

**CHAPTER-V  
INTERNAL CONTROL SYSTEM IN GOVERNMENT  
DEPARTMENTS**

**COOPERATIVE DEPARTMENT**

**5.1 Internal Control System in Cooperative Department**

*Highlights*

*The main functions of the Cooperative Department are to promote cooperative sector and exercise control over the working of the Cooperative Societies in the State. In order to perform these functions effectively State Government has prescribed various internal control measures. However, there were instances of inadequacy, deficiency in the controls as well as non-compliance at different levels. The review revealed laxity in budgetary, expenditure and operational controls. Some of the significant points noticed are as under:*

**There were savings to the tune of Rs 12.60 crore under establishment head, on account of non-plan budget being based on sanctioned strength instead of working strength.**

*(Paragraph 5.1.5)*

**Due to improper scrutiny of proposals for demand from lower formations Rs 26.45 crore could not be disbursed to the Societies.**

*(Paragraph 5.1.5)*

**While in 11 Offices, the head of offices did not carry out physical verification and surprise check of cash balances, in four offices the postage stamps was not physically verified during 2000-05.**

*(Paragraph 5.1.7)*

**There were 4909 cases of theft, losses, embezzlement and misappropriation of funds amounting to Rs 16.88 crore in Societies, which were pending finalisation.**

*(Paragraph 5.1.8)*

**Liquidation proceedings of 531 Societies were pending as on 31 March 2005 for period ranging from one year to 50 years.**

*(Paragraph 5.1.9)*

**Elections of Societies were not held since 1993.**

*(Paragraph 5.1.12)*

**The Chief Auditor responsible for conducting audit of Societies works under the control of Registrar. As such the impartiality and independence of audit could not be ensured.**

*(Paragraph 5.1.13)*

**5.1.1 Introduction**

Cooperative Department plays a pivotal role in implementation of cooperative movement in the State. An effective and efficient internal control mechanism, leads to a streamlined administrative organisational set up. Strict adherence to statutes, codes and manuals prescribed by the Government minimise the risk of errors and irregularities, besides helping in protecting resources against loss, wastages, abuse and mismanagement. The Internal Auditors, examine and evaluate the level of compliance of the rules and bring to notice of the Head of Department any irregularities for the corrective action. The Internal Audit System in Cooperative Department was evaluated with regard to its effectiveness and efficiency.

**5.1.2 Audit objectives**

The internal control system in vogue in the Cooperative Department was reviewed with the aim to assess the adequacies and effectiveness of:

- Budgetary controls
- Expenditure and Cash controls
- Operational controls
- Internal Audit System

**5.1.3 Organisational set up**

While administrative control of Cooperative Department vests with the Secretary to the Government and the executive functions are performed by the Registrar, Cooperative Societies who is assisted by nine Additional Registrars, 37 Joint Registrars (JRs), 121 Deputy Registrars (DRs) and 224 Assistant Registrars (ARs). Chief Auditor and Director of Inspection, who report their findings to the Registrar and Finance Department respectively, conduct audit and inspection of the Cooperative Societies and the Department. As of March 2005 there were 16080 auditable societies in the State of Rajasthan.

**5.1.4 Audit coverage**

Audit scrutiny (March to June 2005) of the internal control system of Cooperative Department for the period 1999-2005 was carried out in the

offices of Registrar, Chief Auditor, Jaipur, six<sup>1</sup> JRs and Regional Audit Offices (RAOs) and five<sup>2</sup> ARs.

