CHAPTER-V

INTERNAL CONTROL SYSTEM

5.1. Evaluation of Internal Control System and Internal Audit Arrangement in Punjab Roadways

TRANSPORT DEPARTMENT

Highlights

Internal control mechanism in the Punjab Roadways was not functioning effectively, which adversely affected the key areas of administration, finance and accounting. Inadequate internal control led to improper maintenance of cash books. There were deficiencies in maintenance of accounts of General Provident Fund and Group Insurance Scheme. Cases of excess deployment of man power, frequent transfers of General Managers were indicative of the ineffectiveness of internal control mechanism. Missing of scheduled kms, irregular purchases, non-disposal of obsolete stores and excess consumption of High Speed Diesel(HSD) was resultant effect of inadequacies and ineffectiveness of Internal controls. Internal Audit arrangement was adhoc and weak.

Cash management was deficient as neither the cash balances were verified by the head of the office nor the bill-wise details of the undisbursed amount was worked out against monthly closing balances of the cash book.

(Paragraph 5.1.5)

GPF and GIS accounts were not maintained properly as consolidated statements of the accounts of GPF and GIS were not prepared.

(Paragraph 5.1.6 and 5.1.7)

Excess deployment of conductors and drivers resulted in extra expenditure of Rs 3.47 crore .

(Paragraph 5.1.10)

Non-operating of scheduled kilometers led to missing of 538.40 lakh kms.

(Paragraph 5.1.11)

Excess consumption of HSD led to loss of Rs 4.12 crore.

(Paragraph 5.1.13)

Internal Audit arrangement due to lack of proper staff was weak.

(Paragraph 5.1.19)

Introduction

5.1.1. Internal control is an integral part of the process designed and affected by the management of an organization to achieve its specified objects ethically, economically and efficiently. It helps in creating reliable financial and management information system besides effective decision making. Internal audit is an appraisal of activity established with an entity as a service to the entity. Its functions, *inter alia* include examination, evaluation and monitoring the adequacy and effectiveness of the accounting and internal control system. According to the Accounting Rules, Procedure and Forms for Government Transport Services in Punjab, the responsibility for internal accounts and audit control rests with the Director State Transport (DST).

Organizational set-up

5.1.2. The Principal Secretary to the Government of Punjab, Transport Department is in overall charge of the department. Punjab Roadways is headed by DST, who is assisted by an Administrative Officer, Additional Director (Finance & Accounts), Mechanical Automobile Engineer, Deputy Director State Transport, Chief Store and Purchase Officer and 18 General Managers in depots. Each depot is the basic functional unit of the Punjab Roadways and is headed by a General Manager (GM) who is assisted by Works Manager, Traffic Manager, Assistant Mechanical Engineer and Assistant Controller (Finance & Accounts). The store is under the charge of Chief Store Keeper.

Besides, Punjab Government had set up Punjab State Bus Stand Management Company Limited (Company) in March 1995 to control, upkeep and maintain bus stands in the State. The Company purchased 360 buses in 2005-06 to operate on the route permits of Punjab Roadways. The services of Punjab Roadways staff were to be utilised for operation and maintenance of buses of the Company on payment basis.

Audit Objectives

5.1.3. To evaluate the effectiveness of Internal Control System and Internal Audit arrangement in the department, audit objectives were to assess whether the internal control system of the department provided a reasonable assurance that the department would achieve its objectives through the following types of controls:

- Cash controls;
- Administrative controls;
- Operational controls;
- Stores and Inventory controls; and
- Internal audit and Vigilance Mechanism.

Audit Coverage

5.1.4. The records of head office and offices of five Depots[1] out of 18 depots and office of Chief Store and Purchase Officer for the last five years ending 2005-06 were test checked between October 2005 and April 2006. The results are discussed in the succeeding paragraphs.

Cash Controls

Cash book

5.1.5. Test check of cash books (April 2006) maintained in five depots revealed the following deficiencies:

Neither the cash balances were verified by the head of the office nor the bill-wise details of the undisbursed amount were worked out against monthly closing balances of the cash book

- As required under Rule 2.2 (iv) of Punjab Financial Rules (P.F.R.) Volume-I, at the end of each month, the Head of office should verify the cash balance in the cash book and record a signed and dated certificate to that effect. However, the balances of cash books for the periods ranging from four to five years (2002-2006) were not verified by any such authority.
- Details of closing balances of cash book i.e. actual cash of various denominations were not given in the cash book at the end of each month for the last five years ending March 2006.
- Bill-wise details of undisbursed amount are required to be mentioned against monthly closing balances of cash book. However, no such details were worked out during last five years by four depots[2].

