CHAPTER - V

5. EVALUATION OF THE INTERNAL CONTROL SYSTEM OF THE PUBLIC WORKS DEPARTMENT

Highlights

Evaluation of internal control system in the Public Works Department revealed deficiencies in budgetary control, stores management and inventory control. Expenditure control failures led to diversion of grants and non-maintenance of basic records affected the accuracy and completeness of the monthly accounts. Internal Audit arrangements were inadequate and unable to provide assurance against financial irregularities.

- **Lump sum provisions in the budget delayed communication of financial and administrative approvals to the divisions which led to underutilisation and diversion of funds.**

[Paragraph: 5.4.1]

- **Failure of the Divisional Officers in observing the conditions for incurring the expenditure and Controlling Officers in watching the progress of expenditure led to an excess of Rs. 478.54 crore over the allotment of funds during 2001-04.**

[Paragraph: 5.4.4]

- **Non-adjustment of temporary advances and non-clearance of balances under Miscellaneous Work Advances aggregating Rs 17.01 crore in the test-checked divisions indicated lack of necessary control.**

[Paragraphs: 5.4.5 & 5.4.6]

- **Utilisation of grants through irregular stock adjustments by the divisional officers was a serious breach of financial discipline.**

[Paragraph: 5.6.1]

- **The Department failed to provide adequate quality assurance in respect of works executed by it, in the absence of adequate number of quality control tests in the departmental laboratories.**

[Paragraph: 5.7.1]

- **Internal Audit arrangement in PWD was at the nascent stage and yet to be equipped with adequate manpower, professional skills and methodologies to achieve its objectives.**

[Paragraphs: 5.8.1 to 5.8.3]

5.1 Introduction

Internal control is a system within an organization that governs its activities to effectively achieve its objectives. A built-in Internal Control Mechanism and strict adherence to Statutes, Codes and Manuals provide reasonable assurance to the department about compliance with applicable norms and rules thus achieving reliability of financial reporting and effectiveness and efficiency in departmental operations.

Public Works Department (PWD) is responsible for planning, construction and maintenance, widening and strengthening of residential and non-residential buildings and roads.

Specific internal control measures have been prescribed in the Financial Hand Book, Budget Manual, PWD Code, Indian Road Congress guidelines, Delegation of Powers and other directions issued by the Government and the Engineer-in-Chief from time to time for effective functioning of the Department.

5.2 Organisational Set-up

The Principal Secretary heads the Administrative Department of the Government. Engineer-in-Chief (E-in-C) (Development) and E-in-C (Planning) are responsible for management, implementation and monitoring of various activities. Twenty-six Chief Engineers (CEs), 75 Superintending Engineers (SEs) and 320 Executive Engineers (EEs) run the day-to-day activities of the Department. The Financial Controller (FC) assists the E-in-C in financial management and control over grants, release of Cash Credit Limit (CCL) and other allied functions. FC is also the Internal Auditor of PWD. Divisional Accounts Officers (DAOs) and Divisional Accountants (DAs) function as financial advisors at the division level and perform the duties of internal audit of divisions.

5.3 Audit Objectives

Audit conducted an examination of the records maintained for the period 2001-04 in the offices of Secretary PWD, E-in-C, eight Zonal CEs[1], eight SEs[2] (one in each test checked zone) and 9 divisions[3] (at least one in each test checked zone) during June 2004 to January 2005 to evaluate the efficacy of the Internal Control mechanism in the PWD. Results of the test-check are given in the succeeding paragraphs.

5.4 Financial Controls

The position of budget allotment and expenditure of the Department during the period 2001-04 was as under:

Year	Budget provision			Expenditure		
	Revenue	Capital	Total	Revenue	Capital	Total
	(Rupees in crore)					
2001-02	1213.75	908.00	2121.75	1048.42	533.81	1582.23
2002-03	1183.45	940.61	2124.06	1075.70	1298.12	2373.82
2003-04	1319.09	1316.85	2635.94	1186.97	1293.93	2480.90
Total	**3716.29**	**3165.46**	**6881.75**	**3311.09**	**3125.86**	**6436.95**

A review of financial controls in the Department revealed:-

5.4.1 Lump sum provisioning in the budget

As per UP Budget Manual, the Administrative Department (AD) is required to examine all proposals and schemes for new expenditure thoroughly. The Finance Department, after scrutinizing the estimates, finalise them by the second week of January for inclusion in the budget estimates of the forthcoming year. The process of the communication and distribution of grants should be completed with the least possible delay after the passing of the budget by the Legislature and administrative approvals should be released by the end of April.

