

**CHAPTER V**

**INTERNAL CONTROL SYSTEM  
IN GOVERNMENT  
DEPARTMENTS**

**EDUCATION DEPARTMENT**

**5.1 Evaluation of Internal Control System and Internal Audit Arrangement in Education Department (School Education)**

**Highlights**

*Internal Control System is an integral process by which an organisation governs its activities to effectively achieve its objectives. A built-in Internal Control System and strict adherence to Statutes, Codes and Manuals minimise the risk of errors and irregularities and helps protect resources against loss due to waste, abuse, mismanagement etc. An evaluation of the Internal Control System in the Education Department revealed weakness of the internal controls in the Department, non-compliance with rules, manual and codes in the areas of budget preparation, expenditure control, accounting of transactions, implementation of schemes for promotion of education, etc.*

*Significant points noticed during test check were:*

**- Budget estimates were not framed correctly. Rupees 4.87 crore were released without immediate requirement and merely to avoid lapse of grant.**

*(Paragraphs 5.1.7, 5.1.9 and 5.1.10)*

**- Payments made on temporary receipts were treated as final payments in the cash book without watching the receipt of final acquittance.**

*(Paragraph 5.1.12)*

**- Funds created for assisting schools and students were not managed properly.**

*(Paragraphs 5.1.23 to 5.1.25)*

**- Owing to shortage of manpower, coverage by Internal Audit was inadequate.**

*(Paragraphs 5.1.27 and 5.1.28)*

**- Follow up action was not taken on cases of misappropriation.**

*(Paragraph 5.1.14)*

## **Introduction**

**5.1.1** Internal control is an in-built mechanism to enable the supervising officers and Heads of Department to monitor the functions of their subordinates by delegating necessary power and authority to different levels of organisation and by the application of various rules, regulations and instructions issued from time to time. The control is exercised by prescribing maintenance of registers and records, obtaining returns from the subordinates and field offices and conducting periodical surveys and inspections. Internal Audit, being an integral part of administrative and managerial control, is an important link in the Internal Control System.

## **Objective of the Directorate**

**5.1.2** The Education Department caters to the educational needs of the Union Territory (UT) through administration of the schools and colleges. The Directorate of School Education has 458 Government and aided schools upto higher secondary level under its control. The academic aspects of 188 private schools are also governed by the Directorate. In furtherance of the objective of the universalisation of secondary education, schemes for the benefit of poor students are also implemented by the Department. The Directorate of Collegiate and Technical Education was set up in July 2003.

## **Organisational set up**

**5.1.3** The Director of School Education (DSE) is assisted by a Joint Director (JD), six Deputy Directors (DD), three Chief Educational Officers (CEOs) and one Senior Accounts Officer. Including JD and other officers at Pondicherry, Karaikal, Mahe and Yanam, 18 officers report directly to the Director. This number is too large with reference to the optimal standard of three to six.

## **Audit objectives**

**5.1.4** The objectives of the review are

- to evaluate the functioning of Internal Control System in the Department with specific reference to budgetary, expenditure controls and operational and inventory controls.
- to evaluate the adequacy of Internal Audit arrangement.

### **Audit coverage**

**5.1.5** The records maintained by the DSE and offices of JD, CEO, Pondicherry and five<sup>21</sup> DDs were covered under the review. In addition, the records maintained by two out of five Deputy Inspector of Schools (DIS) in Pondicherry region and selected schools were also covered.

### **Financial control**

Audit of control on finance disclosed large-scale re-appropriation, excess release of grants and failure to follow the rules relating to receipts and payments as discussed in the succeeding paragraphs:

#### **Budgetary control**

**5.1.6** The budget proposals relating to non-plan and plan expenditure were sent to the Finance Department and Planning and Research Department respectively after a delay of 22 and 29 days in 2002-03 and 36 and 37 days for 2003-04.

**5.1.7** During 2001-04, 69 to 81 *per cent* of the total number of units of appropriation required re-appropriation. Such large-scale re-appropriation are indicative of incorrect budgeting.