Improper maintenance of cash book and non-verification of cash balances, non-working out of bill-wise detail of un-disbursed amount shows internal control failures, exposed the organization to the risk of misappropriation and fraud.

Administrative Controls

Improper maintenance of General Provident Fund accounts

GPF accounts were not maintained properly

5.1.6. As per instructions (May 1989) issued by Government of Punjab, DST was responsible to maintain General Provident Fund accounts. As per instructions, total figures of receipts and interest should be intimated to the Finance Department by the end of June for onward transmission to Accountant General (A&E) Punjab for compilation purposes. The consolidated statement of receipts and interest for the period 2002-05 had not been sent. This lack of internal control could give rise to inflated credits and deflated debits which could cause overdrawal from the fund, the reverse would affect the interests of the employees.

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[1] Chandigarh, Hoshiarpur, Ludhiana, Nawanshahar and Ropar.
[2] Chandigarh, Hoshiarpur, Nawanshahar and Ropar.

Improper maintenance of Employees Group Insurance Scheme (GIS) accounts

GIS accounts were not maintained properly

5.1.7. As per the Punjab Government Employees Group Insurance Scheme (GIS), 1982, a consolidated statement of subscription received and payment made shall be sent by each Head of office in respect of the members of the Scheme working in his office to the head of the department by the 20th of that month. Further, the Drawing and Disbursing Officer (DDO) will reconcile the total amount credited to/paid from the Saving Fund/Insurance Fund in respect of the establishment of his office with the figures booked in the office of the Accountant General (A&E) Punjab on quarterly basis and record a certificate to this effect.

However, the following irregularities in maintenance of the Punjab Government Employees GIS 1982 were noticed in Audit:

(i) The DST had not received consolidated statements from the depots etc., for the last five years ending 2005-06 showing details of total amount of subscription received in the Saving Fund and Insurance Fund and payments made out of these funds to employees who resigned/retired or otherwise ceased to be in Punjab Government service or died in harness.

(ii) Total amount credited and debited in the Saving and Insurance Fund accounts were not reconciled with the figures booked in the office of the Accountant General (A&E) Punjab on quarterly basis and certificate to this effect was not recorded on the broadsheet maintained by the DST, for the period 2002-06.

Irregular temporary advances

Temporary Advances amounting to Rs 10.84 lakh were paid in contravention of the financial rules

5.1.8. Though there was no provision for temporary advance in the Punjab Financial Rules (PFR) yet advances were paid to officials regularly. Scrutiny of the record of five[3] depots revealed that as on 31 March 2006, temporary advances of Rs 10.84 lakh were outstanding against 48 employees paid during 1975-76 to 2005-06 in contravention of the rules. The advances related to the period below six months: Rs 9.63 lakh, six months and above: Rs 1.21 lakh.

On being pointed out in audit, GM Nawanshahar stated (April 2006) that temporary advances are given to the officials to meet emergent requirements such as payment of token tax, permit fee, passing fees, renewal of permit fee and toll tax of National Highways etc. in order to avoid penalty. No reply was received from other four depots (June 2006).

Reply was not acceptable since the advances pertain to the period as back as 1975-76 and needed to be got adjusted at the earliest. Failure on the part of the department to adjust temporary advances for 30 years is indicative of improper internal control.

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[3] Chandigarh Rs.3.04 lakh , Hoshiarpur Rs.2.82 lakh, Ludhiana Rs.1.61 lakh, Nawanshahar Rs.1.81 lakh and Ropar Rs.1.56 lakh.

Frequent changes of General Managers

5.1.9. Stability of tenure of incumbent key functionary, who has been vested and delegated with requisite powers is one of the important contributing factors to the smooth overall functioning of the depot, However, a scrutiny of records of five depots revealed that:-

(i) Out of 33 postings of General Managers in five depots during 2002-06, the stay of 25 was less than one year.

(ii) In Nawanshahar depot, seven General Managers were transferred during May 2002 to August 2004 and the period of their stay ranged between 12 days and 332 days.

(iii) In Ludhiana depot, the stay of two General Managers ranged from 27 days to 237 days whereas another General Manager stayed for two years and three months during November 2001 to July 2005.

It was noticed in audit that longer stay of General Manager in Chandigarh depot for the period from May 2002 to August 2004 improved kmpl[4] of the buses in the depot from 4.45 kmpl (2001-02) to 4.64 kmpl (2004-05) and in Hoshiarpur depot kmpl increased from 4.25 (2003-04) to 4.70 (2005-06) where the stay of General Manager was continuous from July 2004 till date (April 2006). Whereas kmpl decreased from 4.23 (2003-04) to 4.18 (2004-05) in Ropar depot where three General Managers were transferred between April 2003 and August 2004.