It was, however, noticed that instead of examination of individual estimates of the works before inclusion in the budget proposals, lump sum provisions were made under various schemes without adequate scrutiny. Consequently, works were prioritised after the Appropriation Act was passed by the Legislature. This delayed the issue of administrative approvals and financial sanctions. Out of

[1] Allahabad, Lucknow, Faizabad, Azamgarh, Gorakhpur, Varanasi, Agra, Jhansi
[2] Allahabad, Lucknow, Barabanki, Azamgarh, Gorakhpur, Mirzapur, Agra, Banda
[3] Provincial Division Allahabad, Lucknow, Agra, Azamgarh, Banda, Sonbhadra, Construction Division-I Unnao and Construction Division-III, Barabanki.

administrative approvals and financial sanctions for Rs.3535 crore accorded during 2001-04, approvals and sanctions for Rs. 945 crore (26.74 *per cent*) were communicated to the divisions in the last quarter of the financial years. Inclusion of lump sum provision in the budget estimates delayed commencement of works, besides weakening control measures to check underutilisation of grants as well as diversion of funds and other financial irregularities.

A sum of Rs 112.89 crore released at the end of March 2003 was deposited in the Personal Ledger Accounts (PLA) of UP Rajkeeya Nirman Nigam. The amount was subsequently withdrawn (April 2003) and released to PW Divisions. Similarly, Rs 112.95 crore[4] were not utilized due to non-issue of administrative approvals during the year 2003-04.

5.4.2 Non-observance of instructions relating to release of cash credit

The executing divisions can draw funds against budget provision from the treasuries only when Cash Credit Limit (CCL) is released by the controlling officer (E-in-C). The Finance Department had (June 1998) directed that release of CCL was to be restricted to 35 *per cent* of the total allotment of the year in each of the first and the third quarters and 15 *per cent* each in the second and the fourth quarter. The FD further directed (February 2000) that CCL issued during the month of March would be with the Government approval only. Actual release of CCL during the four quarters was as follows.

Year	Percentage released			
	I Quarter	II Quarter	III Quarter	IV Quarter
2001-02	18	23	24	35
2002-03	10	14	28	48
2003-04	16	12	29	43

Release of CCL was not in accordance with Government directions in any of the quarters and a major amount of the CCL was released to the executing agencies in the fourth quarter.

5.4.3 Diversion of Cash Credit Limit

The Finance Department instructed (March 1997) that CCL issued for one work should not be diverted to another work and also that the CCL could not be utilised for deposit works (as payments for those are made out of the deposits made by the requisitioning departments or organizations and are released through the Deposit Credit Limit, DCL, issued by the Controlling Officers). A scrutiny of records relating to March 2002, March 2003 and March 2004 of the test checked divisions revealed that in two divisions Rs.1.88 crore[5] were paid to contractors, by diverting the CCL to DCL. Absence of a mechanism at the controlling officer's level in the Department for preventing use of CCL for DCL or vice-versa led to such financial irregularity.

Expenditure control failure

5.4.4 Expenditure in excess of budget provision

As per the UP Budget Manual, controlling officers and heads of departments (CEs) are required to monitor the progress of expenditure so as to keep it within the authorised appropriation and the disbursing officers are required to ensure that the sanction of the competent authority and sufficient funds were available before

4 (i) Delay in receipt of concurrence from Finance Department (Rs.27.52 crore), (ii) imposition of Election Conduct Rules (Rs.2.31 crore), (iii) non-acceptance of files by Finance Department (Rs.6.70 crore) and (iv) disagreement of Finance Department to the proposals (Rs.76.42 crore).

5 Provincial Division Lucknow: Rs. 1.28 crore; Construction Division I, Unnao: Rs. 0.60 crore

expenditure is incurred. Scrutiny of records revealed that failure to comply with the above provisions resulted in excess expenditure over allotment to the extent of Rs.478.54 crore during 2001-04 **(Appendix 5.1)**.

Outstanding advances

5.4.5 Unadjusted temporary advances

As per the financial rules, temporary advances given to subordinate officers for making petty payments should be adjusted through submission of paid vouchers/payees' receipts within a month. Rules also provide that the next advance should be sanctioned to a Government employee only after the adjustment of the previous advance.

Audit scrutiny of records revealed that temporary advances amounting to Rs. 2.46 crore remained unadjusted (February 2005) for one to 15 years in five test checked divisions[♠]. In a majority of the cases more than one advance was pending for recovery. The number of advances outstanding against an individual was as high as 29 in one case. Besides being irregular, the non-adjustment, of advances for long periods was fraught with the risk of fraud and embezzlement.