#### **Expenditure control**

##### ***Non-maintenance of Grant Register***

##### **Non-maintenance of register of grants**

**5.1.8** General Financial Rules (GFR) prescribes maintenance of register of grants to guard against double payment and to watch the receipt of Utilisation Certificate (UC) and unspent balance. Both the DSE and DD (Sports) did not maintain the register. The DSE had released Grants-in-aid to aided schools to meet their monthly expenditure on the salary of staff. This advance amount was to be adjusted at the end of the year with reference to the actual receipt and expenditure. The DSE had not taken any action to finalise the final grants-in-aid released to aided schools from the year 1997-98 onwards. In all the cases the orders releasing the monthly grant indicated that UCs need not be furnished as the payments were made after the month to which the salaries related. In as much as the grants-in-aid paid was only an advance payment, receipt of UC as well as excess grant

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<sup>21</sup> (1) Women Education (WE) (2) Sports (3) Adult Education (AE) (4) Elementary Education (EE) and (5) French Education (FE)

released, if any, requires to be watched by the Department. The DSE agreed to maintain the register in future.

### ***Excess release of grants***

#### **Release of grants without requirement**

**5.1.9** It was also seen that the DD (Sports) released Rs 4.30 crore received from Government of India (GOI) as additional central assistance for improving sports infrastructure facilities to the Pondicherry State Sports Council (Council) in February 2003. The entire amount was kept by the Council in fixed deposits pending finalisation of the agency for taking up the works. Thus, the release was made far in advance of requirement.

#### **Release of funds to avoid lapse of grant**

**5.1.10** The UT Government released grants for recurring and non-recurring expenses to the Council for the purpose of releasing grants to sports associations, conducting sports programme, procurement of sports equipment, meeting administrative expenses and construction of building. Though the Council had furnished UC in October 2003 indicating that there was a balance of Rs 56.47 lakh with them, the DD (Sports) released further grant of Rs 56.58 lakh in March 2004. There was a balance of Rs 92.56 lakh at the end of March 2004. The release of Rs 56.58 lakh in March 2004 was only to avoid lapse of grant.

### ***Cash controls***

#### **Inadequate checks in expenditure control**

**5.1.11** Receipts and Payments Rules provide for verification of cash balance in the cash book by the Head of Office every month; the bill register and the bill transit register are to be reviewed by a Gazetted Officer monthly and bi-weekly respectively. These checks were not done by the DSE during 1999-2004. The Drawing and Disbursing Officer (DDO) stated (September 2004) that instructions had been issued to follow the rules.

**5.1.12** The DDO in the office of DSE treated the temporary receipts given by the institutions for having received the scholarship amount payable to students as vouchers for payment. The acquittances from the students were not watched. Though Internal Audit pointed this out in July 2002, no system was evolved to watch the receipt of acquittance.

#### **Receipt of acquittances not watched**

**5.1.13** The cashier of the office of CEO, Pondicherry also treated the temporary receipts as vouchers but watched the receipt of acquittances through a separate register. The register was not closed periodically to identify the pending items. Test check revealed 47 acquittances for Rs 2.50 lakh were received belatedly from schools after two to seven months and 16 schools had not furnished the acquittance for Rs 0.33 lakh which was disbursed prior to July 2004. The receipts of acquittances entered in the register were not attested by the DDO. The cashier in DD (WE) also followed a similar procedure.

**5.1.14** Test check revealed that some schools keep the scholarship amount outside their school account. On receipt of complaint, the CEO detected

temporary misappropriation of scholarship amount in two schools. The cases are discussed below:

The cashier of DIS (Zone I), Karaikal misappropriated Rs 3.89 lakh during 1 April 1994 to 8 January 1998 by changing the amounts in the cheque register, showing undisbursed amounts as paid in the cash book, non-accounting of receipts, etc. This was detected only when Internal Audit took up audit on complaints from staff. The misappropriation was possible as essential checks were not made by the DDOs for more than three years.

During the inspection of the Government High School, Sorapet by the CEO, it was found that Rs 1.53 lakh payable to students as scholarships, was not disbursed for nearly two to seven months. Detailed check by Internal audit in June 2003 revealed that the Headmaster had not maintained cash book for the period from October 2002 and vouchers for 49 bills amounting to Rs 6.48 lakh passed by Directorate of Accounts and Treasuries (DAT) were found missing.

In both the cases, no disciplinary action was taken on the officials concerned and they were transferred.

