

## CHAPTER-V INTERNAL CONTROL SYSTEM IN GOVERNMENT DEPARTMENTS

### Tribal Area Development Department

#### 5.1 Evaluation of Internal Control System in Tribal Area Development Department

##### *Highlights*

*Greater effectiveness of internal audit, by implication, would ensure greater efficiency of administration and consequently would attract lesser criticism from statutory Audit Systems and procedure would be corrected on an ongoing basis, providing a concurrent support system to administration. Significant points noticed were:*

**Year-wise details of unspent grants of Rs 71.51 crore lying in Personal Deposit accounts as on 31 March 2004 were neither reported to Government of India nor maintained by Tribal Area Development Department.**

*(Paragraph 5.1.4)*

**Central funds worth Rs 1.96 crore were blocked for more than four years because of non-release of State share up to March 2003 due to inadequate pursuance by the department.**

*(Paragraph 5.1.4)*

**Utilisation Certificates worth Rs 240.39 crore were pending as on 31 March 2004, even complete details of such pendency were not available with the department.**

*(Paragraph 5.1.5)*

**Contrary to the guidelines, the department diverted Rs 37.32 crore (out of SCA funds Rs 113.43 crore) on pay and allowances, maintenance of hostels and *Basti Vidyutikaran* etc.**

*(Paragraph 5.1.5)*

**Internal audit system remained inoperative since May 1996.**

*(Paragraph 5.1.7)*

##### **5.1.1 Introduction**

In response to the growing concerns of financial analysts, governance experts and the civil society at large with regard to the debilities of internal control system in governance structures, increasing attention is being paid by audit to the efficacy of the internal control systems. Evaluation of the effectiveness of internal audit forms part of a wide spectrum of measures devised for the purpose by the Comptroller and Auditor General of India.

The internal control environment of Tribal Area Development (TAD) Department was evaluated in audit to assess the extent to which the Government programme managers achieved desired results through effective stewardship of public resources. Rupees 190.38 crore<sup>1</sup> was spent out of grant amount of Rs 219.56 crore received during the period 2001-04 by the TAD Department. The internal control mechanism of the department was reviewed to see that the same was adequate for the achievement of the objectives of the department.

### 5.1.2 Organisational set up

Secretary to the Government is the administrative head of the TAD Department, who is assisted by Commissioner, TAD, Udaipur and six Project/Deputy Project Officers<sup>2</sup> for coordination, review and monitoring of all tribal area development programme. TAD gets the work executed through various departments of the State Government, Corporations and Non-Governmental Organisations (NGOs).

### 5.1.3 Audit objectives

The objective of audit was to see whether the Internal Control System of the Department provided for:

- Orderly, economical, efficient and effective operation of various schemes/programmes
- Safeguarding resources against loss due to waste, abuse, mismanagement, errors and irregularities
- Adherence to laws, regulations and management directives
- Fulfilling accountability obligations.

To assess the internal control environment in TAD, records for the period 2001-04 were reviewed in the offices of the Secretary, TAD, Jaipur and Commissioner, TAD, Udaipur during May 2004 to July 2004. Important findings as a result of test-check are mentioned in the succeeding paragraphs.

### 5.1.4 Budgetary controls

Funds are provided to the TAD Department mainly from State Plan by Government of Rajasthan (GOR), Special Central Assistance (SCA) from Government of India (GOI) and grant under Article 275 (1) of the Constitution from GOI for development of weaker sections and backward areas.

Funds released by GOR and GOI during 2001-02 to 2003-04 and transferred to Personal Deposit (PD) accounts of Commissioner and Project Officers (Tribal) were as under:

(Rupees in crore)				
Year	Opening balance	Grant received during the year	Amount transferred to seven PD accounts	Closing balance with Secretary, TAD
<b>SCA</b>				
2001-02	5.44	39.01	39.73	4.72
2002-03	4.72	36.50	26.84	14.38
2003-04	14.38	32.85	37.07	10.16
<b>Grant under Article 275(1)</b>				
2001-02	10.06	25.50	30.06	5.50
2002-03	5.50	20.00	19.93	5.57
2003-04	5.57	20.70	25.99	0.28
<b>State Plan (Maharashtra Pattern)</b>				
2001-02	Nil	30.00	29.65	Nil*
2002-03	Nil	10.00	10.00	Nil
2003-04	Nil	5.00	5.00	Nil

### utilisation

- Special Central Assistance of GOI was provided as grant to be released to the State in two or three instalments. The entire amount was to be made available by the end of third quarter in each year. The releases were subject to the performance of the State Government and utilisation of previously released funds. The funds received by the State were required to be further released to the implementing agencies<sup>3</sup> within a month from the date of release of SCA. Any unspent amount was not to be carried forward for expenditure during the next year but was to be surrendered to GOI. It was seen that SCA was not utilised in full during the period 2001-02 to 2003-04 and the closing balance with Secretary,

TAD, Jaipur during 2001-02 to 2003-04 ranged between Rs 4.72 crore and Rs 14.38 crore. Evidently, there were no controls in place to examine the extent and timing of release of funds to different agencies.