5.4.6 Outstanding Miscellaneous Work Advances

As per financial rules[•], transactions relating to (i) sales on credit (ii) expenditure incurred on deposit work in excess of deposits received (iii) losses, retrenchments, errors etc. and (iv) other items are booked under the head Miscellaneous Works Advances and are cleared either by actual recoveries or by transfer under proper sanction of competent authority, to relevant heads of account. The divisional officer and the controlling officer are responsible for prompt clearance of these items. It was, however, noticed that as of March 2004, miscellaneous advances to the tune of Rs.108.70 crore were awaiting adjustment or recovery. The year-wise break-up of this amount was not available. However, test-check of seven divisions[6] revealed that out of Rs.14.55 crore outstanding for one to twenty years, Rs. 6.04 crore were outstanding against Government employees and Rs 8.51 crore against supplier firms and contractors. Details of unadjusted advances in two other divisions could not be worked out as the registers were lying incomplete. The concerned divisions did not take effective action for adjustment or recovery of these outstanding advances. The continuance of balances in suspense account for indefinite period involved the risk of dues becoming irrecoverable causing loss to the Government.

5.4.7 Outstanding hire charges of plants and machinery

Under the existing system in PWD, the cost of maintenance of machinery and equipment is met from their hire charges. These charges are paid by the user civil divisions on the basis of actual running hours of the machines as per the demands raised by the Mechanical Divisions. Scrutiny of records revealed that hire charges of Rs.14.33 crore remained payable by 171 civil divisions to the mechanical divisions as of August 2004. The age-wise analysis of hire charges was not available, as no records in this regard were maintained in office of the CE (Mechanical).

♠ PD Allahabad: Rs. 0.99 crore; PD Lucknow: Rs.0.67 crore and PD Banda: Rs. 0.51 crore, CD I Unnao: Rs. 0.01 crore and PD Azamgarh: Rs. 0.28 Crore

• Para 578 and 584 of F.H.B. Vol. VI

6 PD Allahabad, Lucknow, Sonebhadra, Agra, Gorakhpur, Azamgarh, CD-I Unnao.

5.4.8 Irregular utilisation of departmental receipts

As per financial rules, all monies realized by Government officers should be remitted into Government treasury as soon as possible under the relevant receipt head of the department and should not be utilised for meeting any departmental expenditure.

Audit scrutiny of records revealed that EE Provincial Division Lucknow in violation of the functional rules utilized Rs.2.98 crore as road cutting charges during 2001-04 instead of remitting it into the treasury.

5.4.9 Royalty not deducted from contractors

As per Uttar Pradesh Mineral Act, 1963, mining of stone ballast, boulders, sand, morum, earth, etc. without proper authority was illegal. The disbursing officer is responsible to ensure that payment to the contractors for the supply of these materials is made only after ascertaining that these had been procured from approved quarry against valid Rawanna Challan (MM11)[7]. It is incumbent upon the disbursing officer to deduct the royalty and deposit it in the treasury under proper receipt head of account in cases where the contractor had not paid the royalty.

Scrutiny of records revealed that payments for supply of road metal were made to the contractors in full without obtaining the Rawanna Challan and treasury challan in support of the remittance of royalty in four test checked divisions[♣]. Thus, supply of road metal was accepted without ensuring their procurement from the approved quarries. The Government suffered loss of Rs. 3.08 crore due to non-recovery of royalty in these cases during 2001-04.

5.4.10 Non-reconciliation of drawals from and remittances into treasuries

Financial rules provide that drawal of the cheques from, as well as remittances into treasuries, should be reconciled every month with the treasury records and differences, if any, should be analysed and recorded in Form-51 submitted to the Accountant General (A&E) with the monthly accounts. Besides, DAOs/DAs of all divisions are required to visit the treasury every month to locate and reconcile errors and misclassification.

Scrutiny of Form 51 of the test checked Divisions revealed that variation of Rs. 1.46 crore in part I (in three divisions[•]) and Rs. 0.71 crore in part II (in six divisions) with the treasury accounts were continuing for years. Besides, Form 51 had been submitted without mentioning item wise details of variations of Rs. 1 crore (Part I Remittances) and Rs. 3.34 crore (Part II Cheques drawn) by six divisions[⊗] and three divisions[♠] respectively in the Form 51. Non-reconciliation of balances for long periods was fraught with the risk of defalcations and fraud.

5.5 Non maintenance of control records

Works Abstract and Register of Works

Financial rules provide that Works Abstract (WA) should be posted from cash, stock and adjustment transactions and invariably checked and closed under the supervision of DAO/DAs and reviewed by the Divisional Officer every month.

