poor operational and supervisory controls in the department.

- **Unnecessary supplementary provisions of Rs.1.01 crore, Rs.0.56 crore and Rs.1.17 crore under Revenue Section during the years 2000-01 to 2002-03 were obtained by Finance Department when there were overall savings of Rs.606.13 crore, Rs.397.15 crore and Rs.468.27 crore at the end of the years indicating deficient budgetary controls by the department.**

(Paragraph 5.1.5)

- **In violation of the Orissa Budget Manual (OBM), the FD failed to surrender anticipated savings in time.**

(Paragraph 5.1.6)

- **Unnecessary provisions of Rs.0.51 crore, Rs.0.63 crore, Rs.0.14 crore and Rs.0.03 crore were made by the department for vacant posts during 2000-04 in violation of provision of OBM.**

(Paragraph 5.1.8)

- **Lump sum provisions of Rs.427.40 crore, Rs.390.85 crore, Rs.11.63 crore, Rs.7.22 crore and Rs.6.50 crore were made by the FD during the years 2000-05 in violation of the OBM.**

(Paragraph 5.1.9)

[*] The abbreviations used in this review have been listed in the glossary in Appendix XXXVI at page 224

- **Letter of credit system introduced to improve expenditure control in Engineering/high spending departments remained ineffective as the expenditure continued to exceed the provisions under several units of appropriation.**

(Paragraph 5.1.19)

- **The FD did not submit DC bills against AC bills for Rs.22.26 lakh drawn between July 2000 and December 2003. Similarly the DTI did not submit DC bills against AC bills for Rs.1.04 crore drawn between March 2000 and March 2003. DC bills for Rs.72 lakh drawn in AC bills between March 98 and March 99 were submitted by the DTI in November 2004 and January 2005. Thus, the FD and DTI failed to adhere to the codal provisions.**

(Paragraph 5.1.11)

- **Financial disciplines in cash management were not observed by the DDOs of Directorate of Treasuries and Inspection, Controller of Accounts and Finance Department.**

(Paragraph 5.1.13)

- **Purchases made in deviation of prescribed procedure (Rs.21.28 lakh by DTI during March 2004, Rs.8.96 lakh by FD during 2000-05).**

(Paragraph 5.1.16)

- **Supervisory controls by carrying out periodic inspection of the treasuries by the DTI were inadequate which affected the sense of accountability.**

(Paragraph 5.1.21)

5.1.1 Introduction

Internal Control Mechanism (ICM) in an organisation is meant to ensure that its operations are carried out according to the applicable laws, rules and regulations in an economical, efficient and effective manner. The Government has an internal control system where the overall financial control (budgetary controls, expenditure controls, internal audit etc.) is exercised by the Finance Department (FD) whereas, administrative and operational controls over specific functional activities are exercised by the respective departments. But the FD itself also functions within this overall internal control frame work of the Government and is therefore, subject to the same internal, financial, administrative and operational controls to manage its own functions as is applicable to any other department of the Government. But the FD's task is much more onerous since it has also to ensure implementation of the financial controls in all other departments of the Government.

A scheme of delegation of powers exists to enable the functionaries at different levels to carry out their assigned tasks and responsibilities while simultaneously ensuring strict adherence to the prescribed internal controls. While internal control is an integral part of an organisation’s operation and business, it is the principal focus of the Internal Audit. Expectedly, the Government also had an Internal Audit set-up functioning under the overall control of the FD.

5.1.2 Organisational structure

The Principal Secretary to Government of Orissa was in overall charge of FD. He was assisted by two special Secretaries and one Additional Secretary. The Director of Treasuries and Inspection, the Controller of Accounts, the Commissioner of Commercial Taxes were functioning as independent Heads of Departments (HODs) under the control of FD. The Director of Treasuries and Inspection was responsible for monitoring the functioning of Treasuries and Sub-Treasuries through periodic inspections and review of prescribed reports/returns relating to submission of monthly accounts and other returns to AG (A&E), timely reconciliation of figures with DDOs, pension payment etc. The Controller of Accounts was entrusted with the responsibility of maintaining General Provident Fund Accounts of about 2.5 lakh teachers of Primary Schools and other aided educational institutions authorizing their pension payments. The Commissioner of Commercial Taxes collects revenues for the State from various taxes such as Sales Tax (now VAT) etc. The Department administers the cadre of Orissa Finance Service (OFS). Besides officers who were mostly posted to different positions under the three Heads of Department/Directorate.

