

Chapter 4

Internal Control System in a Government Department

Public Works, Ports and Inland Water Transport Department

4.1 Internal Control in Public Works, Ports and Inland Water Transport Department

Executive summary

Internal controls are an integral component of the management processes, which are established in order to provide reasonable assurance that the operations are carried out efficiently and effectively, financial reports and operational data are reliable, and the applicable laws and regulations are complied with so as to achieve organisational objectives.

Significant points arising out of the review are:

- Budget estimates were not based on inputs from the Chief Engineers as they did not submit the proposals of work expenditure by due dates. Delayed circulation of Appendix E led to underutilisation of funds during 2008-09.
- Departmental estimates were non-realistic as there were large variations between budget grant and actual expenditure. Expenditure in March constituted 36.17 per cent of the total expenditure.
- Karnataka Public Works Departmental Code was not updated/ revised since 1965.
- Half yearly physical verification of stores was not conducted in ten divisions for one to three years. Unutilised stores costing Rs 2.64 crore had not been disposed off.
- Design and drawings for 62 works were not given to the contractor before commencement of work and for 21 works, these were not issued even after due date of their completion.
- Payment of Rs 20.15 crore for 413 works was made in 11 divisions without mandatory check measurements of first and final bills by the Executive Engineers in violation of the codal provisions.
- Four out of 12 divisions had not maintained property registers.
- Works Monitoring Cell at Secretariat level was largely ineffective and monitoring of disciplinary cases was inadequate due to non-maintenance of prescribed registers and submission of periodical returns.

4.1.1 Introduction

Internal controls in an organisation are intended to give reasonable assurance that its operations are carried out according to laid down rules and regulations in an economical, efficient and effective manner. A built-in internal control system and adherence to codes and manuals minimise the risk of errors and irregularities and help the organisation to achieve its objectives with the optimum use of its resources.

The Public Works, Ports and Inland Water Transport Department (Department) is entrusted with construction and maintenance of roads, bridges and buildings which are critical components for infrastructural development of the State.

4.1.2 Organisational set-up

The Department functions under the administrative control of the Principal Secretary who is assisted by two zonal Chief Engineers (CE) and one Principal Chief Architect. There are 10 Circle Offices and two Quality Control Circles headed by Superintending Engineers (SE) and 43 divisions [including four Quality Control (QC) divisions] headed by Executive Engineers (EE). Divisional Accountants (DA)/Audit Officers (AO) act as financial advisor and internal auditor of the divisions.

4.1.3 Audit objectives

The audit objectives were to assess whether:

- budgetary and financial controls were adequate and effective;
- administrative and inventory related controls were complied with;
- operational controls were adequate;
- organisational controls, monitoring and internal audit arrangements were adequate and effective; and
- timely investigation and disposal of vigilance cases were done.

4.1.4 Audit coverage

A review of the internal control mechanism in the Department was conducted between January 2009 and May 2009 by test-check of records for the period from 2004-05 to 2008-09 by randomly selecting 12 Public Works divisions¹, two QC divisions² and two Circle Offices³ apart from two Controlling Offices⁴ and the secretariat. The sample for audit, *inter alia*, covered records relating

¹ Bangalore, Belgaum, Dharwad, Gulbarga, Hassan, Karwar, Kolar, Koppal, Madikeri, Mandya, Shimoga and Tumkur

² Bangalore and Dharwad

³ Bangalore Circle and Dharwad Circle

⁴ CE, Communication and Buildings (C&B), North and South

to budget and expenditure, inventory control, internal audit and various control registers. An entry conference was held in January 2009 with the Chief Engineer (South), Bangalore to discuss the audit objectives. The audit findings were also discussed with the Secretary in an exit conference held on 6 October 2009. The Secretary generally accepted the audit findings and agreed to take appropriate action to strengthen the internal control mechanism in the Department.

Audit findings

4.1.5 Budgetary and financial controls

Control over budget and expenditure is essential for optimum utilisation of available resources to achieve the objective of the Department.

4.1.5.1 Formulation of budget

Paragraphs 88 and 134 of Karnataka Budget Manual (KBM) provide that the CE should consolidate estimate of works received from estimating officers of the department/other heads of department and forward the list of works after arranging them as per major heads to Finance Department (FD) within the prescribed due date (26 November) for inclusion in the budget estimates of the forthcoming year. The FD after scrutinising the estimates should get Appendix 'E'⁵ containing the details of works expenditure printed before the due date (10 February) and circulate it among the implementing officers not later than end of April after passing of the budget by the Legislature.

It was noticed that both CEs delayed submission of list of works to the FD by 127 to 206 days during 2004-09. There was also delay ranging between 73 days to 221 days in circulating the Appendix 'E' to implementing officers, during these years.

