

CHAPTER V
INTERNAL CONTROL

CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT

5.1 Internal Control in Civil Supplies and Consumer Affairs Department

Highlights

Internal Control is an integral component of an organisation's management processes which are established in order to provide reasonable assurance that operations are carried out effectively and efficiently, financial reports and operational data are reliable, and the applicable laws and regulations complied with so as to achieve organisational objectives. Internationally the best practices in Internal Control have been given in the COSO¹ framework which is a widely accepted model for Internal Controls. In India, the GOI has prescribed comprehensive instructions on maintenance of Internal Control in Government departments through Rule 64 of General Financial Rules, 2005. A review of internal control on selected areas of Civil Supplies and Consumer Affairs Department has shown that:

The Department had not followed the prescribed accounting procedure for providing funds in the budget relating to expenditure on supply of food grains, various schemes under Public Distribution System and subsidy. Funds were provided in the budget and supplementary grant unnecessarily and were either surrendered or diverted.

(Paragraphs 5.1.5.1 and 5.1.5.2)

The reviews of bill register and bill transit registers were not carried out to prevent presentation of fraudulent bills.

(Paragraph 5.1.6)

Deployment of staff for field work was made without any norms.

(Paragraph 5.1.7.1)

Instructions of Government of India on identification of BPL families and supply of kerosene were not complied with.

(Paragraph 5.1.7.2)

¹ Committee of Sponsoring Organisations of the National Commission on Fraudulent Financial Reporting or the Treadway Commission

No system is in place to ensure renewal of licences by Fair Price Shops and kerosene distributors.

(Paragraph 5.1.7.4)

Reports stipulated in Manual of Office Procedure were not received and reviewed.

(Paragraph 5.1.8.1)

5.1.1 Introduction

The Department of Civil Supplies and Consumer Affairs is responsible for enforcement of Essential Commodities Act, 1955 as amended in 1984, Consumer Protection Act, 1986 and Rules and Orders framed thereunder. The Department implements public distribution of essential commodities as envisaged in Public Distribution System (Control) Order 2001 and enforces the Consumer Protection Act by educating the public of their rights and redressing their grievances through consumer courts.

5.1.2 Organisational set up

The Department is headed by Director who is assisted by two Deputy Directors (one each at Puducherry and Karaikal) and by the Regional Administrators at Mahe and Yanam, with supporting staff. One Assistant Director and Tahsildar in Puducherry are in charge of administration and inspection respectively. A Food Cell is functioning under the control of Superintendent of Police to prevent illegal movement of essential commodities. A State Commission and a District Forum are functioning in Puducherry for consumer redressal. The Secretary to Government is the administrative head of the Department.

5.1.3 Audit objectives

This review of internal control has been conducted to test compliance with the General Financial Rules (GFRs), Receipts and Payments (R&P) Rules and related accounting instructions. In addition, the arrangements for information, communication, monitoring and evaluation including Internal Audit and Vigilance have been examined. Internal control activities designed and put into operation for enforcing the management directions and ensuring achievement of programme objectives have also been examined.

5.1.4 Audit coverage

The records and registers relating to the period from 2002-07 maintained at Secretariat, Directorate at Puducherry, Deputy Directorate at Karaikal, Regional Administrator at Mahe and Yanam and Food Cell were test checked during March to May 2007.

5.1.5 Compliance with General Financial Rules and related instructions

5.1.5.1 Non-compliance of prescribed accounting procedure

Expenditure on food grains accounted under wrong major head and separate sub head for each scheme not opened

The expenditure on the activities of procurement, storage and distribution of food grains and pulses was being recorded under the major head '3456-Civil Supplies' instead of '2408-Food, Storage and Warehousing'. The prescribed accounting procedure stipulates accounting of expenditure on each programme under a minor head and the schemes under the programme under separate sub heads. Though 'Public Distribution System' (PDS) is a separate programme with a number of schemes, it was accounted under a sub head below the minor head '001 – Direction and Administration'. Consequently, the expenditure incurred on various schemes under PDS was not shown separately in the Government accounts. This resulted in diversion of funds provided for one scheme to another under the programme thereby vitiating the budgeting system.

The nomenclature of the scheme of free supply of liquified petroleum gas (LPG) connection to BPL families, implemented from 2005-06, was wrongly mentioned as 'Grant of subsidy to newly wedded couple of BPL families for getting LPG connections' in the budget.

Under statement of subsidy in Finance Accounts

Pondicherry Agro Products, Food and Civil Supplies Corporation Limited (PAPSCO) and Yanam Co-operative Stores Limited (YCSL) procure the essential commodities from GOI and supply them to Fair Price Shops (FPS) at the selling price fixed for consumers. As Government fixed a lower price for supply of rice to public than the price at which it was procured from GOI, the difference represents the subsidy extended by Government to the public. The amount was, however, accounted as grants-in-aid to PAPSCO/YCSL. This resulted in under statement of subsidy in the Finance Accounts.