**5.1.15** Government, in November 1992, prescribed that Rs 1000 in cash and Rs 50000 in bond shall be collected as security from the cashiers who handle cash over Rs 5 lakh. Test check revealed that three cashiers in the office of the DD (AE), State Training Centre and DIS (Zone II) had not furnished the security. The CEO, Pondicherry reported that none of the cashiers in Government high schools had furnished the security. Details collected revealed that cashiers of one DIS in Karaikal and two higher secondary schools had not furnished the security. The cashier of DIS (Zone I), Karaikal who had not furnished the security had misappropriated Rs 3.88 lakh.

#### ***Adjustment of advances***

**5.1.16** According to the provision of GFR, detailed bills for advances received shall be furnished to DAT within a month of drawal. Though the DSE had maintained a register for watching the submission of detailed bills against advances, the pendency position was not assessed periodically. Perusal of the register revealed that Rs 7.67 crore (28 items) were adjusted after a delay ranging from four to 37 months.

**5.1.17** Based on the statement of advances pending adjustment with DSE sent by DAT in March 2004 and adjustments made thereafter, it was noticed that Rs 1.40 crore in respect of 58 items were pending adjustment as of August 2004. Of this, 20 items for Rs 46.22 lakh related to the period 1999-2000.

**Huge pendency in settlement of advance bills**

## Inventory and Stores control

**5.1.18** Till 2003-04, distribution of free supply of uniforms, textbooks, notebooks and stationery to Scheduled Caste students were made to schools by the Adi-draavidar Welfare Department. Though Government decided (March 2004) to entrust this work to DSE, the DD (EE) who made the purchases did not take into account the stock available with the Adi-draavidar Welfare Department. The stocks were not taken over by storekeepers in DSE (September 2004).

**Undistributed articles not returned to stores**

**5.1.19** Items such as uniforms, textbooks, etc., are taken on stock by the four storekeepers in the offices of CEO and DD (WE) and distributed to schools after obtaining indents. However, the storekeepers did not seek return of the undistributed articles retained by the schools. Due to the failure of the storekeepers to account for the undistributed articles, DSE cannot ensure the actual distribution.

## Operational control

### Academic inspection

**5.1.20** In Pondicherry region, the five DIS are to inspect the primary schools. The DD (WE) and CEO, Pondicherry are to inspect high schools and the JD has to conduct inspections of all higher secondary schools. While the inspection of private schools was restricted to verification on whether the conditions of recognition have been fulfilled, the inspection of Government schools covered enrolment, dropouts, infrastructure available, academic and co-curricular activities, laboratory facilities, annual examination results and evaluation of teachers. The Inspection Reports (IRs) of DIS are to be submitted to DD (WE) and CEO, Pondicherry, while the inspections done by others are to be submitted to DSE.

**Shortfall noticed in Inspection**

**5.1.21** Test check indicated that DIS I, II and IV carried out annual inspections without any shortfall. The JD had not conducted the inspections from August 2001. While the CEO had not furnished the details of inspections conducted, the shortfall in inspection by the other inspecting officers were as under:

Inspecting officers	Period	Schools to be inspected	Schools inspected	Shortfall (Percentage of shortfall)	Reasons for shortfall
DD (WE)	1999-2004	443	191	252 (57)	Due to other works such as attending meetings, organising sports meets, etc.
DIS III	1999-2004	225	143	82 (36)	Government vehicle provided was not road worthy.
DIS V	1999-2004	221	192	29 (13)	Due to pressure on account of other items of work. Government vehicle provided was not road worthy and personal vehicle was used.

**5.1.22** While the IRs of Government schools indicate the action taken on the remarks made in the previous reports by the Headmasters, the follow up actions taken on IRs of private schools, which indicated failures like non-creation of endowment fund, poor infrastructural facility, non-employment of qualified teachers, etc., were not made available to Audit. Neither the Supervising Officers nor the DSE have taken follow up action on these IRs.

### **Maintenance of funds created for specific purposes**

DSE ordered creation of certain 'Funds' to provide assistance to students and for maintenance of schools. A review of the operation of these 'Funds' disclosed the following:

#### ***Students Medical Assistance Fund***

**5.1.23** This Fund was instituted in October 1990 to provide assistance to poor students for ailments for which no medical facilities are available in Government hospitals of Pondicherry. Government prescribed a contribution of Rupees two to five per student per year depending on the classes in which they are studying. The DSE had not obtained any returns to ensure collection of contribution from all the students enrolled. The accounts for the fund were not maintained properly. The receipts and remittances into banks were shown in the cash book but the payments which were made by means of cheque were not accounted in it. The bank balance was treated as balance under the Fund. Consequently, the Department did not have any independent account to check if there is any discrepancy in the bank account.