### **Financial Controls**

#### **5.1.5 Budgetary controls**

The Rajasthan Budget Manual envisaged effective adherence to budgetary control, which among other things requires the administrative Departments to prepare budget estimates based on inputs from lower formations, and to ensure that the budget allocation is not exceeded and the anticipated savings are surrendered in time. In respect of establishment the manual provides that, although the whole sanctioned strength should be shown together with the total cost thereof, but savings that may result from some posts remaining unfilled should be deducted. The position of budget allocation including loans and share capital contribution to Societies and expenditure for the years 2002-05 was as under:

Year	Budget estimates		Actual expenditure		Savings	
	Non-plan	CSS and Plan	Non-plan	CSS and Plan	Non-plan	CSS and Plan
2002-03	26.29	60.00	24.06	47.62	2.23	12.38
2003-04	26.71	19.45	22.40	11.98	4.31	7.47
2004-05	39.56	81.06	33.50	74.46	6.06	6.60
<b>Total</b>	<b>92.56</b>	<b>160.51</b>	<b>79.96</b>	<b>134.06</b>	<b>12.60</b>	<b>26.45</b>

**There were savings to the tune of Rs 12.60 crore under non-plan head due to defective budgeting.**

Non-plan expenditure was mainly on establishment under various sub-heads such as direction, supervision, audit, training, cooperative tribunal, information and publicity. There were savings to the tune of Rs 12.60 crore under this head which were due to allocation of budget as per sanctioned strength, while actual working strength was less than sanctioned strength. This indicated that the control system in place to prepare the budget was defective as the probable savings on account of posts remaining vacant were not deducted before finalisation of budget estimates by the Registrar.

Under centrally sponsored and plan schemes major expenditure incurred was in the form of share capital contribution to the Societies, grants-in-aid, loans and advances for implementation of special cooperative schemes. Disbursement of funds was subject to certain mandatory conditions given in the sanctions, but the Societies failed to comply with them, which resulted in short disbursement or savings of Rs 26.45 crore. The Department had not ensured that the viability of the Societies was checked before sanction of grants, resultantly the budgetary exercise ignored the possibility that funds requisitioned, may not get actually disbursed due to non-fulfillment of mandatory condition of sanctions.

1. Ajmer, Bikaner, Jaipur, Jodhpur, Kota and Udaipur.
2. Anoopgarh, Banswara, Sikar, Suratgarh and Sawaimadhopur.

### 5.1.6 Expenditure controls

Every Drawing and Disbursing Officer (DDO) is responsible for seeing that the rules regarding incurring of expenditure from the Government exchequer are followed strictly. Scrutiny of the records revealed as follows:

As per Rule 119 of the General Financial and Accounts Rules (GF&AR) all paid vouchers shall be stamped 'paid' or shown 'cancelled' by the DDO so that they cannot be used second time. Scrutiny in audit revealed that in eight offices<sup>3</sup> test-checked the paid sub vouchers pertaining to the months of December 2003 and March 2005 were not stamped 'paid' and 'cancelled'.

**Rupees 40 lakh were sanctioned to 384 Societies without fulfillment of conditions of sanction.**

For integrated development of women through Self-help-group schemes, the Government constituted (October 2001) Women Cooperative Societies through Government support. The sanctions for release of share capital and grants-in-aid stipulated that, the Societies should be profit making, and further the Societies should have arrangement for periodic and regular audit of their accounts. Besides, share certificates were to be issued in favour of the Governor. However, it was noticed that Rs 40 lakh (Share capital: Rs 29 lakh and Grants-in-aid: Rs 11 lakh) was sanctioned during 2001-05 to 384 Societies without fulfillment of conditions of sanction.

As per provisions of Rule 150 (5) of GF&AR a Pay Bill Register shall be maintained by each DDO so as to avoid double payments of salary and allowances to the staff. During test-check (March 2005) it was, however, noticed that in the Office of Joint Registrar, Jaipur no such register was maintained.

### 5.1.7 Cash controls

**DDOs did not verify the cash balance at the end of each month in 11 offices out of 12 test-checked.**

Test-check in audit revealed that in 11 Offices<sup>4</sup> out of 12 test-checked, the DDOs did not verify the cash balance at the end of each month and failed to carry out surprise check of cash during the month, besides recording a signed and dated certificate to this effect as required under rule 51(1) (i) and (ii) of GF&AR.