The DST in its reply (May 2006) stated that transfer of General Managers becomes necessary due to retirement, promotion, suspension or proceeding on leave. While this is true, it was seen that such events were insufficient in number.

Manpower management

5.1.10. Ever since its inception (1918), Punjab Roadways fixed norms for deployment of 1.3 drivers and 1.3 conductors against each bus in the depot. However, actual deployment of drivers and conductors noticed in audit in five depots as on 31 March 2006 was as under:

Excess deployment of conductors and drivers resulted in extra expenditure of Rs 3.47 crore

Name of Depot	No. of buses	Deployment as per norms	No. of Drivers employed	Excess driver employed	No. of conductors employed	Excess conductors employed
Ropar	72	94	110	16	139	45
Nawanshahar	98	127	169	42	213	86
Ludhiana	99	129	148	19	234	105
Hoshiarpur	80	104	166	62	166	62
Chandigarh	87	113	148	35	208	95
Total	**436**	**567**	**741**	**174**	**960**	**393**

[4] Kilometer per litre

The table shows that 174 drivers and 393 conductors were deployed in excess of norms resulting in extra expenditure of Rs 3.47 crore for the year 2005-06.

Operational Controls

Non-operating of scheduled kilometers

5.1.11. Every depot had been allotted operation of specified kilometers (kms) and General Manager of the depot was responsible to cover the scheduled kilometers during the month. Year-wise position of scheduled vis-à-vis actual kilometers covered in five[5] depots for the last five years ending March 2006 was as under :

(Kilometers in lakh)

Year	Scheduled kms	Covered kms	Missed kms
2001-02	650.37	615.71	34.66
2002-03	608.46	547.67	60.79
2003-04	600.06	489.66	110.40
2004-05	581.27	426.28	154.99
2005-06	602.01	424.45	177.56
Total	**3042.17**	**2503.77**	**538.40**

The above detail shows that non-operation of 538.40 lakh kms by five depots. The management had not carried out cause-wise analysis of missed kms. However, audit noticed that against the norms of detaining maximum 10 *per cent* of the fleet in the workshop for repairs and servicing, the actual detention in five depots ranged between 11.0 and 29.4 *per cent* during the last five years ending March 2006 as per ***Appendix-XXVII.***

The DST in its reply (May 2006) attributed the reasons of detention to old fleet and acute shortage of spare parts. The reply was not acceptable because even the budget allotted by legislature was not utilised.

Delayed renewal of contracts

The department suffered a loss of Rs 36.65 lakh due to delayed renewal of agreement under kilometer scheme

5.1.12. To cover scheduled kilometers being missed due to its old fleet and also avoid expenditure on special road tax being paid on these missed kilometers, Punjab Roadways hired buses on kilometer basis (Km Scheme) @ Rs 7.76 to Rs 7.89 per kilometer. As per the scheme the owner of buses was to provide vehicles with drivers and bear all expenditure for the running of buses. The department was to provide conductors and make payment to the owner as per actual kilometers covered by the hired buses. Agreement with the private bus owner provides that the department shall hire a bus for minimum period of three years in the first instance. A test check of records of three depots (Pathankot, Batala and Jalandhar-I) revealed that the scheme was in profit and it was in the interest of the department to renew the agreement promptly to avoid loss of profit. However, audit noticed that in 16 cases[6], hired buses remained off the road after the expiry of agreed period of three years because the agreements were renewed after a delay ranging between two to 21 months

[5] Chandigarh, Hoshiarpur, Ludhiana, Nawanshahar and Ropar.

[6] In Jalandhar-I depot 2 buses from 1.10.2002 to 17.7.2004 Batala depot 6 buses from 9.8.2003 to 6.11.2003 Pathankot depot, 8 buses from 10.8.2003 to 10.11.2003.

which resulted in 11.12 lakh missed kilometers and a loss of profit of Rs 36.65 lakh during August 2003 to July 2004.

