

## CHAPTER V

### INTERNAL CONTROL SYSTEM

#### HEALTH AND FAMILY WELFARE DEPARTMENT

##### 5.1 Evaluation of Internal Control System and Internal Audit Arrangement in the Directorate of Public Health and Preventive Medicine

###### *Highlights*

*Evaluation of the internal control in respect of Directorate of Public Health and Preventive Medicine revealed non-compliance of the codal provisions and non-reconciliation of departmental figures. Evaluation of the internal audit wing of the Directorate revealed huge arrears in audit, inadequate response to audit objections and diversion of audit staff.*

➤ Funds were drawn far in excess of requirement and Rs 2.13 crore were refunded to government account belatedly.

(Paragraphs 5.1.6 to 5.1.8)

➤ Security bonds were not obtained from 201 officials dealing with cash and stores.

(Paragraphs 5.1.14 and 5.1.15)

➤ There was rush of expenditure in the last quarter of the financial year.

(Paragraphs 5.1.18 and 5.1.19)

➤ There were heavy arrears in internal audit and response to audit objection was poor.

(Paragraphs 5.1.33 to 5.1.36)

➤ The internal audit staff were utilised for work other than audit.

(Paragraph 5.1.37)

###### **Introduction**

**5.1.1** The Directorate of Public Health and Preventive Medicine (DPH & PM) has been implementing several programmes relating to public health. It has 1413 Primary Health Centres (PHCs) including 384 block PHCs and 8682 Health Sub-Centres (HSCs) under it (March 2004). These centres provide preventive, promotive, curative and rehabilitative health care services.

###### **Organisational set up**

**5.1.2** The Directorate of Public Health and Preventive Medicine is headed by a Director and assisted by four Additional Directors, 11 Joint

Directors, four Deputy Directors, Financial Advisor and Chief Accounts Officer and an Assistant Director (Internal Audit) at Headquarters and 68 Deputy Directors, 2609 Medical Officers and other subordinate officers at district level.

### **Audit objective**

**5.1.3** The evaluation of internal control system in the Directorate examined extent of adherence to the Budgetary control and Expenditure control envisaged in the codes, manuals, guidelines and instructions of the Government as well as evaluation of Internal Audit System in the Directorate.

### **Audit coverage**

**5.1.4** The records of the Directorate of Public Health and Preventive Medicine for the years 2001-04 were scrutinised and the deficiencies noticed are given in the succeeding paragraphs.

### **Financial controls**

**5.1.5** The Budget provision and actual expenditure for the years 2001-04 were as follows:

(Rupees in crore)

Year	Budget Estimate	Revised Estimate	Final Modified Grant	Expenditure
2001-02	413.77	397.48	394.67	386.18
2002-03	441.86	449.93	390.10	384.97
2003-04	501.50	465.77	406.78	408.71

### **Budgetary control**

#### ***Unnecessary drawal of funds to avoid lapse of budget provision***

**5.1.6** Scrutiny of cash book maintained by the Directorate disclosed drawal of funds from the Treasury far in excess of immediate requirement, as evidenced by the huge balance in cash and in bank. During April 2001 to March 2004 the balances available with the Directorate at the end of each month were in excess of Rs one crore in 14 out of 36 months. The Directorate informed Audit in April 2004 that such excess drawal of funds would be avoided in future.

**5.1.7** Funds were drawn far in excess of requirement, contrary to the codal provisions, to avoid lapse of budget grant. In five cases, an aggregate sum of Rs 3.43 crore was drawn (March 2000 to March 2003) for training purposes and kept in current account of a nationalised bank. Only Rs 1.30 crore (38 per cent) were spent and the balance of Rs 2.13 crore was remitted (October 2003 to February 2004) to Government account in subsequent financial year(s) after 10 to 44 months of drawal.

**5.1.8** Government stated (December 2004) that due to "administrative reasons", the training could not be conducted as programmed. No specific reasons, however, were given for delay in refunding the unspent amount.