Government accepted (November 2007) the non-compliance and agreed to take corrective action in consultation with Finance Department.

5.1.5.2 Budgetary control

Unnecessary provision of funds under supplementary grant

Budget provision of Rs 3.40 crore under 'PDS' during 2005-06 was increased to Rs 7.47 crore by supplementary grant (Rs 3.71 crore) and re-appropriation (Rs 0.36 crore) and Rs 7.46 crore was spent. The original provision included Rs 2.92 crore towards grants-in-aid to PAPSCO which was increased by Rs 3.66 crore through supplementary grant on the ground that there was more demand for grants-in-aid to PAPSCO. Audit scrutiny revealed that the total provision of Rs 6.58 crore towards grants-in-aid included Rs 2.28 crore for implementing a new scheme for supply of rice and sugar at subsidised rates to Above Poverty Line (APL) families. Though this scheme was not approved by Government, the amount was released to PAPSCO as advance grants-in-aid in March 2006 to avoid lapse

of grant. The Director provided Rs 5.13 crore during 2006-07 for this scheme under PDS and surrendered the amount on the ground of non-implementation.

Government stated (November 2007) that funds for new scheme were obtained in Revised Estimate of 2005-06 based on the assurance given in the floor of the Assembly but the new scheme could not be implemented for want of approval of Government due to non-allotment of rice by GOI for this purpose and Assembly elections. Government also accepted that the amount was released as advance to PAPSCO for implementing the scheme after election and provision of funds for the new scheme during 2006-07 was in anticipation of approval. This indicates that funds were provided for a new scheme which was not approved by appropriate authorities.

Though there was a ban on purchase of vehicles, funds were unnecessarily provided (Rs 4.25 lakh to Rs 4.85 lakh) for this purpose during 2002-03 to 2005-06 and were either surrendered or re-appropriated. Government stated (November 2007) that the funds were provided with the hope of getting relaxation which was not given.

5.1.5.3 Expenditure control

Poor expenditure control resulted in accumulation of Rs 4.60 crore with PAPSCO

The differential cost between procurement price and sale price of rice is released as grants-in-aid to PAPSCO in advance and the adjustment is made monthly based on actuals. The differential cost per month was around Rs 40 lakh which was reduced to Rs 12 lakh from August 2006 due to introduction of a new scheme 'Free supply of rice to all ration card holders' by the Women and Child Development Department. Audit scrutiny revealed an unadjusted advance of Rs 17.94 lakh as of February 2006 and the Department released Rs 4.82 crore in March 2006 on the ground of availability of savings resulting in the accumulation of Rs 4.62 crore as of March 2006 (after adjustment of Rs 0.38 crore in March 2006) which would be more than 11 months requirement. In spite of this, the Department released Rs 2.24 crore during 2006-07 resulting in an accumulation of Rs 4.60 crore as of March 2007 with PAPSCO which was the requirement of about 40 months reflecting poor expenditure control.

Government contended (November 2007) that the amount was released to avoid disruption of the continuing scheme. This contention is not tenable as the Department failed to consider the reduction of differential cost per month due to introduction of a new scheme.

Release of funds when there was huge unutilised balance available

Government introduced a new scheme of free supply of LPG connection to BPL families in September 2005 and released Rs 2.17 crore to PAPSCO for providing 10,000 LPG connections. Due to non-availability of sufficient LPG cylinder of 14.2 kg capacity, Government decided (June 2006) to supply two five kg cylinders and PAPSCO spent Rs 0.97 crore (October 2006). The Department, however, released Rs 1.95 crore in October 2006 for providing another 10,000 connections of two five kg cylinders. As of

March 2007, PAPSCO provided only 7,716 connections² involving an expenditure of Rs 1.51 crore and Rs 2.61 crore remained unspent. Release of funds when there was huge unutilised balance available was symptomatic of poor expenditure control. Government stated that the funds were utilised during 2007-08 and assured to assess the need before release in future.

5.1.6 Compliance with Receipts and Payments Rules

Failure to review bill register and bill transit register

Receipts and Payments Rules³ provide for review of bill register (monthly) and bill transit register (bi-weekly) by a Gazetted officer to prevent presentation of fraudulent bills. This check was not exercised by any of the Drawing and Disbursing Officers (DDOs) of Puducherry, Karaikal and Mahe. Government assured to maintain the prescribed registers properly.