Excess consumption of high speed diesel

5.1.13. As per prescribed norms, a bus should run 4.5 kilometers per litre of HSD. Average kilometers per litre (KMPL) of diesel in five depots during the last five years ending March 2006 were as under:

Year	Norm/ KMPL	Ropar	Hoshiarpur	Ludhiana	Nawan-Shahar	Chandigarh	Aggregate/ Actual	Less Kmpl vis-a-vis norms
2001-02	4.5	4.21	4.12	4.35	4.18	4.45	4.26	0.24
2002-03	4.5	4.21	4.21	4.30	4.13	4.52	4.27	0.23
2003-04	4.5	4.23	4.25	4.41	4.23	4.59	4.34	0.16
2004-05	4.5	4.18	4.29	5.21	4.20	4.64	4.57	--
2005-06[7]	4.5	4.25	4.70	4.41	4.32	4.15	4.36	0.14

Excess consumption of HSD led to loss of Rs 4.12 crore

Inadequate control mechanism over consumption of HSD above norms, resulted in excess consumption of 21.92 lakh litres of HSD thereby loss of Rs 4.12 crore. The DST in its reply (May 2006) attributed the reasons of excess consumption of HSD to old fleet[8]. The reply is not acceptable as norms were fixed considering fleet comprising of old as well as new buses.

Non-recovery of hiring charges

5.1.14. Accounting Rules of Transport Department regarding special booking provide that special booking will be done by the General Managers subject to the conditions that these bookings for marriage parties, excursion trips will be done only when vehicles are spare after meeting requirements of the regular services and the charges will be full fare on the basis of seats in the vehicle and the distance actually run plus detention charges along with security deposit for unforeseen charges be taken in advance at the time of contract.

[7] The buses of PUNBUS not included for working out excess consumption of HSD during 2005-06.

[8] Old fleet means buses having outlived their life i.e having either run for 7 years or covered 5.25 lakh kilometers.

State Government requisitioned the buses from the department to facilitate transport of general people in connection with the celebration of various occasions i.e. (i) Khalsa Tricentenary Celebration held[9] in April 1999, (ii) Inauguration of Thein Dam in March 2001, (iii) Coronation ceremony of Maharaja Ranjit Singh in March 2001 and (iv) First Indo-Pak Cricket Match during March 2005. Department sent buses on all the occasions without taking requisite advance payment worth Rs 1.61 crores as required under rules *ibid*. The department raised (between October 1999 and May 2005) the claims worth Rs 1.61 crore (Rs 81.12 lakh towards Anandpur Sahib Foundations and remaining Rs 79.80 lakh with the State Government) but no amount could be recovered so far (June 2006). Sending the buses on special booking was in violation of rules and indicated a weak internal control mechanism.

Pending claims against suppliers

5.1.15. Audit noticed that purchases were made by the department on FOR destination basis. Accordingly, in these cases, expenses incurred by the department on octroi, demurrage, toll tax etc., if any are recoverable from the supplier. Besides, the suppliers are also liable to replace damaged/defective supplies or refund the cost of such part.

Scrutiny of records revealed that 50 claims amounting to Rs 8.06 lakh pertaining to the period prior to March 2000 were pending against 66 suppliers on these grounds. The failure of the department to effect recovery from the suppliers for such a long period reflected inadequate operational management control.

Store and Inventory Controls

Stores and stock

5.1.16. The purchase order for the supply of spares, tyres, lubricants etc. issued by DST *inter alia* provided that supplier firm should supply special certificate by the firm on the supply bill that "It is certified that items mentioned in this bill have not been supplied at lower rates than quoted in the Rate Contract to any other firm".

However, during course of test check of purchase orders of Central Stores for the year 2005-06, it was noticed that out of total 176 supply bills of Rs 1.88 crore for the months of August 2005 to October 2005 submitted by the firms for payment, 42 bills amounting to Rs 53.72 lakh were not supported by the special certificate *ibid*, in the absence of which authenticity of rates could not be vouchsafed.

Irregular local purchases

Irregular purchases of Rs 83.50 lakh were effected in excess of the stipulated limit

5.1.17. As per Rule 19.6 of Punjab Financial Rules, (Vol. I) General Manager of the depot was competent to incur expenditure on the repairs, servicing and other contingencies up to Rs 3000 on each item subject to the overall limit of

[9] Celebrated by Anandpur Sahib Foundation.

Rs 85,000 per month. However, it was noticed in audit (April 2006) that General Managers of four[10] depots had incurred an expenditure of Rs 2.36[11] crore on local purchases against the stipulated limit of Rs 1.53 crore during the last four years ending March 2005. Considering the above, on an average the depots had incurred excess expenditure of Rs 0.46 lakh per month over the limit and in four depots this was found to be exceeding the limit by Rs 0.03 lakh to Rs 18.38 lakh per year. The DST in its reply (May 2006) admitted that excess expenditure was incurred due to fleet of old buses.

Non-disposal of obsolete stores

5.1.18. A review of records revealed that the department constituted a committee (December 2002) to declare stores obsolete lying in various depots and Central Store, which had declared (September 2005) 2134 items valuing Rs 47.82[12] lakh as obsolete. However, these have not been disposed of so far (June 2006).