During 2008-09, tendering process of 182 works out of 1,233 works included in the budget could not be completed due to delay in supply of Appendix 'E' to implementing officers and consequently, Rs 100.56 crore⁶ grant provided for the works could not be utilised.

4.1.5.2 Inclusion of works in the budget in violation of instructions

Paragraphs 132 and 134 of KBM provide that the CE should ensure that only new major works which are administratively approved and technically sanctioned are included in the budget estimates and also take into consideration likely delay in taking possession of land for works where such land is required.

⁵ Details of Works Expenditure

⁶ 22 per cent of total grant of Rs 459.29 crore

During 2008-09, 133 out of 1,233 works which were not administratively approved and technically sanctioned and 37 works for which site was not available were included in the budget estimates. Consequently, budget allotment of Rs 39.13 crore for these works could not be utilised during the year.

The Government in reply (November 2009) stated that department is providing grants first and according administrative sanction later as per note below 1 (c) of Delegation of Powers. The reply is not acceptable as the quoted provision of Delegation of Powers is not in conformity with the provision in the Budget Manual.

4.1.5.3 Inadequate budget provision

The Government instructed (April 2006) that full requirement of all on-going works with reference to contractual obligations should be provided in the budget estimates. For 234 building works (62 works under south zone and 172 works under north zone) scheduled for completion by March 2009, budget provision of Rs 52.51 crore only was made against Rs 136.22 crore required for their completion. Consequently, none of these works were completed. The Government in their reply (November 2009) stated that progress of works was not affected due to insufficient grants. The reply is not tenable as these works were incomplete as of March 2009.

4.1.5.4 Utilisation of funds

Deficiency in budget formulation led to persistent savings

The estimating officers, as per provisions of KBM, while seeking funds for works should consider all aspects involved and estimate requirements as accurately as possible. Further, it prescribes that anticipated savings should be surrendered well in time so that the amount could be better utilised and supplementary grant sought for where, original grant is found insufficient.

Review of grant and outlay statement for the period 2004-09 revealed excess and savings against the budget grant under four major heads of accounts (2059, 4059, 3054 and 5054) as indicated in **Table 4.1**:

Table 4.1 : Year-wise breakup of funds utilised

| Sl. No | Year | Capital Section | | | Revenue Section | | |
|--------------|---------|-----------------|-----------------|--------------------------|-----------------|-----------------|--------------------------|
| | | Budget Grant | Expenditure | Excess (+) / Savings (-) | Budget Grant | Expenditure | Excess (+) / Savings (-) |
| 1 | 2004-05 | 355.45 | 306.07 | (-) 49.38 | 422.75 | 302.47 | (-) 120.28 |
| 2 | 2005-06 | 359.01 | 351.86 | (-) 7.15 | 370.00 | 408.62 | (+) 38.62 |
| 3 | 2006-07 | 927.57 | 855.62 | (-) 71.95 | 615.43 | 655.93 | (+) 40.50 |
| 4 | 2007-08 | 1,177.60 | 951.83 | (-) 225.77 | 604.24 | 561.70 | (-) 42.54 |
| 5 | 2008-09 | 1,927.58 | 1,290.73 | (-) 636.85 | 714.78 | 621.91 | (-) 92.87 |
| Total | | 4,747.21 | 3,756.11 | | 2,727.20 | 2,550.63 | |

Source: Public Works Department

There were persistent savings throughout the period 2004-09 under capital section ranging between Rs 7.15 crore and Rs 636.85 crore. Under revenue section savings ranged between Rs 42.54 crore and Rs 120.28 crore during the period except in 2005-06 and 2006-07.

The budgetary controls were not effective on account of delayed submission of list of work estimates by controlling officers to Finance Department. As a result, there were persistent savings under capital section and variations in revenue section in all the years. Execution of works was also affected due to delayed circulation of Appendix-E to implementing officers and inclusion of unapproved works in the list.

4.1.6 Financial Controls

Financial controls includes control over cash flow, utilisation of funds released for specific works, timely reconciliation of accounts, control over revenues and maintenance of various control registers.

4.1.6.1 Diversion of letter of credit

Finance Department released Rs 1.81 crore in March 2009 to Dharwad Public Works Division for payment of work bills relating to construction of buildings which was diverted to construction of Circuit Bench at Hubli, sanctioned under a different scheme. The Government replied (November 2009) that savings under Head of Account – 4059 Public Works was utilised on construction of Circuit Bench. The reply is not tenable as there was no approval of the competent authority for this diversion.