The Department comprises of Budget wing, Cash branch, Treasury branch, Resources branch, Group Insurance wing, Audit and Accounts, Local Fund Audit, Efficiency Audit Organisation, Ways and Means branch and Credit and Investment wing.

5.1.3 Audit Coverage

The functioning of ICM of the FD covering a period of five years (2000-05) was test checked in the offices of the Principal Secretary, FD at the Secretariat level, Controller of Accounts, Orissa (COA.), Bhubaneswar and Director of Treasuries and Inspection (DTI), Bhubaneswar. The scope of audit was limited to the functioning of the Budget, Cash, Group Insurance, Audit and Accounts branches along with the efficiency of the Local Fund Audit and Efficiency Audit Organisations.

5.1.4 Audit Objective

The audit objective was to ascertain the adequacy of various Internal Controls in the FD and evaluate if they were in place and being implemented to ensure functioning of the department in economic, effective and efficient manner for achieving the broad goals of the department. The various Internal Controls were grouped under the following sub-headings.

- Financial Controls comprising Budgetary and Expenditure Controls;
- Supervisory and Monitoring Controls;
- Operational Controls; and
- Internal Audit.

Financial Controls

Non-adherence to the provisions of Orissa Budget Manual (OBM) and instructions issued by FD itself led to unnecessary supplementary provisions, persistent savings, irregular provisions for vacant posts, expenditure without budget provisions etc. There were instances of irregularities in regard to transactions under Civil Deposits, adjustment of AC Bills, maintenance of GPF accounts by the Controller of Accounts etc. as discussed in succeeding paragraphs.

5.1.5 Provisions of Budget Manual ignored

The Orissa Budget Manual (OBM) envisaged effective adherence to budgetary controls which among other things required the administrative departments to prepare budget estimates based on inputs from lower formations, spend within the budgeted amounts, avoid rush of expenditure towards the close of the year and surrender the anticipated savings in time. Supplementary provision for funds was to be asked only in case the original allotment would prove insufficient. This required regular monitoring of monthly expenditure incurred by the Drawing and Disbursing Officers (DDOs) of subordinate offices by the administrative departments through the prescribed instrument of monthly statements of expenditure. The FD also issued explicit orders imposing restrictions on filling up vacant posts and that budget provisions for such vacant posts were not to be made. In so far as FD was concerned, it had not only to ensure the proper implementation of the above controls itself but also to oversee the implementation of the same in other Departments. The actual expenditure vis-à-vis budget provisions of the FD during 2000-05 were as follows.

(Rupees in crore)

Sl. No	Particulars	2000-01		2001-02		2002-03		2003-04		2004-05	
		Revenue	Capital	Revenue	Capital	Revenue	Capital	Reve-nue	Capital	Revenue	Capital
1.	Original grant/ Appropriation	1538.57	552.38	1455.54	276.58	1574.89	281.18	1788.59	174.23	2127.41	223.99
2.	Supplement-ary grants/ Appropriation	1.01	0.50	0.56	1.00	1.17	25.46	-	225.00	--	--
3	Total	1539.58	552.88	1456.10	277.58	1576.06	306.64	1788.59	399.23	2127.41	223.99
4.	Actual expenditure	933.45	352.42	1058.95	233.08	1107.79	125.98	1259.07	66.97	1474.27	120.45
5.	Savings (-)	606.13	200.46	397.15	44.50	468.27	180.66	529. 52	332.26	653.14	103.54
6.	Percentage of savings	39	36	27	16	30	59	30	83	31	46

(Source: Appropriation Accounts)

From the table, it was apparent that the expenditure was less than 50 *per cent* of the provision including supplementary under the capital section during the years 2002-03 and 2003-04. Thus the supplementary provisions of Rs.25.46 crore and Rs.225 crore under capital section during the above years was unnecessary. Similarly, under Revenue Head, the original grants were not fully utilised during all the years under review thereby making supplementary provision by the Department becoming a faulty decision. This state of affairs in the FD itself was likely to set a bad precedence for other Departments. Thus, provision contained in the OBM were totally ignored by the Joint

Secretary, Budget Wing while asking for the supplementary grants which ultimately led to surrender of the entire supplementary grants.