Test-check revealed that 11<sup>5</sup> out of 12 DDOs had not conducted prescribed monthly reconciliation of remittances made into the treasury with the schedule of remittances maintained at the treasury, in absence of which there was no check on non-accountal of remittances into the treasury.

In four<sup>6</sup> offices test-checked, the stock of service postage stamps was not verified personally by the DDOs during 2000-05 as envisaged in GF&AR.

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3. Registrar, Jaipur; JRs-Ajmer, Bikaner and Udaipur; ARs-Banswara, Sikar, Suratgarh and Sawaimadhopur.
  4. Registrar, Jaipur; JRs-Ajmer, Bikaner, Jaipur, Kota and Udaipur; ARs-Anoopgarh, Banswara, Sikar, Suratgarh and Sawai Madhopur.
  5. Registrar, Jaipur; JRs-Ajmer, Bikaner, Jaipur, Jodhpur, Kota and Udaipur; ARs-Banswara, Sikar, Suratgarh and Sawaimadhopur.
  6. Registrar, Jaipur; JR- Jodhpur, ARs-Anoopgarh and Sikar.

**Operational controls**

Cooperative Department arranges financial assistance for Cooperative Societies in the form of loans, grants, etc. through National Bank for Agriculture and Rural Development and National Cooperative Development Corporation. To safeguard the State Government's investment in Societies, departmental officers are nominated under Section 29 of the Rajasthan Cooperative Societies Act, 2001 (hereinafter referred as the Act) for financial management and control of day to day affairs of the Societies. The departmental control is also exercised through audit of the Societies by the Chief Auditor. Besides, Registrar is also responsible under the Act for exercising overall control of the working of all the Societies registered with the Department. The control activities included range of activities as diverse as approvals, authorisation, verifications, reconciliation, review of operating performance and obtaining security of assets. Despite these measures and controls prescribed, audit noticed a number of financial irregularities as given below, which indicated that above control measures had not been properly applied.

**5.1.8 Mounting cases of misappropriation, embezzlement, fraud and losses**

The position of cases of misappropriation, embezzlement, fraud and losses noticed in audit of Societies by the Chief Auditor during five years ending 31 March 2005 was as under:

**(Rupees in crore)**

Year	Position of cases at year end	
	Number	Amount
2000-01	4784	9.17
2001-02	5342	12.38
2002-03	5138	13.06
2003-04	4560	14.88
2004-05 (upto November 2004)	4909	16.88

**Amount of misappropriation, embezzlement, fraud and losses' cases increased from Rs 9.17 crore in 2000-01 to Rs 16.88 crore in 2004-05 due to ineffective control.**

The above table indicated that amount involved in misappropriation, embezzlement, fraud and losses' cases increased from Rs 9.17 crore to Rs 16.88 crore due to ineffective control over the Societies by the departmental officers. The nominated officers should ensure greater vigil over the affairs of the Society so that this increasing trend in cases of fraud and misappropriations, etc., is arrested.

Under Sections 55 to 57 of the Act, though the departmental officers were entrusted with adjudication of cases of frauds, misappropriation and embezzlement but no time frame for finalisation of individual cases was prescribed. As a result, 328 cases (involving Rs 8.57 crore) were pending finalisation for the periods ranging from one year to 20 years, in offices

test- checked. Delay in finalisation of cases may result in (i) non-recovery of dues of the Societies and (ii) loss of shareholders' faith and money.

Departmental officers (Joint Registrars and Assistant Registrars) while adjudicating the cases of theft, embezzlement and misappropriation under Section 57(2) are required to collect processing fee from defaulters. In six offices<sup>7</sup> test-checked it was observed that processing fee amounting to Rs 1.41 lakh though levied (August 1997- March 2005) had not been recovered as of April 2005.

Cases of theft, embezzlement and misappropriation decided under Section 57(2) are sent for recovery to District Cooperative Banks concerned. During test-check of two offices of the Assistant Registrar, Sikar and Sawaimadhapur, it was observed that the Department had not monitored recovery of Rs 6.98 lakh as of April 2005 in 23 decided cases though intimation for recovery had been made during the period between August 1984 to February 2005. Absence of any mechanism to watch recovery indicated operational failure at the level of adjudicating officers.