4.1.6.2 Rush of expenditure

Paragraph 330 of departmental code stipulates that expenditure should be evenly distributed throughout the year and rush of expenditure particularly in closing month of the financial year is regarded as breach of financial rules. The total expenditure and expenditure incurred during March, under four major heads of accounts (2059, 4059, 3054 and 5054) during 2004-09 are given in **Table 4.2**.

Weak control mechanism resulted in rush of expenditure in March of every year

Table 4.2: Comparison of expenditure in March over annual expenditure

| (Rupees in crore) | | | | |
|-------------------|--------------|-------------------|--------------------------|--|
| Sl. No | Year | Total Expenditure | Expenditure during March | Percentage of March expenditure to the total expenditure |
| 1 | 2004-05 | 608.34 | 220.83 | 36.30 |
| 2 | 2005-06 | 760.48 | 257.16 | 33.82 |
| 3 | 2006-07 | 1,511.55 | 473.10 | 31.30 |
| 4 | 2007-08 | 1,513.53 | 538.36 | 35.57 |
| 5 | 2008-09 | 1,912.64 | 791.75 | 41.40 |
| | Total | 6,306.54 | 2,281.20 | 36.17 |

Source: Public Works Department

The expenditure during March constituted 31.30 to 41.40 *per cent* of the total expenditure during each year, which indicated rush of expenditure at the close of each year.

4.1.6.3 Delay in submission of monthly accounts

Paragraph 523 of Accounts Code (Volume I) prescribes that the monthly accounts, with all vouchers and transfer entry orders in support of cash payments and other charges, be submitted by the Divisional Officer (DO) to the Accountant General's office on the 8th of the month following that to which it relates.

It was noticed that 277 out of 288 monthly accounts (2007-09) were submitted late by the test-checked divisions with delay ranging from 1 to 86 days and the supported vouchers were submitted after submission of monthly accounts (34 accounts) with a delay of 1 to 32 days.

4.1.6.4 Non-reconciliation of cheques issued and remittances

As per codal provisions⁷, the DO should prepare a schedule of settlement with treasuries (SST) in the prescribed form with supporting consolidated treasury receipts and certificate of cheques issued during the previous month signed by the treasury officer after reconciliation. The SST is to be submitted with monthly accounts to the Accountant General (A&E) on the eighth of the following month.

In 12 test-checked divisions, submission of SSTs was in arrears for the period ranging from 3 to 74 months as of March 2009. Difference of Rs 3.03 crore (oldest item relating to February 1968) under treasury remittances and Rs 19.44 crore (oldest item relating to January 1973) under cheques issued remained un-reconciled as per SST. Failure to reconcile the differences may result in non-detection of cases of fraud, excess payments, non-remittances, etc.

4.1.6.5 Non-clearance of suspense balances

Transactions which cannot be taken to the final head of account immediately are initially taken to suspense accounts temporarily and early action taken by the divisional officer for their clearance by payment/adjustment/recovery as the case may be. It was noticed in respect of test-checked divisions that Rs 12.71 crore under Material Purchase Settlement Suspense Account (MPSSA), Cash Settlement Suspense Accountant (CSSA) and Miscellaneous Public Works Advances (MPWA) were outstanding for many years as of March 2009 as shown at **Table 4.3**.

Absence of timely action resulted in outstanding balance of Rs 12.71 crore in suspense accounts

⁷ Paragraph 506, 507 and 523 of Accounts Code

Table 4.3: Details of outstanding balance under various suspense accounts

| Particulars | (Rupees in crore) | | |
|---------------------|-------------------|------------|--------------|
| | MPSSA | CSSA | MPWA |
| Amount (Items) | 1.10 (21) | 4.65 (27) | 6.96 (313) |
| Number of divisions | 4 | 5 | 10 |
| Oldest item (year) | August 1996 | March 1972 | January 1950 |

Source: Public Works Department

In the absence of timely action to review and settle these balances, the possibility of misappropriation/loss to Government could not be ruled out.

4.1.6.6 Non-crediting of lapsed deposits to Government

As per provisions⁸ of Accounts Code, a deposit register in prescribed form shall be maintained showing monthly total receipts, adjustment and closing balance for each deposit item. Further, items of deposit remaining unclaimed for over three complete account years of its becoming repayable shall lapse to Government as revenue.

In five⁹ out of 12 test-checked divisions, deposit registers were not updated for 9 to 38 months (March 2009). As per the monthly accounts, the total amount under the deposit head at the end of March 2009 was Rs 81.23 crore. The earliest deposit item related to 1972. The divisions did not take action to identify the deposit items remaining unclaimed for more than three years for credit to Government account.

4.1.6.7 Inadequate control over collection of revenue

Non-maintenance of Register of Special Recoveries

Paragraph 502 of Accounts Code (volume I) provides that recovery ordered from a contractor or other persons should be watched through Register of Special Recovery (Form PWG-54).