5.1.6 Timely surrender of anticipated savings

The OBM provided for surrender of all anticipated savings to the Government latest by 10th March of the financial year. For the purpose, the FD also issued circulars every year and circular for 2004-05 was issued on 11 March 2005 to all the departments. However, the Joint Secretary, Budget Wing of the FD surrendered their savings on the last day of the financial year and thus, the financial discipline sought to be imposed through the OBM was ignored by the Controlling Officers of the department. This adversely affected the reallocation of the funds that could have been utilised elsewhere, where there was a pressing demand. Thus there occurred belated surrender of savings after 10th of March in disregard of the provision of OBM.

5.1.7 Persistent Savings

Savings ranging from 27 to 39 *per cent* of Revised Estimates in respect of FD under Revenue section persisted in all the years during 2000-05. This indicated that the Joint Secretary, Budget Wing did not prepare the budgets realistically which might have hampered the actual requirement elsewhere and obviously the department failed to scrutinise the actuals of previous years and actual need for the current year as required under provisions of OBM.

5.1.8 Budget provisions for vacant posts

The OBM provided that provision should not be made in the budget for vacant posts. However in disregard of the same, the Joint Secretary, Budget Wing of the FD being the final authority for preparation of the budget for the entire State while requiring other departments from time to time to ensure strict control measures also irregularly made provisions for vacant posts and finally surrendered Rs.50.99 lakh, Rs.62.77 lakh, Rs.14.02 lakh and Rs.2.61 lakh under the head "2052-Secretariat General Services" during the years 2000-04.

5.1.9 Lump sum provisions

The OBM prescribe that lump sum provisions shall not, as a rule, be made in the budget unless a scheme has been elaborated and sanctioned in the previous year or sufficient details are available. Contrary to the above provisions, the FD made lump sum provisions of Rs.427.40 crore, Rs.390.85 crore, Rs.11.63 crore, Rs.7.22 crore and Rs.6.50 crore under the Head "2052-Secretariat General Services" for dearness allowance during the years 2000-01 to 2004-05 respectively. As a result, the FD had to surrender Rs.307.90 crore, Rs.342.08 crore, Rs.8.81 crore, Rs.2.05 crore and Rs.0.51 crore during the above years.

5.1.10 Avoidance of lapse of funds

The Orissa Treasury Code and the OBM restricted the drawals of moneys from the Treasury unless it was required for immediate disbursement. It was noticed that, the Controller of Accounts drew Rs.29.49 lakh (March 2001) towards computerisation of accounts and transfer credited the same to "8443-Civil Deposits-800-other deposits" to avoid lapse of the provision. Out of the above, Rs.25.19 lakh were withdrawn during 2001-05 and the remaining Rs.4.30 lakh continued to be parked under the Civil Deposit (March 2005). Similarly the DTI drew Rs.65.99 lakh from the service Head "2054-Treasury and Accounts Administration-Computerisation of Accounts" and transfer credited the same to "8443-Civil Deposits" during the years 1999-02 out of which, Rs.44.33 lakh was still lying unspent under Civil Deposits (March 2005).

Further, as per information furnished by the FD, the balance under 8443-Civil Deposits-800-Other Deposits as of 31 March 2005 was Rs.639.98 crore. During the years 2000-05, while Rs.1086.96 crore were transfer credited to the above head, the withdrawals amounted only to Rs.894.99 crore during the years by different departments. All the above deposits and withdrawals from the Civil Deposits in subsequent years had the approval of the controlling officers of the grants and FD. This irregular practice resulted in erosion of legislative control over expenditure as the drawals from Civil Deposits in the subsequent years neither required further legislative approval nor was the expenditures incurred subjected to legislative scrutiny through the appropriation mechanism. The Under Secretary, FD stated (May 2005) that all the Departments had been instructed (April 2005) not to transfer the budgeted funds to the Civil Deposit.

5.1.11 Submission of DC Bills against AC Bills

According to the financial rules of the Government, amounts drawn under Abstract Contingent (AC) bills were required to be adjusted by submission of Detailed Contingent (DC) bills within 30 days from the date of drawal to the Controlling Officers for counter-signature and onward transmission to the Accountant General (A&E). However, the FD, in 13 cases, did not submit DC Bills against AC Bills for Rs.22.26 lakh[1] drawn between July 2000 and December 2003 to the Accountant General (A&E) as of March 2005. Similarly, in respect of three AC bills for Rs.72 lakh[2] drawn between March 1998 and March 1999, the DTI submitted DC bills in November 2004 and January 2005 with delays ranging from 56 to 82 months. Further, DC bills against five AC bills of Rs.1.04 crore[3] drawn between March 2000 and March 2003 for computerisation of treasuries were still pending submission by the DTI (March 2005). Thus, DDOs of the FD and the DTI failed to adhere to the codal provisions besides bringing about distortion in accounts.