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7 Challan issued by Revenue department

♣ PD Gorakhpur: Rs 1.10 crore; PD Azamgarh: Rs.0.99 crore, PD Lucknow: Rs. 0.13 crore; CD I Unnao: Rs. 0.86 crore

• PD Gorakhpur, PD Sonebhardra, PD Agra

⊗ PD Allahabad, PD Banda, PD Azamgarh, PD Lucknow, CD I Unnao, CD III Barabanki

♠ PD Allahabad, Banda and Lucknow

The Register of works is the permanent and collective record of the expenditure incurred in the division during a year which is posted monthly from WA. The posting of the register is to be completed and reviewed by the Divisional Officer before submission of the monthly accounts to the Accountant General. These records enable the Divisional Officer to review the actual as well as probable excesses under each sub-head of work against the sanctioned estimate and submit the statement of total expenditure to the SE. These records were not maintained in any of the test checked divisions leading to dilution in the control mechanism.

Contractor's Ledger

Transactions with contractors in connection with the jobs awarded to them are recorded in the Contractor's Ledger (PWA Form 43) and reconciled monthly with the Works Abstract. The closing balance of the Ledger should indicate the amount outstanding under (i) Advance Payments (ii) Secured Advances and (iii) Other transactions The Ledger was, however, not maintained in any of the test-checked divisions with the result that outstanding balances against the contractors and their adjustment were not watched properly.

5.6 Stores management and inventory control

5.6.1 Irregular stock adjustments

General administration of all the stores of a division is vested with the divisional officer who is responsible for their acquisition, custody, distribution and proper disposal. Test check of the records revealed that four Divisions[♣] charged maxphalt costing at Rs.74.99 lakh directly to works during 2002-03 without actual requirement and credited it back for utilization on other works in the subsequent year. Utilisation of grants through irregular stock adjustments by the Divisional Officers was a clear breach of the financial discipline.

5.6.2 Lack of control over the maxphalt procured by the contractors

PW Divisions procure maxphalt directly from Indian Oil Refineries on cash and carry basis at the prevailing market rates. However, contractors were also allowed to arrange supplies of maxphalt at their cost. E-in-C issued instructions (March 2001) that payments to the contractors for supply of maxphalt should be made only after the contractors had produced the original Consignee Receipt Certificate (CRC) and had actually brought the material of the specified grade to the site.

Audit scrutiny of records revealed that six divisions had made payment of Rs. 3.75 crore[*] to contractors between September 2003 and November 2004 without the production of the CRCs and safeguarding the interest of the department against substandard supply or short supply of maxphalt.

5.7 Monitoring Controls

Monitoring controls at various levels of governance provide assurance of the reliability of reporting in the department. Besides, these controls enable the department to identity the key problem areas, constraints and managerial needs for the improvement in policy formulation, allocation of resources and setting of performance standards.

♣ CD I Unnao: Rs.0.14 crore; PD Sonebhadra: Rs. 0.16 crore; PD Gorakhpur: Rs.0.18 crore; PD Banda:Rs.0.27 crore

* PD Lucknow : Rs. 1crore; CD-I Unnao : Rs. 0.15 crore; PD Sonebhadra: Rs. 2.49 crore; PD Agra: Rs. 0.03 crore: PD Banda: Rs.0.01 crore; PD Azamgarh: Rs.0.07 crore

5.7.1 Lack of quality assurance

The working divisions were required to send at least two samples of the construction material per month for testing to the State level laboratory. The sanctioning authorities were not to accord technical sanction unless the estimates provided for essential tests as per Indian Standards/ IRC/ PWD specifications and indicated the name, number and cost of the individual tests therein. Government also directed that the officers inviting tenders would be responsible for sending 25 *per cent* samples to the State level laboratory, 25 *per cent* to the regional laboratory and 50 *per cent* to the district level laboratories and material should be used only after ensuring that the quality conformed to the standard specification.

Scrutiny revealed that the name and number of quality control tests, frequency of the tests and their estimated cost etc. were not insisted upon before according technical sanction to the detailed estimates. The prescribed number of samples were not sent to any laboratory. As per details made available by Quality Promotion Cell, PWD Lucknow, no samples were received in the district laboratories of Gorakhpur Zone during 2001-04 and Agra Zone during 2003-04. None of the PWD divisions at Ghaziabad sent the samples for testing to the district level laboratories during 2001-04. The position of other zones (except Lucknow and Faizabad zone) was also extremely deficient and far from satisfactory. Thus, the department failed to provide adequate quality assurance in respect of the works executed by it.

5.7.2 Non preparation of detailed estimates for Annual Repair (AR) and Maintenance Works

As per financial rules[•], separate estimate should be prepared for the maintenance of each work. Departmental manual further provides that AR estimate should be prepared by 15 January for maintenance work to be taken up in the next financial year indicating the details of quantity and cost involved in collection, consolidation and painting work.