In the test-checked divisions excluding Karwar Division, the register was not maintained. The recoveries aggregating to Rs 4.03 crore (22 cases) from contractors ordered in nine divisions¹⁰ were not taken to the control register for watching recoveries thereof. The amount remained un-recovered as of March 2009.

Non-revalidation of bank guarantees

Government instructions and Article 355 (7) of KFC, 1958 provide for acceptance of Bank Guarantees (BG) as one of the valid securities from contractors as security towards performance of contracts. In six divisions¹¹, 159 BGs amounting to Rs 2.88 crore were neither renewed nor encashed

⁸ Paragraphs 399 and 401 of A Code

⁹ Dharwad, Gulbarga, Hassan, Kolar and Madikeri

¹⁰ Bangalore, Belgaum, Dharwad, Gulbarga, Hassan, Kolar, Mandya, Shimoga and Tumkur

¹¹ Gulbarga, Kolar, Koppal, Madikeri, Mandya and Shimoga

within their validity period. Two contracts were rescinded with recovery of extra cost of Rs 4.27 lakh from the contractors. The recovery could not be enforced as BG had expired and had not been renewed.

Improper maintenance of Register of Rent

Paragraph 194 of Accounts Code prescribes that the Rent Register (Form PWG-22) should be maintained in the division to post details received from sub-divisional officer to show monthly assessment, realisation and arrears of rent of buildings.

In the 12 test-checked divisions, the register was not posted up to date as monthly returns had not been received regularly from sub-divisions.

Non-tracing of third party remittances into treasury

As per Article 329 (ii) of KFC and note 3 thereunder, no challan purporting to contain the acknowledgement of treasury or bank for receipt of money should be acted upon by Government officer unless, credit for the money is traced out in the treasury accounts.

Disregarding the above provisions, 14 offices¹² during 2004-09 accepted such challans aggregating to Rs 2.32 crore produced by contractors towards registration fee without verifying their actual remittance into the treasury. As a result, production of fake challans by the contractors could not be ruled out.

4.1.6.8 Non- remittance of Earnest Money Deposit

EMD of Rs 1.49 crore received from contractors were not remitted

As per the provisions of Article 4 and 6 of KFC 1958¹³, Earnest Money Deposit (EMD) collected in the form of demand draft/pay orders/bankers cheques, *etc.*, should be remitted into Government account within two days and receipt issued to the payer. In Koppal and Gulbarga divisions, demand draft/ bankers cheque furnished by the contractors between 2004 and 2009 as EMD to the extent of Rs 1.49 crore were not remitted to Government account. These were also not taken to cash book and no receipts were issued to contractors.

Expenditure in March constituted 31.30 to 41.40 *per cent* of the total annual expenditure during the period 2004-09. Arrears in SST, non-reconciliation of cheques issued for remittances, delay in submission of monthly accounts could lead to possible non-detection of fraud and excess payments. Non-renewal of bank guarantee, acceptance of remittance without tracing to treasury accounts, non-watching of recoveries ordered, cheque/demand drafts not remitted to bank account indicated weak financial controls.

¹² SEs (Bangalore and Dharwad circles), CE, C&B (South) and all test checked divisions excluding Shimoga

¹³ Read with paragraph 190 (d) of Departmental Code volume I

4.1.7 Administrative controls

Maintenance of various control registers in accordance with departmental regulations is an important element of internal control structure. The registers including subsidiary registers are to be maintained in prescribed format.

4.1.7.1 Non-updating of Departmental Code

The Departmental Code volumes I and II meant for guidance of officers of the department was compiled in 1965. Based on the recommendations of the Public Accounts Committee, Government constituted (2004) a committee to revise/update the Departmental Code, keeping in view the manifold increase in activities of the department. The draft Departmental Code prepared by the committee in 2005 was still awaiting Government approval. No reasons for the delay in approval were furnished (November 2009).

4.1.7.2 Non-maintenance of Register of Buildings and Properties

Paragraph 348 of Departmental Code provides that the DO shall maintain a register in the prescribed form for each class of assets created and land acquired. These registers were not maintained in four¹⁴ out of 12 test-checked divisions and in two¹⁵ divisions where these registers were maintained were not posted with up to date details. The department is not in a position to know a complete picture of the assets held or created at any point of time due to non-maintenance of these registers.

4.1.7.3 Calendar of returns

Paragraph 542 of Accounts Code (volume I) provides that in every Division/Sub Division, a calendar of returns (form PWG 58) showing the accounts and returns which the office has to submit or receive, the dates on which and the offices to or from which they are due and the actual dates of their despatch or receipt, be maintained. This control register was not maintained in any of the test-checked divisions. As a result of this, timely receipt/despatch of information/documents could not be ensured.