[1] AC Bill Nos: 27 FD(OC) 24 July 2000 for Rs.5.40 lakh, 67 FD(OC) 10 January 2001 for Rs.0.43 lakh, 80 FD(OC) 2 March 2001 for Rs.5 lakh, 90 FD (OC) 24 March 2001 for Rs.5.28 lakh, 35 FD(OC) 8 August 2001 for Rs.0.31 lakh, 63 FD(OC) 19 November 2001 for Rs.0.04 lakh, 118 FD(OC) 22 March 2002 for Rs.4.15 lakh, 119 FD(OC) 28 March 2002 for Rs.0.12 lakh, 33 FD(OC) 19 August 2002 for Rs.0.14 lakh, 81 FD(OC) 31 January 2003 for Rs.0.20 lakh, 39 FD(OC) 27 August 2003 for Rs.0.25 lakh, 67 FD(OC) 26 December 2003 for Rs.0.90 lakh and 68 FD(OC) 30 December 2003 for Rs.0.04 lakh.

[2] AC Bill Numbers: (i) 1/31 March 1998 for Rs.33 lakh (DC Bill: 2/11 January 2005), (ii) 2/27 March 1999 for Rs.34 lakh (DC Bill: 3/11 January 2005) and (iii) 1/27 March 1999 for Rs.5 lakh (DC Bill: 1/8 November 2004).

[3] AC Bill Numbers: (i) 1/30 March 2000: Rs.3.85 lakh, (ii) 1 and 2/30 March 2002: Rs.62.07 lakh and (iii) 1 and 2/31 March 2003: Rs.37.79 lakh.

5.1.12 Expenditure on repairs and maintenance of Government vehicles

The Rules regulating control and use of Government vehicles issued (July 1979) by FD as amended (February 2003) laid down monetary ceilings on repair and maintenance of Government vehicles. It was seen that the FD expended Rs.10.51 lakh during 2000-05 on repair and maintenance of 15 Government vehicles being used by the officers of the department as against the admissible expenditure of Rs.3.32 lakh. Thus, failure to follow the rules resulted in excess expenditure of Rs.7.19 lakh. The FD stated (May 2005) that steps would be taken to reduce the expenditure as far as possible.

5.1.13 Cash Management

The Orissa Treasury Code (OTC) and the Orissa General Financial Rules (OGFR) provided several internal control measures in cash management like maintenance of cash book in the prescribed form, attestation of entries by the DDO, check of totalings by an officer other than the writer of the cash book, monthly physical verification of cash balances by DDO etc. Audit scrutiny revealed that those were not scrupulously followed by the test checked DDOs of COA, DTI and FD.

Though the Rules prohibited incurring expenditure from available cash without allotment, the FD itself incurred such expenditure of Rs.0.60 lakh of miscellaneous nature and depicted the same in the closing balance of the Cash Book as ‘paid vouchers’ (March 2005).

Despite the instructions of FD from time to time, the latest being in June 2001 that Government money should not be kept in the form of Bank Drafts, Deposit at Call Receipts or in Bank Accounts as it affected the ways and means position of the Government, the DDO, FD in disregard of their own instructions kept Rs.7.79 lakh in the form of bank drafts as of March 2005.

5.1.14 Non-adherence to rules governing Medical Advances

According to the FD's instructions (January 1987/April and December 1993), medical advances paid to Government servants were required to be adjusted soon after the treatment was over or within six months from the date of drawal, whichever was earlier, failing which interest at the prescribed rate was to be recovered along with the principal. It was, however, seen that medical advances of Rs.1.86 lakh paid during 2000-04 were outstanding against two employees[4] of FD without adjustment (February/May 2005). Thus the DDOs failed to follow the relevant instruction in regard to prompt adjustment of medical advances.

