

CHAPTER V
INTERNAL CONTROL SYSTEM
IN GOVERNMENT
DEPARTMENTS

INDUSTRIES AND COMMERCE DEPARTMENT

5.1 Internal Control Mechanism in Industries and Commerce Department

Highlights

An evaluation of the Internal Control System in the Industries and Commerce Department revealed weaknesses in internal controls and non-compliance with rules, manual and codes in the areas of Budget preparation and expenditure control. Inordinate delays were noticed in registration of industries and the Department failed to review the schemes implemented for promotion of industries by the Pondicherry Industrial Promotion Development and Investment Corporation Limited which were indicative of deficiencies in the operational controls. Significant points noticed in Audit were as follows:

- Though Rs 4.50 crore was released by Government of India to a Government company for a central scheme including establishment of Special Economic Zone, Union Territory Government released Rs 1.11 crore additionally to it for the same purpose. Of Rs 5.61 crore, Rs 5.45 crore remained unutilised.

(Paragraph 5.1.7)

- Failure to follow-up reimbursement from the Government of India for the scheme 'Investment Subsidy' resulted in non-receipt of Rs 8.03 crore pending since 1990-91.

(Paragraph 5.1.9)

- Cash verification had not been conducted by the Drawing and Disbursing Officers and Bill Registers were not closed.

(Paragraphs 5.1.10 and 5.1.11)

- Single window system created for expeditious clearance of registration of industries in Union Territory was largely ineffective as the applications received for registration of industries were not processed within prescribed time limit.

(Paragraph 5.1.13)

5.1.1 Introduction

The Industries and Commerce Department aims to promote balanced and sustainable industrialisation among all regions of the Union Territory (UT)

of Pondicherry, foster entrepreneurship among people and maximise employment opportunities to improve standard of living. The main functions of the Directorate of Industries and Commerce (DOIC) are to register small scale industries, establish industrial complexes/growth centres/estates, promote investment in the UT and implementation of subsidiary schemes. District Industries Centre (DIC) caters to the development of small scale and cottage industries and development of human skills for those industries, besides organising publicity for sale of products manufactured in the UT and holding exhibitions.

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, mismanagement, etc. Internal control enables the supervising officers and Heads of Department to monitor the functions of their subordinates by delegating necessary powers and authority to different levels of organisation and by the application of various rules, regulations and instructions issued, from time to time. Internal Audit, being an integral part of administrative and managerial control, is an important link in the Internal Control System.

5.1.2 Organisational set up

The Secretary (Industries) is the administrative Head of the Department who is assisted by the Director, DOIC and the General Manager, DIC. Two Deputy Directors and four Assistant Directors report to the Director. Three Functional Managers assist the General Manager, DIC. The DIC at Mahe and Yanam are under the charge of Technical Officers. There are three¹ Drawing and Disbursing Officers (DDOs) in DOIC and four² in DIC.

5.1.3 Audit objective

An evaluation was carried out to assess the functioning of the Internal Control System in the Industries and Commerce Department with specific reference to budgetary and expenditure and operational controls.

5.1.4 Audit coverage

The records in the Secretariat (Industries and Commerce Department), the DOIC and the DIC including sub-offices at Karaikal, Mahe and Yanam covering the period 2000-05 were test checked during May 2005 to July 2005.

¹ One each at Pondicherry, Karaikal and Yanam Regions

² One each at Pondicherry, Karaikal, Mahe and Yanam Regions

Audit findings

Budgetary and expenditure control

5.1.5 Delay in submission of Budget proposals

Delays of 16 to 41 days were noticed in submitting Budget proposals

Budget proposals for the Department are prepared by the Director, DOIC. The proposals relating to Plan schemes are sent to the Planning and Research Department while for Non-Plan schemes, proposals are sent to the Finance Department. While the delay in submission of proposals for the financial years 2000-01 to 2004-05 to the Planning and Research Department ranged between 23 and 41 days, there was delay ranging from 16 to 35 days in submission of proposals to the Finance Department for the same financial years.

5.1.6 Surrender of funds

Surrender of funds aggregating Rs 3.99 crore was resorted to under the scheme 'Fiscal Assistance to New Industries' and 'Incentive for Pollution Control Equipment and Energy Saving Devices' in all the years from 2000-01 to 2004-05 as new guidelines/revised guidelines were not issued.