4.1.7.4 Security from subordinates handling cash and stores

Paragraph 85 of Departmental Code (volume I) provide that every cashier, storekeeper, driver, *etc.*, who are entrusted, whether temporarily or permanently with collection or custody of Government cash or stores *etc.*, should ordinarily be required to furnish security and to execute a security bond in prescribed form setting forth the conditions under which Government holds the security and may ultimately refund or appropriate it. A reference to each bond should be recorded in the Register of Security Deposits. The register had not been maintained in any of the 12 test-checked divisions.

¹⁴ Belgaum, Gulbarga, Koppal and Tumkur

¹⁵ Hassan and Mandya

Non-revision of the departmental code and non-maintenance of various registers mentioned above, indicated poor administrative controls.

4.1.8 Inventory controls

4.1.8.1 Non-reconciliation of differences in stock accounts

Paragraph 368 of Departmental Code prescribes maintenance of stock accounts of two kinds *i.e.*, quantity accounts and value accounts. As per paragraph 369 of the Code *ibid*, the stock balance should be examined half yearly to see whether the balance in hand agrees with the quantities as well as the value as per accounts. Any discrepancies noticed should be analysed and the book balance set right under the orders of competent authority. Scrutiny of records of 12 divisions disclosed discrepancies (*minus* Rs 4.06 crore) for the period between September 2006 and September 2008 between these two accounts representing loss or shortage of stores. Non-reconciliation of differences may result in shortage of stores remaining un-noticed.

4.1.8.2 Physical verification of stores and Tools & Plant

Shortage of Stores could not be detected in time due to non-conducting of physical verification

Paragraphs 382, 393 and 394 (i) of the departmental code provide that the physical verification of store balance of both divisions and sub divisions be conducted every six months and annually in respect of Tools and Plant (T&P) articles.

As of March 2009, half yearly physical verification of stores was not conducted since September 2006 in Dharwad Division, March 2008 in Kolar Division and September 2008 in eight other divisions¹⁶.

The annual physical verification of Tools and Plant (T&P) articles was not done since September 2006 in Dharwad Division and since September 2008 in another nine divisions¹⁷. Non-conducting of physical verification could result in non-detection of shortages/excess in the stores/T&P articles. The Government replied (November 2009) that physical verification of stores is being conducted regularly in all divisions of South Zone. However, no reply was given regarding physical verification of Stores of the divisions of North Zone. The Government reply regarding divisions under south zone was not factual as physical verification of stores in five divisions under that zone, as mentioned above, was not conducted.

¹⁶ Bangalore, Belgaum, Gulbarga, Karwar, Koppal, Mandya, Shimoga and Tumkur

¹⁷ CE (South): Bangalore, Belgaum, Gulbarga, CE (North): Karwar, Kolar, Koppal, Mandya, Shimoga and Tumkur

Box 4.1**Non-detection of shortage of stores**

In PWD, Dharwad Sub-division No.1, shortage of store materials costing Rs 53.55 lakh was noticed (January 2007) after the retirement (January 2007) of the store keeper. The shortages could not be detected in time as physical verification of stores was not conducted for the period ending September 2006 and onwards. The Government replied (November 2009) that directions have been issued (September 2009) for recovering the amount by filing a civil suit.

Surplus stock of Rs 2.64 crore was not disposed of

4.1.8.3 Non-disposal of unused stores

The Government as a policy decision (August 1998) decided not to procure any stores required for the works and all the existing stock held in the divisions was to be assessed for utilisation for ongoing works. It also directed that detailed inventory of all surplus items which cannot be utilised should be prepared and proposals submitted for their disposal.

In the test-checked divisions unutilised stores costing Rs 2.64 crore were held in stock and no action was taken for their disposal. Government replied (November 2009) that action had been initiated for disposal of the stores.

4.1.8.4 Non-disposal of unserviceable vehicles/machineries

CE, Central Mechanical Organisation (CMO) is the competent authority for declaring vehicles and machineries as un-serviceable and accords approval for disposal. The divisions should take action to dispose of the items within three months after obtaining such approval. For any loss arising out of delay in disposal of these items, the concerned officer is to be held responsible.

It was observed that 256 unserviceable vehicles/machineries approved for disposal by CE, CMO during 1991-2009 were not disposed of by the divisions (June 2009). Government replied (November 2009) that Executive Engineers were instructed to dispose of all unserviceable vehicles as early as possible.

Delay in conducting physical verification of stores and non-reconciliation of variation between value and quantity accounts could lead to non-detection of store shortages in time. Non-disposal of unserviceable items even after obtaining approval thereto, showed inadequate inventory controls.