5.1.15 Failure to observe timely disposal of Group Insurance Scheme cases

Under the Group Insurance Scheme (GIS) of the State Government, all the employees of the Government / aided institution are required to make one time refundable deposit of a prescribed amount with the Government (FD)

[4] (i) Sadasiba Mohapatra, SO (Sanctioned-9 January 2004: Rs.0.55 lakh) and (ii) Sri U.C.Kabisatpathy, Ex-Audit Superintendent (Sanctioned- 16 March 2001: Rs.1.31 lakh).

depending on the pay at the entry level for which pass books would be issued to them. On relinquishing service, the deposit was to be refunded within seven days to the employee on production of the pass book and in case of death of the employee while in service, the assured sum was to be paid to the nominee within one month. It was noticed that of the 5.79 lakh pass books issued, 900 claims many of which related to death cases, were pending with the FD for finalisation since 1994-95 onwards. Thus, the departmental authorities failed to review and monitor the position as regards receipt of compliance from the concerned authorities and action taken thereon for final disposal of the cases pending since December 1994.

5.1.16 Purchases made in deviation from the prescribed procedure

The Orissa General Financial Rules (OGFR) provided that purchases of stores for use in the public services should be made in most economical manner following the procedures laid down under the rules such as calling for sealed quotations/tenders indicating the specifications, preparation of comparative statement etc. while making purchases from firms not under the rate contract of the Director General of Supplies and Disposals (DGSD) or the Director of Export Promotion and Marketing, Orissa (DEPM). However, the DTI purchased furniture worth Rs.4.42 lakh during 2003-05 from Bhubaneswar based private firms not being on rate contract, without observing the above purchase procedures to ensure economy.

The COA advanced (March 2004) Rs.21.28 lakh to National Informatic Service Centre Incorporated, New Delhi for supply of hardware and software for 15 computers within six weeks. The advance was treated as final expenditure in the cash book without receipt of invoice in support of delivery of materials. Although the materials were stated to have been received, the same had not been taken to stock after required inspection (April 2005). Besides, the purchase order did not contain penal clause against time overrun for installation. As a result, the computers had not been installed leading to blockage of Government funds for over one year.

5.1.17 Non-adherence to prescribed controls in stores management

Physical verification of stock and stores required to be conducted at least once in a year was not conducted by any of the test checked offices in respect of stores held by them for different periods covered under audit. Due to such non-verification, actual existence of Government stores could not be ensured.

Operational controls

Failure to scrutinise the budget proposals of other departments in accordance with the OBM leading to persistent excesses and savings and continued excess expenditure over the provisions in Engineering/high spending departments despite operation of Letter of Credit (LoC) system were noticed as detailed below.

5.1.18 Preparation of budget of the State

While the FD failed to control its own budget as per the provisions of OBM, it also failed to effectively enforce those provisions while scrutinizing and approving the budget proposals of other Departments. During 2000-05, there were excesses or savings under several Demands for Grants at the end of the year as reflected below.

Year	Number of Grants in which there was			
	Excess		Savings	
	Number of Grants/ Appropriations	Amount (Rupees in crore)	Number of Grants/ Appropriation	Amount (Rupees in crore)
2000-01	8	2474.48	38	3770.57
2001-02	4	393.58	37	4597.38
2002-03	5	2068.93	38	3704.54
2003-04	2	Negligible	40	5452.26
2004-05	3	9.93	40	4488.29
(Total number of Grants during this period was 42)				

Source: Appropriation Accounts of the respective years.

This reflected the lack of effective monitoring by the FD to control such excesses or savings through monthly reports and/or review meetings. Audit scrutiny further revealed that though the individual Departments had been asked to send the monthly reports and expenditure under both plan and non-plan heads to the FD, the FD seldom made use of such reports. These reports generally reached late in the FD. To this extent the exercise of pre-budget scrutiny carried out by the FD for other Departments was unproductive and the budget continued to be unrealistic. However, the position relating to excesses under various grant heads had considerably improved in 2003-04 and 2004-05 as seen in the table above.

Persistent savings in respect of the entire State became a regular feature in the budget every year as detailed below.

(Rupees in crore)

Year	Number of Grants/ Appropriations	Total Budget Provision	Number of Grants in respect of which savings occurred	Savings
2000-01	42	16,567	38	3,770.57
2001-02	42	23,262	37	4,597.38
2002-03	42	22,913	38	3,704.54
2003-04	42	28,848	40	5,452.26
2004-05	42	22,227	40	4,488.29

Source: Appropriation Accounts of the respective years.