Internal Audit

5.1.19. In each depot, one Resident Section Officer (posted by Finance Department) and assisted by two auditors of department had been entrusted with the responsibility of carrying out internal audit to exercise prescribed checks to effect the economy and safeguard against irregular expenditure and loss of public money and to report errors and irregularities to the DST for remedial action. Besides, the State Government had established (October 1981) Internal Audit Organization for conducting the internal audit of all the departments of the State Government with special emphasis on audit of the revenue receipts in the revenue earning departments. This organization had conducted the internal audit of Punjab Roadways Depots only once during 1991-92. Thereafter, the internal audit of the organization was discontinued in view of decision taken (November 1991) by the Government. Out of 270 audit paras issued by Internal Audit Organization during 1991-92, 95 audit paras were pending settlement and remedial action (June 2006).

From the test check of records for the year 2004-05 and 2005-06 it was, however, observed (May 2006) that only six Resident Section Officers (RSO) were posted in 18 depots during 2004-05 and five during 2005-06. Further, a test check of record of five depots revealed that no RSO and auditor were posted in Hoshiarpur since August 2003. In the remaining four depots, only four auditors were posted against the sanctioned posts of eight auditors. Audit further observed the following deficiencies:

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[10] Excess expenditure incurred by depots i.e. Chandigarh Rs 12.85 lakh, Hoshiarpur Rs 19.31 lakh, Ludhiana Rs 11.01 lakh and Ropar Rs 40.33 lakh.

[11] Figures does not include data of 2003-04 of Chandigarh depot as there was no excess expenditure in that year.

[12] During 2002-03 (761 items valuing Rs 10.46 lakh), 2003-04 (469 items valuing Rs 4.52 lakh), 2004-05 (392 items valuing Rs 5.95 lakh and 2005-06 (512 items valuing Rs 26.89 lakh).

- Specific training was not imparted to the auditors attached with RSO's,
- Special audit by the Director State Transport was not conducted during the last five years in the violation of Rule 107 of the "Accounting Rules, Procedure and Forms" of the department,
- RSO had not pointed out any irregularity during the last five years.

In response to Audit observations, the department stated (May 2006) that there were no instructions for internal audit. The reply is not acceptable as the DST's orders dated 13.02.1970 followed by detailed orders dated 18.1.1990 had provided for checking of various items for overall internal audit of Punjab Roadways depots by the RSO posted by the Finance Department. Resultantly, the important errors and omissions e.g. improper maintenance of cash book, irregular temporary advances/local purchase excess deployment of staff etc. were not reported to DST for remedial measures.

Vigilance Mechanism

5.1.20. As per State Vigilance Department directions (March 2000) to all the departments, creation of a Vigilance Wing in each department of the State was mandatory. However, no Vigilance Wing was in existence in the Punjab Roadways. There was a Central Flying Squad working in the Transport Department headed by a Deputy Director State Transport. No vigilance cases were referred to the Vigilance Department of the State by Punjab Roadways during last five years.

Conclusion

5.1.21. Internal controls viz. Cash controls, Administrative controls, Operational control, Store and Inventory controls were inadequate and ineffective in the department. Cash books were not maintained as per rules and these were not verified and signed by the Head of office at the end of each month. The lack of Administrative control led to improper maintenance of General Provident Fund and Group Insurance Scheme accounts, as consolidated statements were not sent to Finance Department/Accountant General (A&E) Punjab. Deployment of drivers and conductors was in excess. Ineffective Operational control resulted in non-operation of scheduled kilometers, excess consumption of high speed diesel by the buses, non-recovery of hiring charges of buses from other organizations. Non-imparting of training and inadequate posting of staff led to ineffective Internal Audit arrangement in the department resulting in non-reporting of important errors and omissions to DST.

Recommendations

- Proper maintenance of cash books, General Provident Fund and Group Insurance Scheme accounts should be ensured to safeguard against over payments and misappropriation;

- Ü Speedy adjustment of temporary advances should be ensured, besides stoppage of further sanction of such advances as it is violative of financial rules;
- Ü Frequent changes of General Managers should be avoided and excess deployment of conductors and drivers should be rationalized;
- Ü Timely renewal of various kilometer scheme agreements should be made so as to gain additional revenue;
- Ü Stringent measures should be taken to limit the consumption of HSD within the norms.

In response to audit, the DST admitted the facts and accepted the audit observations and findings and assured to take remedial action. The above points were referred to Government (March 2006); reply is awaited (September 2006).

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