***Surrender/saving of funds***

**5.1.9** The files relating to surrender of funds called for by Audit during March 2004 were not made available to Audit (July 2004); from the data collected by Audit from the Appropriation Accounts of the Government for the years 2001-03, it was noticed that there was an overall saving of funds during both the years. Some of the heads of account, where savings exceeded 20 per cent of the Final Modified Grant (FMG) are given in Appendix XXXV.

**5.1.10** In their reply, Government in Health and Family Welfare Department pointed out (December 2004) several constraints in determining actual expenditure for estimating FMG. These included (a) the large number of its units and their spread to Block level (PHCs) which makes it practically difficult to collect expenditure data within a short period, (b) unexpected voluntary retirements, (c) unanticipated changes in Government policy such as stoppage of payment of (i) salary for leave surrendered and (ii) festival advance, etc; and (d) clearance of Finance Department for payment of non-salary bills.

**5.1.11** The reply of the Government is not tenable because (a) a system of timely reporting of monthly expenditure is in place and if followed yields timely expenditure details under each head of account, (b) impact of voluntary retirements can always be taken into account because these entail a notice period, (c) Finance Department is expected to announce any policy change impacting on FMG well in advance and (d) Finance Department should control expenditure through budgetary means rather than at the stage of payment of bills.

**Expenditure control*****Analysis of cash balance***

**5.1.12** As per Tamil Nadu Financial Code (TNFC), the drawing officer may retain the undisbursed amounts for a period not exceeding three months. After the lapse of such period, the amount should be remitted to Government account. The undisbursed amount was Rs 20.96 lakh as of March 2004. Analysis of undisbursed items was done only on four occasions during August 2001 to June 2003 and no action was taken to remit these amounts pending for more than three months to Government account.

**5.1.13** Government stated (December 2004) that the required monthly analysis is being done strictly from April 2004 onwards, and except one item of Rs 49000 no undisbursed amount is being retained beyond three months.

***Non-obtaining of security bonds from the persons handling cash and stores***

**Security bonds were not obtained from 201 officials dealing with cash and stores.**

**5.1.14** According to TNFC, every cashier, store keeper, and other subordinate who is entrusted, with the custody of Government cash or stores should be required to furnish security and to execute a security bond.

**5.1.15** In six districts security deposit was not obtained from 201 officials comprising pharmacists (177), store keepers (19) and superintendents (5) dealing with cash, stores etc., pertaining to six offices of Deputy Director of Health Services (DDHS).

**5.1.16** Government stated (December 2004) that action has been initiated to obtain the required security from the concerned officials.

**Deficiencies in reconciliation**

**5.1.17** According to Tamil Nadu Budget Manual, monthly reconciliation is required to be done by the Drawing and Disbursing Officer (DDO) with the Treasury, not later than the 12<sup>th</sup> of the immediately succeeding month.

**5.1.18** Lack of carrying out proper reconciliation by the Directorate with the Pay and Accounts Office (South) (PAO (South)), the bill passing officer, resulted in the following differences.

➤ Expenditure during June 2001:

(Rupees)

Head of account	Directorate's figure		PAO's figure	
2210.06.101.AU – SEP	GA	55211	GA	348184
	NA	54611	NA	344384
2210.06.101.UA - Malaria	GA	372241	GA	79268
	NA	368641	NA	78868

GA: Gross Amount; NA: Net Amount

➤ Though during the period May 2002 - April 2003 a total of Rs 921696 was spent under “Training”, the monthly expenditure figures were not included in the reconciliation report prepared by the Directorate for verification by the PAO (South). Despite this, no Alteration Memorandum was sent to PAO. Government in their reply (December 2004) attributed this to oversight.

**Rush of expenditure in the last quarter of the year particularly in the month of March**

**There was rush of expenditure in the last quarter of the financial year.**

**5.1.19** The system of quarterly control of appropriation introduced by Government from 1994-95 was to enable avoiding rush of expenditure at the close of the financial year.

**5.1.20** An analysis of the expenditure pattern of the department as a whole for the years 2001-02 and 2002-03 made by Audit disclosed the following:

➤ Under the Head 2210.03.101.JD – Panchayat Union sub-centres taken over by Government, the entire expenditure of Rs 16.91 lakh incurred for purchase of materials and supplies was incurred during March 2002.