It indicated lack of effective monitoring of Review of Expenditure statements every month by both the concerned administrative Departments and the FD. Besides, the FD had also failed to effectively review the expenditure statements and give timely advice for surrender.

There was lack of control over making a realistic budget and this also affected the expenditure control mechanism adversely.

5.1.19 Expenditure control through LoC system

To regulate flow of expenditure for works and to guard against excess expenditure over budget allotment as well as avoid creation of unnecessary liabilities, Government introduced the system of expenditure control through LoC system in April 1968 in Engineering and a few other high spending Departments. The LoC system was to be administered by the Finance Department. After passage of the Budget, the Finance Department would release funds in favour of each Chief Engineer (CE) on the basis of month-wise requisitions placed by him through a LoC and endorse copies of such LoC allotment order to the Secretary of the administrative departments so as to enable the latter to monitor the progress of expenditure against the budget provisions and the LoC released. Under no circumstance was the LoC allotted amount to be exceeded.

Mention was made regarding rampant misuse of the LoC System including the release of LoC in excess of allotment/without allotment, release of LoC for unapproved works, unauthorised diversion of LoC by Chief Engineer/Engineer-in-Chief, fictitious adjustment of allotment etc. during the period 1996-1999 in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Civil) Government of Orissa.

A review of expenditure of Works Department, Water Resources Department, Rural Development Department and Housing and Urban Development Department during the period 2001-02 to 2004-05 revealed that the expenditure continued to exceed the provisions under several detailed heads of accounts despite the LoC system being in operation, as shown in Appendix-XXXV**.** It was also seen that the expenditure under Revenue Section exceeded the provision by Rs.120 crore, while there was savings under Capital Section by more than Rs.200 crore during 2001-02 under Grant-28 relating to the Rural Development Department. Similarly, there were excesses under Grant-20 relating to the Water Resources Department during 2001-03.

This indicated that despite existence of the LoC system, there was no effective control over expenditure by the Finance Department. The Finance Department was addressed twice in July and August 2004 for production of relevant records in connection with the control exercised by them on LoCs vis-à-vis budget provision and actual expenditure incurred. No records were, however, made available to Audit.

Special Secretary to Government, Finance Department in his reply stated (September 2005) that the authority administering a Grant was ultimately responsible for keeping the expenditure within the Grant and that Finance Department was keeping track of amounts drawn through PW cheques comparing against the total Letter of Credit authorised. In view of non-production of records by the Finance Department, the contention of the Special Secretary was not verifiable in Audit. However, the reply of the Finance Department indicated total abdication of the responsibility in enforcing expenditure control through proper monitoring of the LoC system at their level.

5.1.20 Irregular diversion of LoC of Rs.5.38 crore

Chief Engineer (CE), RWSS received LoC of Rs.9.80 crore during the year 2003-04 towards salary of staff (Regular/NMR/DLR) against which Rs.1518.24 lakh was disbursed towards salary by diverting Rs.538.56 lakh out of LoC of Rs.725.00 lakh received for non-plan works during the same year. On being pointed out (July 2004), the CE in his reply (August 2004) stated that the Finance Department did not release the LoC in spite of their regular requisition under the head/component salary. This was a clear case of lack of effective monitoring of the LoC system by the Finance Department over and above the Rural Development Department which is the Administrative Department for CE, RWSS.

Supervisory Controls

Lack of supervisory controls led to non-submission of important returns by the treasuries to the DTI/Accountant General (A&E), heavy accumulation of unposted GPF subscriptions under suspense account, delayed settlement of Provident funds cases by the Controller of Accounts etc. as discussed below:

5.1.21 Failure to carry out periodic inspections of Treasuries

According to the Treasury rules, the DTI or a gazetted officer nominated by him was to conduct inspection of treasuries/sub-treasuries at least once in a year. However, out of the 161 Treasuries/Sub Treasuries functioning under his control, there were shortfall in inspections conducted by the DTI ranging from 114 to 154 treasuries/sub-treasuries during 2000-05. Further, according to a standing order (August 1992) of the DTI, all the treasuries were to send as many as 39 periodical reports/returns to the DTI and the Accountant General (A&E) such as the cash balance reports, stamp paper verification reports for ascertaining their performance. It was however, noticed that although many of the treasuries defaulted in sending such returns to DTI, no action was taken at the DTI level for ensuring the receipt of the same As a result, the required performance of the treasuries could not be ascertained in audit. The DTI stated (April 2005) that due to shortage of Gazetted officers and audit staff the regular inspection of the treasuries was not possible and the defaulted treasuries were being requested to send the required reports/returns. The fact however was that, the treasury administration being one of the important financial functions of the Government, the shortfall in inspection by the DTI affected the quality and timeliness of initial accounts rendered by the treasuries to the Accountant General (A&E) and adequacy of checking of entitlement claims etc. The lack of inspection also affected the sense of accountability at the Treasury level.