### ***5.1.9 Delays in liquidation proceedings***

**The Government suffered a loss of Rs 3.50 crore due to delay in winding up of liquidation proceedings.**

Under Sections 61 to 66 of the Act (Liquidation of Cooperative Societies) winding up of closed and defunct Societies is one of the important duties of the Department. Departmental officers were appointed as liquidators of such Societies. It was noticed that no time period for completion of liquidation proceedings was prescribed under the Act, which resulted in non-finalisation (March 2005) of liquidation proceedings of 531 Societies as intimated by the Department. A test-check of records in Joint Registrar Office, Udaipur, Assistant Registrar Offices, Rajsamand and Banswara revealed that finalisation of liquidation proceedings of Societies was pending for period ranging from one to 50 years. Undue delay in finalising the liquidation proceedings resulted in unnecessary wastages of assets and continuation of recurring liabilities (pay and allowances of staff and watch and ward of assets etc.). In two<sup>8</sup> major Cooperative Societies under liquidation from March 1995 and August 2001, the Government suffered loss of Rs 3.50 crore towards pay and allowances for the period August 2001 to December 2004 due to delay in winding up of liquidation proceedings. Under Section 64 (1) of the Act, the liquidator of a Society should take possession of the assets of the Society under liquidation. M/s Jawahar Servicemen Collective Agriculture Cooperative Society Limited under the jurisdiction of Assistant Registrar, Suratgarh, was brought under liquidation on 18 September 1981 but the liquidator had not taken possession (June 2005) of 120 acre (300 bigha) land of the Society as required under the Act despite lapse of more than 24 years. This indicated failure of operational control at the level of liquidator as assigned to him under the Act.

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7. JRs-Ajmer (Rs 0.35 lakh), Bikaner (Rs 0.18 lakh), Kota (Rs 0.65 lakh) and Udaipur (Rs 0.13 lakh), ARs-Suratgarh (Rs 0.08 lakh) and Sawaimadhapur (Rs 0.02 lakh).

8. M/s Keshoraipatan Sahakari Sugar Mill and M/s Shri Ganganagar Cooperative Oil Seed Processing Mill.

### ***5.1.10 Non-verification of entries by Drawing and Disbursing Officer***

In the office of Assistant Registrar, Sawaimadhopur, the entries in the register relating to recovery of loans and interest were not found attested by the Drawing and Disbursing Officer in token of their correctness in absence of which authenticity of figure of outstanding towards loans and interest could not be ensured.

### ***5.1.11 Non-recovery of loans under financial assistance***

Government created (1994) “State Cooperative Renovation Fund” of Rs 5 crore and “State Cooperative Revitalisation Fund” of Rs 10 crore for providing financial help to Societies intending to prune their establishment cost and implement schemes for financially weak Societies requiring working capital for business respectively. Loans were sanctioned by the Government on the recommendations of departmental committees. The Departmental officers were responsible for monitoring and control of schemes (including recovery of loans). Rupees 1.22 crore were sanctioned to 12 Societies during March 1995 to January 2001 from State Cooperative Renovation Fund and Rs 1.04 crore were sanctioned to 16 Societies during July 1997 to March 2001 from State Cooperative Revitalisation Fund. Though the instalments had become due, the recovery alongwith interest had not been made and it was observed that an amount of Rs 1.47 crore was outstanding to State Cooperative Renovation Fund and similarly an amount of Rs 1.41 crore was outstanding to State Cooperative Revitalisation Fund as at the end of March 2005. Above position indicates that departmental officers did not conduct proper scrutiny of proposals of financial assistance, before sanctioning of the loans to the Societies.