5.1.7 Non-utilisation of grant

Grants released for establishing Special Economic Zone were not utilised

Government of India (GOI) released Rs 4.50 crore (August 2002: Rs 1.50 crore; March 2003 : Rs 1.50 crore and July 2003 : Rs 1.50 crore) to the Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC), the nodal agency, for the scheme 'Assistance to State for Infrastructure Development for Exports and allied Activities' (ASIDE). One of the components in the scheme was establishment of 'Special Economic Zone' (SEZ) in Pondicherry. In November 2003, the GOI informed the UT Government that no further funds would be released to the PIPDIC as no project had been approved by the UT Government to utilise Rs 4.50 crore already released. Despite having the funds available, the Government further sanctioned Rs 1.11 crore in March 2004 (Rs 10.89 lakh) and February 2005 (Rs one crore) to the PIPDIC as share capital assistance to be used for the SEZ to be set up in Pondicherry. PIPDIC, however, utilised only Rs 0.16 crore mainly on advertisement and purchase of car and the remaining amount of Rs 5.45 crore³ was not spent as of March 2005.

5.1.8 Rush of expenditure

The progress of expenditure during the years 2001-02 to 2003-04 revealed that the expenditure during the month of March ranged from 24 to 26 *per cent* of the total annual expenditure. Had the expenditure been incurred uniformly throughout the year, this would have been close to 8.33 *per cent*.

³ Rs 5.61 crore *minus* Rs 0.16 crore

5.1.9 Non-monitoring of reimbursement from the GOI

Reimbursement of Rs 8.03 crore was pending from the GOI since 1990-91 due to non-pursuance

The Centrally Sponsored Scheme of 'Investment Subsidy Scheme' was implemented in UT from August 1971. The expenditure towards the scheme was initially to be met by the UT Government in the Industries and Commerce Department and its reimbursement was to be obtained from the GOI subsequently. Though the scheme was withdrawn from January 1990, the Department failed to actively pursue reimbursement of Rs 11.88 crore relating to the period September 1988 to December 1989. Besides, the Department did not consider the reimbursement of Rs 3.85 crore made by the GOI during 1997-98 and sought reimbursement (October 2001) of entire amount of Rs 11.88 crore instead of Rs 8.03 crore. The balance amount (Rs 8.03 crore) had not been reimbursed as of October 2005.

Cash control

5.1.10 Maintenance of Cash Book

Cash balance was not verified by DDOs

Receipts and Payments Rules, 1983 prescribe physical verification of cash balance at the end of each month and recording of prescribed certificate in this regard in the cash book by the DDOs. During audit it was noticed that no such verification was done by the three DDOs in the DOIC. Consequently, there was a risk of shortage in cash balance due to defalcation or otherwise, escaping notice. Cash deposit security (Rs 1,000) and fidelity bond (Rs 50,000) were not provided by the cashiers at Karaikal under the DOIC and at Yanam under the DIC.

5.1.11 Monitoring of bills

Registers to watch bills pending payment were not closed

All the three DDOs of DOIC did not close their respective Bill Drawn Register and the Bill Transit Register that enable monitoring of bills pending payment by the Treasury. The Director of Accounts and Treasuries (DAT) during his audit of the DIC (February 2005) and the DOIC (April 2005) observed that (a) Cheque Registers and Bill Drawn Registers were not numbered and entries were not authenticated and (b) entries in Permanent Advance Register in the DIC were not recorded at the time of transaction. These had remained unrectified as noticed by Audit during its verification carried out in May 2005.

5.1.12 Maintenance of Grants-in-aid

Grants-in-aid register was not maintained properly

During 2000-05, the Department released grants-in-aid of Rs 30.53 crore to one Government company⁴ and three societies⁵ but the DOIC and DIC did not maintain grants-in-aid register in the format prescribed in the General Financial Rules (GFR). The Register did not contain important details such as amount of the bill, dated initials of the sanctioning authority, acceptance

⁴ Pondicherry Textiles Corporation Limited

⁵ Pondicherry Khadi and Village Industries Board, Pondicherry Management and Productivity Council and Pudumai Society.

of conditions of grant by the grantee institutions, receipt of accounts from grantee institution, due date and actual date of receipt of utilisation certificate, unspent balance and amount surrendered by the grantee institution.