4.1.9 Operational controls

Operational controls provide assurance that tasks are being performed economically and efficiently to fulfill the department's objectives.

4.1.9.1 Belated/non-receipt of design and drawings

Paragraph 211(a) (i) of Departmental Code stipulates that no work shall be commenced unless detailed design and estimates have been sanctioned.

In 12 test-checked divisions, no control register was maintained to watch the forwarding and receipt of approved design/drawings from the competent authority. Scrutiny of the information relating to drawings issued during 2004-09 in respect of 279 building works revealed that the design and drawings of 62 works (22 per cent) were not furnished to the contractors before commencement of work, except in Karwar division and the delay ranged from 1 to 27 months. In respect of 21 works, drawings were not issued to the contractors even after the due date of completion of work. Reason for delay in issue of drawings by the competent authority was not on record. In the absence of a control register, there would be no control over the cases sent for approval to designs and drawings and watching the receipt of their approval. The rules also did not provide for maintenance of any such control register.

4.1.9.2 Payment without check measurements

Work bills worth Rs 20.15 crore were paid without check measurement

Paragraph 209 of Accounts Code¹⁸ (Vol.I) provides that the DOs should check/measure frequently the works in progress and maintain a register indicating the extent/cases of check measurements. The objective of checking measurements is to detect errors in measurements and to prevent fraudulent payment/entries. The DO should also check measure final measurements of works costing more than Rs 25,000 to the extent of 25 per cent of the total value of the work done, before payment of the bill.

Scrutiny of measurement books in 11 divisions¹⁹ revealed that 413 first and final bills amounting to Rs 20.15 crore were paid without check measurement by the EE. Thus, correctness of payments with reference to actual work done was not ensured by the EEs. Out of 12 test-checked divisions, only four divisions²⁰ maintained the prescribed register.

4.1.9.3 Measurement Books returns

A Measurement Book (MB) is a very important and basic account of quantity of work done, whether by daily labour or by piece work or by a contractor and of the material received which has to be measured or counted. As per paragraph 208 of Accounts Code (volume I), a half yearly return of MBs indicating balance of these books and reasons for non-return of used up MBs is required to be sent to the Division. Further, the SEs are required to see that the MBs are carefully kept and measurements properly recorded. The half yearly returns were not received by the EEs in the test-checked divisions except Madikeri, Mandya, Tumkur²¹ and Dharwad²². This indicated lack of control with regard to movement of MBs.

¹⁸ Read with appendix VII of Departmental Code volume II

¹⁹ Bangalore, Belgaum, Dharwad, Gulbarga, Karwar, Kolar, Koppal, Madikeri, Mandya, Shimoga and Tumkur

²⁰ Dharwad, Hassan, Kolar, Tumkur

²¹ Received only for the period ending September 2007

²² Received up to the period ending September 2008 from two sub-divisions out of five sub-divisions

4.1.9.4 Deficiencies in maintenance of Register of Works

Paragraphs 317 to 320 of Departmental Code provide that a collective record of expenditure incurred on works executed during the year should be maintained in the divisional offices in the register of works. These registers are to be posted from cash, stock and adjustment transactions and reviewed by the EE before submission of monthly accounts. This register enables the EE to review the actual as well as probable excess under each sub-head of work against the sanctioned estimate. The account of a work in the register is to be closed immediately on completion after discharging/clearing all the liabilities outstanding /balances in the suspense account.

Records revealed that in 12 test-checked divisions the works register was not posted up to date and closed. As a result, correctness of expenditure with reference to sanctioned estimate as well as adjustment/clearance of balances in the suspense accounts could not be ensured.

4.1.9.5 Completion reports

Paragraph 185 (d) of Departmental Code prescribes time limit of three months for submission of completion report after actual completion of work before final bill is paid. The EE should close the account on completion of work and entries should be made in the Register of Sanction to estimates and Register of Works.

It was noticed that entries in respect of completed works were not noted in the prescribed registers in any of the 12 test-checked divisions. In five divisions²³ completion reports were submitted to competent authority belatedly in case of 44 works, which were completed during 2006-08 with delay ranging up to 20 months. In respect of 12 completed works in three divisions²⁴ neither completion reports were submitted nor were accounts closed as of March 2009. The Government replied (November 2009) that EEs will be insisted upon to follow the required procedure without fail.

There was no monitoring over receipt of designs and drawings sent for approval of competent authorities affecting the progress of works. Payments for work done/supplies received without check measurements exposed the system to fraudulent payments. Control over movement of MBs was lacking. The Register of Work was also not posted and closed on completion of works. These weaknesses indicated poor operational controls in the Department.