### ***5.1.12 Control through elected committees***

Election of the “Working Committees of the Societies” was not held since 1993 in any of the Societies as of March 2005. Nominated members, paid employees and administrators, were managing the working of Societies. Therefore, the control mechanism through elected committees was not being followed. Thus, the Government failed to implement provisions of the Act to hold the regular elections for the working committees of the Societies, which weakened the mandated control environment in functions of the Societies.

### ***5.1.13 Lack of staff for audit of Cooperative Societies***

The Staff of the Chief Auditor i.e. Regional Audit Officers, Special Auditors and Inspectors can be posted as executive officers/administrators of Societies or entrusted with the task of adjudication of cases of theft, embezzlement and misappropriation etc. detected during audit of Societies. Further, the audit staff is also not free from subordination of executive head of auditee Societies, as they can be transferred under their control. Thus, the audit impartiality and independence could not be ensured.

**Nominated members, paid employees and administrators were managing the working of the Societies rather than elected committees.**

#### **5.1.14 Internal Audit of administrative functions**

The Internal audit of administrative functions of the Head Office of the Department is conducted by the Director of Inspection, through a team of Accounts Officer(s) and that of subordinate offices of the Department is conducted by departmental internal audit parties in accordance with Rules 12 and 41 of GF&AR. Periodicity of internal audit was three years. Though the Department informed that period laid down for compliance of inspection reports was one month from date of issue, but inspection reports, prior to 1999-2000, were still pending settlement for want of proper compliance as mentioned below:

<b>Year</b>	<b>Inspection Reports</b>	<b>Paragraphs</b>
Upto 1999-2000	155	265
2000-01	14	52
2001-02	24	112
2002-03	31	168
2003-04	11	92
<b>Total</b>	<b>235</b>	<b>689</b>

There were 689 paragraphs pending for want of compliance, which showed poor response of audited offices to Internal Audit findings and poor persuasion for compliance by Internal Audit.

No separate internal audit standards, guidelines and manuals for conduct of internal audit existed in the Department.

#### **5.1.15 Lack of response to C&AG's audit**

Principal Accountant General (Civil Audit), Rajasthan arranges to conduct periodical inspection of Government transactions and communicates the audit findings through Inspection Reports to the Heads of the Offices/Department. The Department is required to comply with the audit observations and rectify the defects and promptly report the compliance to the Principal Accountant General. A half yearly report on the pending Inspection Report is also sent to the Department to facilitate monitoring and compliance of audit observations.

As of 31 July 2005, 158 paragraphs relating to 61 Inspection Reports issued up to February, 2005 pertaining to periods from 1993 to 2004-05 were still pending settlement. Failure to comply with the objections raised by Audit facilitated the continuation of financial irregularities and loss to the Government.

#### **5.1.16 Conclusion**

Chief Auditor works under administrative control of the Registrar of Cooperative Societies, which is not conducive for an impartial and independent audit. Though large number of cases of theft, embezzlement, misappropriations etc. were pending settlement for long periods, basic



principles of democratic working of Societies was not adhered to by non-holding of elections of Societies in time. No time frame for completion of liquidation proceedings of the Societies has been laid down in the Act. Stamping of Paid vouchers by DDOs as 'paid' and 'cancelled' was not done thus leaving scope for misuse of such vouchers. Prescribed reconciliation of remittances made into the treasury had also not been conducted by DDOs.

#### **5.1.17 Recommendations**

- Scrutiny of budget proposals received from lower formations and demands received from Societies should be properly examined to avoid excessive savings.
- The Departmental officers should scrupulously follow the provisions of the Budget Manual, GF&AR and various instructions issued by the Finance Department from time to time.
- Time frame for adjudication of theft, embezzlement, and misappropriation cases should be laid down in the Act and adhered to.
- Timely holding of elections of Societies should be ensured.

The matter was referred to the Government in August 2005; reply had not been received (November 2005).

**JAIPUR,  
The**

**(SAROJ PUNHANI)  
Accountant General (Civil Audit), Rajasthan**

**Countersigned**

**NEW DELHI,  
The**

**(VIJAYENDRA N. KAUL)  
Comptroller and Auditor General of India**