Contrary to the codal provisions, expenditure of Rs. 84.05 crore was incurred without preparation of detailed estimates for the maintenance works during 2001-04 by eight test checked divisions[⊗]. That obviously meant that the expenditure was incurred without the basic financial and technical control mechanism in place.

5.8 Internal Audit

The Government issued (November 1988) instructions for formation of Internal Audit Organisation in all departments. In January 2001, the quantum of audit, detailed check points for audit¸ procedure for imparting training to the staff and monitoring of inspection reports were specified. The Government re-designated (January 2003) the Director, Departmental Accounts as Director Internal Audit (DIA), and assigned duties and responsibilities for the formulation and implementation of the policies of internal audit, auditing standards, training of staff, monitoring of audit reports and overall effectiveness of internal audit.

In the Public Works Department, as per Government's directive (January 2001), staff working under the control of the FC, PWD was made responsible for the internal audit of the offices of E-in-C, CE and SE. At the divisional level the

• Para 339 of F.H.B. Vol. VI

⊗ PD Banda: Rs. 7.40 crore; PD Agra: Rs.14.85 crore; PD Sonebhadra: Rs. 6.07 Crore; CD I Unnao: Rs. 10.48 crore; PD Lucknow: Rs. 12.37 crore; PD Azamgarh: Rs. 17.55 crore; CD III Barabanki Rs. 12.96 crore and PD Gorakhpur: Rs. 2.37 crore

DAOs/ DAs were made responsible for the internal audit of another division at the same station with the assistance of two clerical staff of their divisions, under the directions of FC. E-in-C on the basis of IAR received was to submit the consolidated statement of major and significant findings and suggestions thereon to the Administrative Department and the DIA.

5.8.1 Training of Internal Audit Personnel

No post for internal audit was created in PWD. The Department was yet to moot a proposal for creation of the posts for internal audit as of February 2005.

DIA was responsible for drawing up the training programme schedule and arranging departmental level training to the staff associated with internal audit. However, no training was imparted to the staff as the department did not submit the list of trainees to DIA.

5.8.2 Lack of audit planning

The Director of Internal Audit issued instructions (February 2003) for fixing the priorities for internal audit of units which had cases of excess over allotment, misappropriations, losses in store, etc. No working plan of internal audit covering high-risk areas on priority basis had been framed as of February 2005.

5.8.3 Periodicity and coverage

Internal audit planned for PW Divisions and conducted during 2001-04 was as follows: -

Year	Audits planned	Audits conducted	Reports issued	Reply received
2001-02	198	48	48	41
2002-03	NIL	NIL	NIL	NIL
2003-04	195	92	92	43

There was a shortfall of 75 *per cent* and 53 *per cent* respectively against the target for internal audit fixed by the Department. IA of the divisions during 2002-03 and of SE, CE and E-in-C offices was also not conducted due to the lack of man power.

5.8.4 Poor response to Internal Audit Reports

The progress of receipt of replies to the Internal Audit Reports (IARs) as disclosed by the test check of 140 IARs was as follows:-

Period of audit covered	Total no of IARs issued		Replies received from divisions		Reply awaited from divisions	
	Number	Paras	Number	Paras	Number	Paras
2001-02	48	135	41	113	7	22
2003-04	92	335	43	144	49	191

The response to IARs from the units especially during 2003-04 was poor. The Internal Audit Organisation had not maintained records indicating the dates of issue of IARs and receipt of response thereto.

5.9 Conclusion

The Internal Control mechanism of PWD with regard to budgetary control, stores management and inventory control was beset with weaknesses and shortcomings. There was lack of quality control of materials during execution stage. Important control records and registers were not maintained. The functioning of the Internal Audit Wing was at a nascent stage and it was unable to provide an assurance to the department on the reliability of its financial reporting and the adequacy of systems and procedures.

Recommendations

- Budget proposals need to be framed after proper scrutiny and approval of the estimates of the individual works proposed to be taken up during the year.
- Register of works, works abstracts and contractor's ledger need to be maintained in accordance with the manuals for effective control over the operations at the division level.
- Department needs to ensure implementation of the quality assurance mechanism through adequate testing of samples.
- The Internal Audit in the department needs to be strengthened by providing adequate training to the staff.

The review was referred to Government in October 2004. While no formal reply was received as of February 2005, the review was discussed with the Government / Department in December 2004 and they generally accepted the facts and figures mentioned therein. They also assured that remedial steps based on the audit recommendations would be taken at the earliest.

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