²³ Dharwad, Madikeri, Mandya, Shimoga and Tumkur

²⁴ Kolar, Shimoga and Tumkur

4.1.10 Organisational controls

Weak monitoring of disciplinary cases resulted in non-recovery of Government dues

The organisational controls such as monitoring, conducting of inspections of works and subordinate offices, disposal of vigilance cases, quality control, *etc.*, were weak as discussed below:

4.1.10.1 Non-functioning of Monitoring Cell

Works Monitoring Cell was established (January 2005) at the Secretariat level to closely monitor the works undertaken by the Department and to ensure their quality. However, from the progress reports submitted by the Monitoring Cell to the Principal Secretary/Secretary, it was observed that the cell was attending only to cases relating to complaints, media reports, *etc.* The important aspects relating to inspection of works, supervision, and monitoring, reviewing the supervision arrangement, quality aspects, contract administration and necessity of works undertaken were not attended to by the Cell which defeated its very objective.

Government replied (November 2009) that the monitoring cell would be further strengthened with additional staff to monitor and supervise the works taken up by the department.

4.1.10.2 Inadequate inspections of departmental offices

Inspection of sub-divisional accounts

Shortfall in periodical inspection of field offices by senior officers was 90 per cent

Departmental code envisage inspection of sub-divisional accounts once in a year to check a percentage of initial records, by the EE or under his orders by Divisional Accountant on his behalf.

In 12 tests-checked divisions, against the target of 325 inspections in respect of 65 sub-divisions to be conducted during 2004-09, only 34 inspections were conducted with shortfall of 90 *per cent* in inspections. The huge shortfall indicated weak monitoring of initial accounts of sub-divisions by EEs.

Short fall in conducting surprise checks of work

Government circular (August 1993) fixed target for conducting surprise checks of works apart from regular checks by CE/SE/EE to improve the quality and progress of work and submit a report on such inspections/checks in the prescribed form to the Government.

The number of surprise checks of the test-checked divisions conducted by various controlling officers during 2007-09 is given in **Table 4.4**.

Table 4.4 : Details of shortfall in surprise inspection

| | EE | SE, Bangalore | SE, Dharwad | CE, Bangalore | CE, Dharwad |
|------------------|-------------------------|-----------------------|-----------------------|----------------------|----------------------|
| Target (2007-09) | 3,456 (12 per month) | 192 (8 per month) | 192 (8 per month) | 120 (5 per month) | 120 (5 per month) |
| Achievement | 142 | 41 | nil | 20 | 28 |
| Shortfall | 3,314 (96%) | 151 (79%) | 192 (100 %) | 100 (83%) | 92 (77%) |

Source: Public Works Department

The shortfall in conducting surprise check of works by various controlling officers ranged from 77 to 100 *per cent*. Whenever surprise checks were conducted, the reports were not submitted to the Government. Thus, the control intended for ensuring the desired objective was not functional.

4.1.10.3 Inspection of public buildings

Paragraph 347 of Departmental Code provided that every public building valued over Rs 20,000 should be inspected by the EE at least once in a year. The Assistant Executive Engineer is required to make frequent inspection of all public buildings to see that these are maintained in good condition and necessary repairs are carried out. The results of their inspection should be recorded in a register maintained in Form No PWG-80. The above position was reiterated by the Government (October 2006) for compliance in respect of all assets under Public Works Department.

Neither the register prescribed for the purpose was maintained nor the details of such inspections conducted, if any, were kept on record in any of the test-checked divisions.

4.1.10.4 Inadequacies in following up of vigilance cases

Based on the recommendations (16th report-1996-97) of the Public Accounts Committee (PAC), Government issued instructions (May 1997 and June 2001) for finalisation of disciplinary cases and laid down the time schedule for each stage of the case. The entire disciplinary proceedings were to be completed and final orders issued within nine months from the date of misconduct coming to the notice of the disciplinary authority. Further, disciplinary authorities were required to maintain a register in the prescribed form for watching progress of cases. A quarterly review of pending disciplinary cases was to be conducted by the CEs/SEs to expedite the disposal of cases and a report furnished to Government.

In none of the test-checked offices/divisions, the prescribed register to monitor action taken on disciplinary cases was maintained. The quarterly return to Government was also not furnished by the CE, C&B (South), Bangalore. In the absence of records, the number of cases pending with different disciplinary authorities and their stages could not be ascertained in audit. The Government replied (November 2009) that necessary records are being updated and watch register would be maintained.