➤ The expenditure incurred during March 2002 was 56 per cent to 85 per cent under the following Heads of Account.

(Rupees in lakh)

Sl. No	Head of Account	Total expenditure during the year	Expenditure during March 2002	Percentage
1	2210.03.103.BL	982.37	564.87	58
2	2210.06.003.AD	12.29	6.90	56
3	2210.06.101.UC	84.03	71.28	85

➤ The expenditure incurred during March 2003 in respect of the following two Heads of Account was 63 per cent and 71 per cent respectively.

(Rupees in lakh)

Sl. No.	Head of Account	Total expenditure during the year	Expenditure during March 2003	Percentage
1	2210.06.101.UC	39.95	25.00	63
2	4210.02.103.JF	1438.41	1019.94	71

➤ Government did not adduce any reason for the rush of expenditure pointed out above.

## Internal Audit System

### Introduction

**5.1.21** The internal audit of all the Government Departments is headed by the Chief Internal Auditor & Chief Auditor of Statutory Boards (CIA & CASB). However, his oversight of internal audit is through Heads of Department to whom the internal audit wings report.

### Organisational set up of internal audit

**5.1.22** The audit staff of the Director of Public Health and Preventive Medicine comprises one Internal Auditor (Assistant Director/ IA), one Superintendent, three Assistants and three Junior Assistants for one static audit party and five Superintendents and eight Assistants for touring audit parties.

**5.1.23** The control of PHCs was transferred from the Directorate of Medical and Rural Health Services (DM & RHS) to DPH & PM from 1 March 1996. To take up the audit of PHCs, two separate sections were formed. The audit of PHCs is being conducted both by internal audit parties and PHC audit wing under the control of Accounts Officer (PHCs).

### Non availability of Internal Audit Manual

**5.1.24** The draft Internal Audit Manual in respect of DPH & PM was prepared and sent to Government for approval by CIA & CASB during August 1999. However, approval of Government was awaited (August 2004).

**5.1.25** The DPH & PM in its reply (May 2004) stated that in the absence of Internal Audit Manual, whenever offices were taken up for audit, audit was done according to the general principles, Fundamental Rules, Pension Code, TNFC etc., and various important records such as cash book.

### Responsibilities and duties of Internal Audit Organisation

**5.1.26** The status report containing details of activities undertaken by Internal Audit Wing for the years 2000-02 and 2002-04 as contemplated in Finance (Local Fund) Department's order of August 1992 have not been prepared. Consequently the activities undertaken by the Internal Audit Wing during these years could not be ascertained.

**5.1.27** Audit observed that the following important activities were not carried out by the Internal Audit Wing.

- Scrutiny of records such as Form MTC 70, UDP Register, Cash Book, Subsidiary Cash Book pertaining to the Directorate from April 2001 onwards reportedly due to non-availability of audit staff.
- Half yearly Review of cash book.
- Implementation of orders regarding economy in expenditure.
- Investigation of procedural omissions and irregularities and audit lapses brought to notice by other external inspecting authorities.

Government stated (December 2004) that action is being taken to fill up the vacant posts in the audit parties.

### **Training to Internal Audit personnel**

**5.1.28** No training was imparted to the personnel posted to Internal Audit Wing and no criteria was fixed by the Directorate for posting of personnel to Internal Audit Wing. It could not, therefore, be verified by Audit whether the personnel in the Internal Audit Wing has possessed requisite specialised knowledge for conducting audit in an effective manner.

### **Planning of Internal Audit**

**There were huge arrears in internal audit.**

**5.1.29** Under the audit purview of Internal Audit Wing there are 77 institutions and 384 Block PHCs. No data were available regarding arrears in audit of PHCs, at the time of transfer of control of PHCs from DM & RHS to DPH & PM with effect from March 1996. Audit could not, therefore, ascertain whether there were any arrears in audit of PHCs and whether District Action Plan drawn up to be effective from July 2003 to March 2004 has been drawn in a realistic manner. Reasons for drawing the plan belatedly after a period of more than seven years were also not on record.