- GOI was to adjust the unspent balances from the grants for subsequent years but the unspent balance of Rs 10.16 crore (31 March 2004) lying with the Secretary, TAD was neither surrendered to GOI nor got revalidated. Besides, Rs. 71.51 crore<sup>4</sup> was lying as unspent balance in the PD accounts of the Commissioner and six Project Officers. It indicated lack of controls for fixing of performance targets based on available financial resources and assessing progress towards achieving them. No records were maintained by the department to monitor the year-wise release and actual expenditure incurred against the releases.
- Government of Rajasthan decided (October 1999) to adopt "Maharashtra Pattern" system of Tribal Development in the State of Rajasthan. Accordingly, a minimum eight *per cent* (Rs 1226.60 crore) of State plan funds (Rs 15332.44 crore) was to be allotted to the Department. Against this, only Rs 45 crore were allotted during the period 2001-2004 with the result that "Maharashtra Pattern" System of Tribal Development was not adopted in the State as proposed. The department did not make the projections in the demand for grants to the Finance Department as per the Maharashtra Pattern leading to releases as per old pattern.
- Though the TAD Department of GOI sanctioned (March 1999) Centrally sponsored scheme outlay of Rs 1.96 crore for 12 *Ashram Hostels*, the State Government did not release the matching share of 50 *per cent* till March 2003. The State TAD department did not pursue the matter with the State Finance Department for release of state share. Belated release of state share led to non-utilisation of central share of Rs 1.96 crore for more than four years which in turn led to non-construction of hostels sanctioned in March 1999.

Above instances indicated poor financial management and lack of controls and monitoring.

### 5.1.5 Expenditure controls

#### *Non-receipt of Utilisation Certificates*

Under Rule 151 of General Financial Rules the position of utilisation of funds was to be reported by the State Government to GOI. It was observed that utilisation of funds were reported by State Government to GOI immediately on its transfer to executing agencies and PD accounts of the Commissioner and Project Officers-Tribal (POTs), without ascertaining actual utilisation of funds by the executing agencies and a huge unspent balances were lying with them. However, Utilisation Certificates (UCs) for Rs 240.39 crore pertaining to the period 1978-79 to 2003-04 were pending from executing agencies as detailed below:

(Rupees in crore)			
Year	Funds provided to executing agencies	UCs received	UCs outstanding
For period prior to 1999	-	-	63.15
1999-2000	36.01	24.49	11.52
2000-01	45.12	25.78	19.34
2001-02	90.89	37.97	52.92
2002-03	54.62	21.25	33.37
2003-04	68.77	8.68	60.09
<b>Total</b>			<b>240.39</b>

The department had not maintained proper records and evolved mechanism for obtaining UCs from the executing agencies.

#### *Diversion of funds*

As per guidelines (September 1985) of GOI, the SCA funds (Rs 113.43 crore) were to be utilised only on family oriented income generating schemes. Contrary to the guidelines, department spent Rs 37.32 crore on pay and allowances of staff and maintenance of hostels (Rs 34.91 crore), *Basti Vidyutikaran* Projects (Rs 1.67 crore) and restarting of closed lift irrigation schemes (Rs 0.74 crore). This shows that the internal control was deficient in tracking the flow of utilisation of public funds and ensuring the extent of resources reach to the target groups.

### 5.1.6 Monitoring controls

Though, the State Level Planning and Co-ordination Committee was in existence, it met only two times during 2001-2004 as against the requirement of six meetings. The Tribal Advisory Council, which was to meet quarterly, met only six times during last three years. As regards the top level reviews of actual performance, the mechanism for tracking major agency achievements and compare these to the plans, goals and objectives was found inadequate.

As per decision taken in the Tribal Advisory Council meeting dated 19 June 2000, at district level a Committee was to be constituted and at least quarterly meeting was to be held. A review of records revealed the following shortfalls in holding the meeting of the Committee:

Project Office	Number of meetings held			Shortfall
	2001-02	2002-03	2003-04	
Udaipur	-	2	1	9
Banswara	1	2	1	8
Dungarpur	-	-	4	8
Pratapgarh	-	1	1	10
Abu Road	-	2	2	8

TAD Department stated that meetings by top management are to be regulated at State level; whereas meeting of Tribal Advisory Council could not be held after formation of new Government in December 2003. Reasons for late constitution of Committee at district level though called for has not been intimated. There was lack of coordination at different levels leading to ineffective monitoring controls.