5.1.22 Non-submission of Plus and Minus Memoranda

Plus and Minus Memoranda in respect of deposit heads and Personal Ledger (PL) accounts were required to be furnished by the TO to the Accountant General (A&E), Orissa each month in accordance with the provisions of OTC Vol-1.

But the Treasuries did not furnish the plus and minus memoranda either for the entire financial year or part thereof during the years 2001-04. Consequently, the correctness of the Deposit accounts and PL accounts maintained by the Accountant General (A&E), Orissa could not be verified by the Accounts office. Further, the Treasury-wise reconciliation of the balances under the head “8443-Civil Deposits” and “8448-Deposits of Local fund” with the DDO pass book was not done. Consequently, the annual balance certificates were not furnished to Accounts office as required under provisions of treasury rules. Thus, both the DTI and the FD failed to ensure the submission of plus and minus memoranda by the Treasuries to the Accountant General (A&E), Orissa.

5.1.23 Heavy accumulation of arrears in GPF final payment cases/ authorisation of pensionary benefits

The COA was created in December 1991 with a view to maintaining General Provident Fund (GPF) accounts and authorisation of pensionary benefits of 2.15 lakh employees of aided Educational Institutions including primary school teachers. As against the sanctioned posts of 187 for the organisation of which the men in position were 118 including Assistant Controller of Accounts (3), Section Officer (2) and Accountants (63) as of March 2005. It was however, noticed that the accumulation of arrears of cases in authorisation of pensionary benefits and final payment of GPF registered an increasing trend from 2582 to 3693 cases (pension) and from 5050 to 12077 cases (GPF) at the close of the financial years during 2002-05. Further, despite computerisation of the GPF Accounts with engagement of separate technical workers for the purpose since April 2002, accounts slips for the years from 2002-03 onwards had not been issued to subscribers, as the accounts were not finalised (April 2005). Although the GPF accounts were finalised up to 2001-02, subscriptions worth Rs.41.82 crore (17601 cases) relating to 1999-2002 were lying under the Challan-Suspense without clearance due to receipt of erroneous challans from the DDOs/Treasury Officers. Action to clear the amount lying under suspense had not been taken as of April 2005. The COA stated (April 2005) that the accumulation of arrears was due to shortage of staff. However, the fact remained that review of the arrears by the COA was not carried out and modalities fixed for early settlement of the cases.

Internal Audit

5.1.24 Internal Audit in Finance Department

Internal Audit, as an independent entity within or outside the department was to examine and evaluate the level of compliance to the departmental rules and procedures so as to provide independent assurance to senior management on the adequacy of the risk management and internal control framework in the department. The FD did not have an Internal Audit wing to conduct audit of its own functioning due to which, the senior management failed to ensure the compliance to ICM in the FD.

However, the organisations of Local Fund (LF) Audit and Efficiency Audit (EA) were functioning under the control of the FD. Mention was made in the Comptroller and Auditor General's Report (Civil) for the year ended 31 March 2003 (Paragraph 5.1) regarding the functioning of these organisations. While the deficiencies pointed out in the Report were still persisting, further deficiencies were noticed as below.

5.1.25 Local Fund (LF) Audit Organisation

The LF Audit Organisation functions under the authority of the Orissa Local Fund Audit Act. 1948. It conducts Statutory Audit of Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) and Non-statutory Audit of Aided Educational Institutions, Universities, Board of Secondary Education, Council of Higher Secondary Education, Religious Endowments and some miscellaneous institutions receiving Government Grants, on 100 *per cent* basis.

The following deficiencies were noticed in the functioning of LFA.

- The LFA did not have an audit manual for its auditors.
- No watch register was maintained to watch the receipt of compliance from the auditee units.
- No review meetings were held with the local bodies/authorities by the higher management for ensuring early compliance to audit reports.
- No consolidated reports on outstanding audit reports and paragraphs was prepared at the department level.