Non-gazetted Government servants handling cash are required to furnish a security deposit to safeguard Government interest (Rule 275 of General Financial Rules, 2005). Government, in November 1992, prescribed security deposit ranging from Rs 250 to Rs 1,000 and bond ranging from Rs 5,000 to Rs 50,000 depending upon the volume of cash handled monthly by the cashiers. The prescribed security deposit and bond were not obtained from any of the five present incumbents in Puducherry, Karaikal and Mahe. Government assured to collect the deposit.

5.1.7 Internal Control Activities

5.1.7.1 Adequacy of infrastructure

Deployment of Assistants for field work was made without any norms

For effective implementation of various activities of the Department, proper deployment of manpower is essential. As against 111 posts sanctioned, there were 14 vacancies in the post of Assistant/Upper Division Clerks (UDCs) (6), Lower Division Clerks (3), Projector Operator (1), Steno (1) and Peon and Watchmen (3). Besides, the deployment of Assistants for field work was made without any norms as revealed from the following:

Region	Total number of ration cards	Total number of FPS	Total number of Assistants/UDCs	Average number of cards per Assistant/UDC	Average number of FPS per Assistant/UDC
Puducherry	2,38,920	318	9	26,546	35
Karaikal	52,046	84	7	7,435	12
Mahe	6,590	18	4	1,648	4
Yanam	10,021	18	2	5,010	9

The work allocation for Assistants in Puducherry region did not provide for inspection of petrol bunks, LPG distributors and edible oil distributors

² 413 connections with 14.2 kg cylinders and 7,303 connections with two five kg cylinders

³ Notes below Rule 34

thereby weakening the quality assurance for these commodities being supplied to the public. Government assured to transfer posts to Puducherry region after examining the work allocation.

Petroleum products seized by Food Cell were to be tested for framing charges. In Puducherry, the seized products were being tested in laboratory in Chennai which caused delay in completing the investigation. In March 2006, Government paid Rs 50 lakh to Pondicherry Engineering College to set up Petroleum Testing Laboratory and the tender was under finalisation (April 2007). Of the 25 cases which were under investigation as of April 2007, 18 cases relating to petroleum products were pending for want of test results from Chennai. Government stated that the Engineering College is taking steps to establish the laboratory.

5.1.7.2 Non-compliance with GOI orders

UT Government issued 97,700 red cards to BPL families based on income criteria. With a view to identify the really poor and vulnerable section of society for issue of essential commodities at subsidised rate, GOI prescribed (September 2002) 13 economic and social indicators which were to be considered for ranking and the method of ranking. The State Governments have to fix cut off scores based on such ranking to restrict the number of BPL families to 10 *per cent* over and above that estimated by Planning Commission. As the BPL population for the UT estimated by Planning Commission was 83,600, the cut off scores should be fixed by the UT Government to restrict the issue of red cards to 91,960.

More families than the limit fixed by GOI were classified as BPL

Enumeration based on the GOI instructions was conducted during 2003-04 and after deliberations with Members of Legislative Assembly, Government decided to issue red cards to 1.2 lakh families and fixed cut off marks as 31 out of 65 and 25 out of 52 for urban and rural areas respectively. Based on this decision, the Department identified 1,16,445 BPL families. As representations were received from persons who were already holding red cards but given yellow cards after enumeration, the Department exceeded the limit fixed by the Government and issued 1,34,027 red cards as of October 2007. Besides, nearly 5000 representations were pending for investigation. Thus, the Government had not followed the instructions of GOI to identify the really poor and vulnerable section of the society and even the target of 1.2 lakh fixed by the UT Government was exceeded. Government contended that it had exercised flexibility given in the GOI guidelines to decide the cut off scores considering the increase in population by 33 *per cent* during 1991-2007. This contention is not tenable as Planning Commission estimated the BPL population and GOI ordered to fix the cut off scores to restrict the issue of red cards to 10 *per cent* above this estimate.

Supply of kerosene not stopped for holders of LPG connections

GOI order issued in July 1994 stipulated supply of 7 litres of kerosene per month for those without LPG connection and two litres for those having LPG connection. A comment was made in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1999 that the

Department had not identified ration card holders with LPG connection and the Committee on Public Accounts recommended (March 2004) to stamp the ration cards having LPG connections and submit a report to the Committee. The Department had not complied with these recommendations. In April 1999, GOI issued instructions not to supply kerosene to holders of double bottle cylinder LPG connections and supply three litres to holders of single bottle cylinder LPG connections to minimise the subsidy involved in supply of kerosene. The Department had not acted upon these instructions and kerosene was issued to all red card holders without restriction. Even during the enumeration conducted for issue of new cards, these details were not collected and indicated in the ration cards. The Department continued to supply kerosene even for 7,716 red card holders who were the beneficiaries of free supply of LPG connection made by Government from the year 2006. Non-restriction of supply of kerosene not only involved meeting of high subsidy by GOI, but also could lead to unauthorised use.