It was also observed in audit that though the Commissioner had conducted regular monthly meetings with the executing agencies to monitor the programme through progress reports, the department had no machinery for spot visits to check false reporting and physical verification of assets created. There were no controls in place at all levels in the organisation to compare actual performances in relation with the planned or expected results and analyse significant differences.

### 5.1.7 Inadequacies in Internal Audit function

The objective of internal auditing is to assist members of the organisation in the effective discharge of their responsibilities. Within the context of the system of internal control, it forms a management control that examines and evaluates the adequacy and effectiveness of other controls and makes recommendations for improvement. Evaluation of the Internal Audit System revealed the following:

- No separate internal audit standards, guidelines/manuals for conduct of internal audit and responsibilities of internal audit organisation have been prescribed by the department. Also no time limit for issuing the report was fixed and there was no formal format prescribed for the Inspection Report.
- There is no separate audit wing for conducting internal audit in the Department as the only internal audit party was inoperative since May 1996.
- The internal audit of subordinate offices was to be conducted annually on the basis of provisions in the General Financial and Accounts Rules and directions issued by the State Government from time to time. It was observed that internal audit of POT office, Abu Road was never taken up since establishment (April 1979) and for the rest five POT offices, it was pending for period ranging from 11 to 18 years. It was further observed that 182 paragraphs pertaining to the period from 1978-1993 of

Internal Audit Reports relating to these Offices were outstanding even after expiry of more than eleven years.

- It was noticed that 23 paragraphs of six Inspection Reports for the period 1983-84 to 1997-98 issued by the Director of Treasuries and Accounts, Jaipur were outstanding (June 2004) out of which 12 paragraphs were more than 15 years old and 8 paragraphs pertained to period from 10 to 15 years.
- Position of outstanding paragraphs of Inspection Reports issued by the Principal Accountant General, Rajasthan was as under:

Sl.No.	Period	Number of Paragraphs
<b>Expenditure audit</b>		
1.	November 1999 to May 2001	2
2.	June 2001 to June 2002	4
3.	July 2002 to March 2004	4
<b>Grants audit</b>		
1.	April 1997 to March 1999	2
2.	April 1999 to March 2000	2
3.	April 2000 to March 2001	15
4.	April 2001 to March 2002	7
5.	April 2002 to March 2004	19

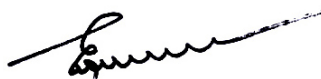
- Substantial pendency of internal audit, lack of internal auditing standards and guidelines, and considerable pendency of compliance on audit observations reflected poorly on the effectiveness of internal audit system in the TAD Department.

#### 5.1.8 Conclusion

Due to improper internal control mechanism and inoperative internal audit the objective of establishment of the department to narrow the gap between the level of development in tribal area and other parts of the State and to improve the standard of life of the tribal communities could not be fully achieved. An internal control mechanism was not found in place that may ensure the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. Top level reviews of actual performance, establishment and review of performance measures and indicators, proper execution of transactions and events, etc. were found deficient.

#### 5.1.9 Recommendations

- Comprehensive instructions prescribing controls to be exercised at different levels may be issued.
- Accountability obligation at different levels may be provided and compliance monitored so that unspent balances and available resources can be utilised in a planned manner and a close watch is kept on their utilisation.
- Performance of the implementation of various programmes/schemes needs to be reviewed periodically.
- Separate staff should be earmarked for conducting of internal audit and physical verification of assets. Audit Manual should also be prepared.
- Speedy settlement of outstanding paragraphs of Inspection Reports be ensured.



JAIPUR,

(B.R. MANDAL)

The

Principal Accountant General (Civil Audit), Ra

**5 May 2005****Countersigned****(VIJAYENDRA N. KAUL)****Comptroller and Auditor General of****NEW DELHI,****The  
India****6 May 2005**

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1. SCA: Rs 113.43 crore; Grant under Article 275(1) : Rs 43.06 crore; Maharashtra Pattern : Rs 33.89 crore.
  2. Banswara, Dungarpur, Udaipur, Shahbad, Abu Road and Pratapgarh.
  3. Government departments/Corporations/NGOs etc.
  4. Commissioner, TAD, Udaipur: Rs 25.28 crore; Project Officers, Udaipur: Rs 15.56 crore; Banswara: Rs 10.22 crore; Dungarpur: Rs 9.16 crore; Pratapgarh : Rs 5.74 crore; Abu Road:Rs 2.76 crore; Shahbad: Rs 2.79 crore.