**5.1.30** The DPH & PM issued orders in July 2003 that all 42 DDHS would have to conduct audit of PHCs with their existing staff at the rate of one PHC per month. However, it was observed that 17 DDHS<sup>1</sup> have not taken up even a single audit of PHCs under their control and the remaining 25 DDHS also did not complete the audit in full as per schedule as of March 2004. The purpose of audit plan drawn up for the first time was not fulfilled. Audit of 263 PHCs was in arrears covering the period upto 2002-03 as of March 2004.

**5.1.31** Audit also observed that there was no planning for audit of institutions other than the PHCs. This is also evidenced by the fact that in respect of 21 institutions audit was in arrears ranging from two to 13 years.

**5.1.32** The audits of PHC, Kalambur and the PHC, Vanapuram relating to the period 1979-2003 and 1984-2003 respectively were taken up during April 2003. The audit of these two PHCs after a lapse of 24 years and 19 years were reportedly due to non-availability of audit staff.

**5.1.33** The above position would indicate that there was no audit planning at all and the audit was taken up as and when found necessary and on adhoc basis.

Government stated (December 2004) that arrears in audit would be cleared after the vacancies are filled up.

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<sup>1</sup> Aranthangi, Cuddalore, Dharapuram, Kallakurichi, Madurai, Nagapattinam, Pudukottai, Saidapet, Salem, Sankarankoil, Sivagangai, Sivakasi, Thanjavur, Theni, Thiruvannamalai, Villupuram and Virudhunagar.

Response to audit objections was poor.

### Pendency in Inspection Reports issued by Internal Audit

**5.1.34** The following is the position of pending Internal Audit paras pertaining to offices other than PHCs.

Description	Number of	
	Reports	Paras
Number of paras pending as on 1 April 2001	467	4000
Number of paras issued during 2001-04 (upto December 2003)	89	2627
<b>Total</b>	<b>556</b>	<b>6627</b>
Paras settled during 2001-04 (upto December 2003)	NA	998
Number of paras pending settlement as on 1 January 2004	NA	5629

NA: Not Available

(Yearwise break-up of paras pending settlement was not furnished by the Directorate)

**5.1.35** The position of pending paras relating to PHCs is as follows:

Number of paras pending as on 31 March 2002	5448
Number of paras issued during 1 April 2002 to 31 March 2004	2867
<b>Total</b>	<b>8315</b>
Number of paras settled upto 31 March 2004	3889
Number of paras pending as on 31 March 2004	4426

(Yearwise break-up of paras pending settlement was not furnished by the Directorate)

**5.1.36** This indicated that there was a lot of scope for improving the appropriate follow up of audit observations by PHCs.

**5.1.37** The pendency of paragraphs of Inspection Reports (IRs) issued by the Principal Accountant General (Civil Audit) up to 31 March 2004 as on 30 September 2004 is tabulated below:

Year	Number of	
	IRs	Paragraphs
1991-1992	1	1
1995-1996	2	5
1996-1997	1	1
1997-1998	3	4
1998-1999	4	6
1999-2000	17	36
2000-2001	14	30
2001-2002	18	51
2002-2003	36	145
2003-2004	31	196
<b>Total</b>	<b>127</b>	<b>475</b>

The above pendency indicated inadequate response to audit observations, and neglect of an essential control.

### **Diversion of audit personnel**

**5.1.38** The audit parties were diverted for other works in Directorate such as verification of service registers, pay fixation, pay anomaly, regularisation of service etc.

### **Conclusions**

**5.1.39** The effectiveness of the internal audit in the DPH & PM was diluted due to various factors like non-availability of internal audit manual, vacancies in audit posts, utilisation of audit staff for work other than audit and *ad hoc* planning for audit of various institutions.

### **Recommendations**

- Internal Audit Manual may be approved early by the Government.
- The personnel of the internal audit wing should not be diverted for other works.

The above points were referred to Government in August 2004. Government responded (December 2004) to some of these points as reflected in the paragraphs above.

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