#### ***Amenities Fund***

**5.1.24** In November 1978, Government ordered collection of special fees at specified rates from students of higher secondary schools and for its utilisation for specific purposes for which accounts should be maintained separately by the schools. The collection of special fees was ordered to be stopped from 1997-98 (upto VIII standard) and 1998-99 (IX to XII standard) and the balance available in all these accounts were merged into one account called Amenities Fund. The schools are to get orders of JD for drawing amounts from this Fund. Audit scrutiny revealed that the DSE was not aware of the balance of this Fund available in the schools. Further, the JD utilised the Fund to meet contingent expenditure which was entirely irregular.

#### ***Endowments***

#### **Funds not operated**

**5.1.25** Twenty-eight endowments for Rs 4.36 lakh were created from 1974 and the DSE is the custodian and authority for utilisation of funds as per the desire of the donors and orders of the Government. The endowments are kept in fixed deposits. No Government order was issued for the creation of

three endowments (Rs 67500). The fixed deposits in respect of three endowments were not renewed after June and July 2002 and fixed deposit receipts relating to two endowments (Rs 65000) were not made available for verification by audit. Further, of the 28 endowments, two were not operated for 10 years and eight for three years and 13 for two years. The DSE replied that the cashier who was entrusted with this work, had to deal with huge cash transaction and instructions had been issued (September 2004) to entrust this work to a Superintendent under the control of JD or DD (EE).

### **External Controls**

**5.1.26** The inspection cell in the Personnel and Administrative Reforms Department has been entrusted with the administrative inspection of all attached and subordinate offices. Besides, DAT has to carry out the financial and stores inspections of all departments. The reports from these departments would help the DSE to have control over his subordinate officers. While no administrative inspection of the Department was carried out during the past five years, DAT conducted financial audit only in June and July 2004, the findings of which were communicated to DSE in November 2004.

### **Internal Audit**

The Internal Audit Wing formed by diversion of existing staff with one JAO, one superintendent, two assistants and one clerk, was functioning under the control of DSE.

### **Audit arrangement**

**5.1.27** Neither audit manual or audit plan was prepared nor the periodicity and duration of audit was prescribed. No training was imparted to the staff of the wing and the scope of audit was limited to check of accounts, cash records and service books. Scheme records were not verified by this wing. Pre-primary, primary and middle schools were not covered by Internal Audit and only surprise checks were conducted in high schools. Higher secondary schools were covered once in three to six years and only one private aided school was audited during 1999-2004.

### **Inadequate coverage by Internal Audit**

**5.1.28** During 1999-2004, 177 audits were conducted, of which 39 were surprise inspections. Out of 138 reports issued, replies to 41 reports are pending. Considering the large number of schools and DDOs in the Department, the coverage by Internal Audit was meagre and the shortfall was attributed to inadequate staff.



## **Response to Inspection Reports of Accountant General**

**5.1.29** Twenty IRs containing 51 paragraphs relating to 1993-94 to 2002-03 were pending as of December 2004. Of this, eight IRs containing 16 paragraphs were pending for five years.

### **Conclusions**

**5.1.30** Large-scale re-appropriation, excess release of grants and failure to follow the rules relating to Receipts and Payments indicated poor financial control. The Stores account was not properly maintained and the undistributed articles were not accounted. A shortfall in academic inspection and poor maintenance of funds created for specific purpose indicated poor operational control; coverage by internal audit was insufficient.

### **Recommendations**

- The DSE should ensure strict maintenance of prescribed registers and records as per GFR.
- Internal Audit should be strengthened and an audit manual brought out.
- Control procedures such as inspections and follow up action on the reports should be enforced.
- For schemes intended to benefit students, such as free supply of uniforms, textbooks, scholarships, etc., guidelines should be issued regarding receipt, disbursement and accountal.

The matter was referred to Government in December 2004; reply had not been received (March 2005).