The position of targets and achievements relating to annual audit plan for the years 2003-05 was as follows:

The LFA planned audit of 1287 accounts (1218 offices) of which audit of 1127 accounts (1075 offices) could be completed. This indicated the deficiency in implementation of the audit plans during the above two years which the LFA organisation attributed to shortage of staff. The fact however remained that the audit plans should have been worked out taking into account the staff constraints.

5.1.26 Shortfall of recovery in Surcharge Cases

Under the provisions of the Orissa Local Fund Audit Act, 1948, in case the observations regarding recovery of dues on account of losses due to negligence, misappropriations etc. pointed out by the Auditors of the LFA at the district level were not complied with and remained unsettled, the Examiner of Local Account (ELA) was to initiate surcharge proceeding by issuing notice to the person responsible for such loss, misappropriation etc. to show-cause within one month. After considering the explanation received from the person concerned, the ELA may drop the case or surcharge the person to make good the loss or deficiency. If the amount surcharged was not paid within one month, the ELA thereafter was to initiate certificate cases for recovery as arrears of land revenue through the Collector concerned. However, the aggrieved person can prefer an appeal before the appellate authority within fourteen days in which case the surcharge/certificate proceeding was deemed to have been stayed till such proceeding was decided.

Scrutiny of the records of ELA revealed that out of the 21770 surcharge cases involving Rs.62.14 crore initiated during 2000-05, only 2577 cases for Rs.1.02 crore were settled. Of the remaining 19193 cases, certificate cases for only 2731 cases for Rs.3.96 crore were initiated and records relating to action taken in respect of 16462 cases were not available at the ELA Headquarters.

5.1.27 Efficiency Audit (EA) Organisation

The EA Organisation conducts evaluations, studies and internal audit and also undertakes special audit on requisition from different organisation, instructions from higher authorities and at times, on its own initiative.

As the system of audit was totally based on requisition, no annual planning was done.

As against requisition/directives received for 306 units, the EA could complete audit of 113 units (37 *per cent*) during the period 2000-05 of which, compliance to 75 audit reports from the concerned offices had been received (May 2005). No register was maintained to watch the compliances. Besides, the organisation did not have its own audit manual.

Thus, due to shortage of manpower, poor audit coverage and non-existence of follow-up action on audit reports the LFA and EA organisations were rendered ineffective and could not provide independent assurance to the management about the compliance of ICM by various departments of Government.

5.1.28 Lack of response to audit

The Accountant General (Civil Audit), Orissa arranges to conduct periodic inspection of Government transactions. The audit findings are communicated through Inspection Reports to the head of the Offices/Departments to comply with the audit observations and rectify the defects and promptly report the compliance to the Accountant General. A half yearly report on the pending Inspection Reports is sent to each department to facilitate monitoring and compliance of audit observations.

As of June 2005, 363 paragraphs relating to 192 Inspection Reports (IRs) of FD (including its subordinate offices) issued up to March 2005 were still pending for settlement. Of these, 190 paragraphs relating to 95 IRs were more than 10 years old. Several serious irregularities commented upon in these IRs had not been settled. Failure to comply with the issues raised by Audit facilitated the continuance of serious financial irregularities and loss to Government.

5.1.29 Conclusion

Budgetary controls, expenditure controls, cash management and monitoring mechanism were deficient in the department. The basic checks such as proper maintenance of cash books, submission of reports and returns were not followed properly. Supervisory control by carrying out periodic inspection of Treasuries by Director of Treasuries and Inspection were inadequate. Internal

Audit System expected to bring failures in ICM to the notice of the management was non-existent in the department. The follow up of audit objections raised by the Local Fund Auditors was not being done.

Recommendations

- Strict adherence to the provisions of the financial rules and procedures should be ensured to avoid unnecessary budget provisions and delayed surrenders.
- Internal Audit System should be set-up in the department to ensure the adequacy of the risk management and internal control framework in the department.
- An effective system audit planning needs to be evolved for Local Fund Audit and Efficiency Audit to ensure audit of all units in a time bound manner.
- Periodic inspection of Treasuries by the Director of Treasuries and Inspection should be streamlined.

The Special Secretaries of the Department during discussion (October 2005) stated that the audit observations were noted for guidance and corrective actions wherever necessary had already been initiated.

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