Operational control

5.1.13 Registration of Industries

Applications for registration of industries were not processed within prescribed time limit

In order to streamline the procedure for registering industries in the UT, the Government issued a notification (February 2004) for a single window clearance system setting a time limit of 30 days for issue of permission/rejection by various agencies/departments. The status of 275 applications received in the DOIC during 2004-05 revealed that 271 applications were finalised and four applications were pending as of October 2005. Of the applications finalised, only 24 (nine *per cent*) were finalised within 30 days, 70 (26 *per cent*) were finalised between 30 and 90 days, 86 (32 *per cent*) between 90 and 180 days and 91 (33 *per cent*) after 180 days. All the four applications were pending for more than 210 days. Though the High Level Committee that was to clear/reject the applications was to meet every three weeks, it met 9 times against 18 times during March 2004 to March 2005.

5.1.14 Deficiency in control mechanism in execution of works

Departmental schemes implemented by PIPDIC were not reviewed

In order to promote industries, various schemes of the UT Government were implemented by the PIPDIC out of funds provided by the DOIC. The funds were released as share capital assistance to the PIPDIC for the specific purpose mentioned. Though the overall responsibility for industrial development vested with the Department, no action apart from release of share capital assistance was taken. The status of implementation of various schemes undertaken (as of July 2005) was as follows:

(Amount - Rupees in crore)

Sl. No.	Name of the scheme	Year of commencement	Amount released by		Total	Expenditure	Status as of July 2005	Control failures
			UT Government	Central Government				
1.	Establishment of Electronic Park, Thirubuvanai	1995-96	3.84	--	3.84	3.84	Of 131 industrial plots developed by August 1999, 94 plots remained unallotted.	The Department did not have adequate control mechanism to (a) assess and monitor the demand for industrial plots and (b) enable taking remedial action to increase demand for the plots.
2.	Growth Centre at Polagam, Karaikal (CSS)	1999-2000	8.35	6.50	14.85	14.19	Phase I of the Project comprising 74 plots was completed in December 2003. Only 15 plots were allotted to 19 units. The remaining 59 plots remained unallotted.	
3.	Information Technology Park, Kalapet – Phase II	1998-99	5.25	--	5.25	1.77	The estimate for construction of building was approved by the Chief Engineer, Public Works Department (PWD) only in March 2004. Tenders had not been invited.	Though amount was released in 1998-99 itself, the PIPDIC sent the estimate to the PWD for approval in March 2004 only. The Department had no control mechanism to monitor the project to enable taking remedial action to avoid unnecessary delay.

As the implementation of major schemes by the PIPDIC was not reviewed by the DOIC, the bottlenecks in their completion were not identified for rectification.

5.1.15 Recovery of loans

Improper maintenance of records led to waiver proposal

Under the scheme 'State Aid to Industries', the DOIC released loans during 1965 to 1980 to entrepreneurs who started industries in UT. As the personal security given by 85 persons could not be traced, the DOIC proposed (December 2004) waiver of Rs 6.82 lakh released to them. Further, the DOIC proposed (March 2005) to waive Rs 14.80 lakh recoverable from 59 persons on mortgage bond as these people were not traceable. Failure to maintain the records properly and to recover the loan on due dates led to these waiver proposals. The approval of the GOI for waiver was not received as of May 2005.

5.1.16 Internal Audit

There is no Internal Audit wing in the Department and as such system of Internal Audit is not in existence.

5.1.17 Conclusion

Deficiencies in the Budgetary control and unnecessary release of funds to the Government companies indicated weaknesses in financial control. Failure to review schemes implemented by the Government companies contributed to shortfall in achievement of objectives of the Department. The efforts of the Department to streamline the registration procedure through a single window system were not successful, indicating that operational controls were deficient.

Recommendations

- Greater discipline should be exercised in making Budget provision and release of funds.
- The procedure for registration of industries should be strengthened to avoid delays.
- Periodical review of schemes implemented by the PIPDIC as a nodal agency has to be undertaken for accelerating their execution as a measure for strengthening the effectiveness of operational controls.

The matter was referred to the Government in September 2005; reply had not been received (January 2006).