Government accepted (November 2007) that red card holders were supplied seven litres of Kerosene irrespective of their possessing LPG connection and assured to take action in the light of audit observation.

5.1.7.3 Enforcement of Consumer Protection Act

**State and District
Consumer Protection
Councils were not
constituted**

A comment was made in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2005 on non-functioning of State Consumer Protection Council. Though the term of the council expired in May 2006, it was not reconstituted. Besides, in spite of Karaikal region having been declared a separate district in May 2005, the District Consumer Protection Council was not constituted (July 2007), as the Collector had not nominated non-official members. Non-functioning of these councils would defeat the objective of protecting the consumer interest at appropriate forum and promotion of consumer education. Government has assured to take action.

5.1.7.4 Delay in renewal of licences

**No system in place to
watch the renewal of
licence before the due
date**

Pondicherry Scheduled Commodities (Regulation of Distribution by Card System) Order, 1975, as amended in 1987 and Pondicherry Kerosene (Control) Order, 1969 provide for granting licence to the distributors of scheduled commodities and kerosene to the public and the licences have to be renewed every year. Audit scrutiny revealed non renewal of licence by all 18 FPS in Yanam during 2003-2007. In Puducherry, there was large scale delay in receipt of application for renewal every year. The year-wise delays are given below:

Scheduled commodities

Year	Total number of shops	Total number of shops relicensed by due date	Total number of shops relicensed after due date/not relicensed	Receipt of application				Licences not renewed
				Within one month	More than one month to three months	More than three months to one year	After one year	
2002	288	1	287	90	30	161	--	6
2003	291	189	102	15	10	39	18	20
2004	291	6	285	16	41	184	21	23
2005	291	15	276	23	133	63	3	54
2006	294	22	272	139	42	85	--	6

Kerosene

Year	Total number of shops	Application received within due date	Application received after due date/ licence not renewed	Application received				Licences not renewed
				during April	during May and June	during July to December	after one year	
2002-03	297	127	170	48	26	86	2	8
2003-04	294	141	153	76	11	57	3	6
2004-05	293	76	217	114	27	54	4	18
2005-06	293	67	226	61	15	66	8	76
2006-07	295	30	265	145	21	47	3	49

Thus, the Department had not exercised any control over the renewal of licences. Government assured that the Department would take necessary action to ensure the renewal of licences in time and terminate the licence of defaulters.

5.1.7.5 Inspection of Fair Price Shops

Shortfall in inspection of Fair Price Shops

Public Distribution System (Control) Order 2001 provides for inspection of every FPS twice a year by a designated authority. While there was no shortfall in inspection in Mahe region, shortfall in other regions are given below:

Region	Number of inspections to be conducted	Number of inspections conducted				
		2002-03	2003-04	2004-05	2005-06	2006-07
Puducherry	636	Nil	Nil	1,005	194	details not furnished
Karaikal	168	Nil	Nil	23	131	85
Yanam	36	5	40	36	60	23

The Deputy Director, Puducherry stated as the Department was engaged in general enumeration for issue of new ration cards the inspections were not carried out fully during 2002-2004. Government assured to intensify the inspection when the enumeration work was completed.

5.1.8 Monitoring including Internal Audit and Vigilance arrangements

5.1.8.1 Management information

The weekly arrear report, monthly statement of cases pending disposal for over a month, monthly progress reports of recording and review of files, reminder diary, check list of periodical reports (for ensuring timely receipt, preparation and despatch of periodical reports), as stipulated in the Manual of Office Procedure were not maintained in the Directorate. Government stated (November 2007) that the instructions were being issued.

5.1.8.2 Vigilance Committee meeting

Public Distribution System (Control) Order Act, 2001 provides for conducting meeting of Vigilance Committees at State, District, Block and FPS level to oversee the functioning of PDS. Though the term of Zonal Committee expired for Mahe in March 2005 and for Yanam in June 2006, they were reconstituted only in February 2007 and March 2007 respectively. The terms of Zonal Committee of Karaikal expired in May 2005 but it was not reconstituted as it was proposed to entrust the function to District Consumer Protection Council which was to be formed. Government assured to take action to reconstitute the committees.

5.1.8.3 Internal Audit and Vigilance arrangement

No internal audit mechanism

There was no Internal Audit wing in the Department to provide management information on the deficiency of internal control in various wings of the Department. There is no separate vigilance wing in the Department.

Recommendations

- Prescribed classification in accounting of expenditure should be followed.
- Steps should be taken to enforce expenditure control.
- Proper monitoring should be carried out.