Box 4.2

Non-recovery from delinquent officials

Disciplinary authorities failed to monitor the disciplinary cases resulting in non-recovery of Rs 31.35 lakh;

- An official was dismissed (April 2004) by disciplinary authority (CE, C&B, South) for misuse of store articles worth Rs 16.85 lakh issued for use on works. The Government (next appellate authority) temporarily stayed (October 2004) the dismissal order pending further enquiry. The stay order was revoked by Government in December 2006 but the official continued to be in service. On this being pointed out (10 June 2009) in audit, the dismissed employee was relieved from duty on 15 June 2009. Absence of monitoring of disciplinary cases by CE, C&B (South), resulted in the dismissed employee continuing in service for a further period of two and half years. Government replied (November 2009) that the delay in implementation of Government orders was due to communication gap and that a civil suit has been filed in civil court at Gadag to recover the amount.
- CE, North issued orders (January 1999) for recovery of Rs 16.90 lakh from an official in PWD Koppal Division for misuse of stores material issued (1983-1985) for execution of works. Out of Rs 16.90 lakh, Rs 70,000 were recovered (November 2001 to January 2003) from his pay and allowances. Subsequently, the official was compulsory retired from service in November 2003. The Drawing and Disbursing Officer (DDO) informed (March 2007) the Accountant General (Accounts & Entitlement) to recover Rs 1.60 lakh from the gratuity due to the official while forwarding his pension papers without consulting the disciplinary authority. Further, action taken to recover balance amount of Rs 14.50 lakh was not pursued by the disciplinary authority. This indicated lack of monitoring of disciplinary cases. The Government replied (November 2009) that a civil suit is reported to have been filed in the Civil court, Gadag for recovery of dues.

4.1.10.5 Weakness in Quality Control system

As per Quality Control (QC) Manual and instructions issued by the Government (1997 and 2004), the quality adherence and execution of works as per prescribed standards was to be ensured for all works. The CE instructed (September 2002) that all executing officers in respect of road works should ensure quality as per Ministry of Road Transport and Highways (MORTH) specifications in respect of materials used and details of test results be recorded in a separate register. Executing officers were directed to submit compliance to all inspection notes issued by QC authorities to the CE.

In none of the test-checked divisions the maintenance works executed were subjected to QC test. Further, no record to watch the cases referred for QC test, receipt of reports on such cases and corrective action taken on adverse reports for the period 2004-09 was maintained in any of the test-checked divisions. Absence of above records/non-adherence to the prescribed procedure indicated that the quality of work executed was not monitored by

the department. The Government replied (November 2009) that instructions are issued to carry out quality checks and to maintain records.

4.1.10.6 Weak internal audit system

Department has no effective internal audit system

There exists an internal audit system under Divisional Accountants/Audit Officers in each division and they are required to maintain an objection register to bring to the notice of the DO any matter relating to any transaction/orders affecting receipt/expenditure which is opposed to any rule or order, with a statement detailing the reasons. However, such register was not maintained for the period 2004-09 in six²⁵ out of 12 test-checked divisions. The Government replied (November 2009) that necessary workshops would be conducted to enhance the skill of the Divisional Accountants and instructions will be issued to maintain objection books in future.

The codal provisions also do not provide for an independent internal audit system in the Department.

4.1.10.7 Lack of response to Statutory audit

1,814 paragraphs of 417 inspection reports were pending settlement

Accountant General (Works, Forest and Receipt Audit), Karnataka conducts periodical inspection of the divisions, circle offices and central offices of the Department. The audit findings are communicated through Inspection Reports (IRs) to the heads of offices/department for compliance and necessary rectification of defects. A periodical statement of outstanding objection/IRs is also sent to the Secretary of the department to facilitate monitoring and compliance of audit observations.

As of March 2009, 1,814 paragraphs relating to 417 IRs issued up to December 2006 were pending settlement. Of these, 116 paragraphs relating to 104 IRs were more than 10 years old. Even the first reply for 115 paragraphs relating to 10 IRs was not received till March 2009. This indicated lack of responsiveness of the Department to Statutory audit.

The monitoring Cell at Secretariat level was largely non-functional. There was huge shortfall in inspection of sub-divisional accounts, surprise check of work by senior level officers and proper maintenance of the public buildings were not ensured. Monitoring of disciplinary cases was weak and deficient as reports and prescribed registers were not maintained. Payments for maintenance works were made without conducting mandatory quality control tests.

4.1.11 Conclusion and Recommendations

4.1.11.1 Budgetary controls

Budget formulation was deficient due to delayed submission of work estimates by controlling officers to the Finance Department. The delayed circulation of

²⁵ Dharwad, Gulbarga, Hassan, Kolar, Mandya and Shimoga

Appendix-E to the implementing officers, inclusion of unapproved works affected execution of works. There were persistent savings in capital expenditure and wide variations in revenue expenditure.

Recommendation: The State Government should ensure timely submission of list of works by the Department for budget preparation and circulation of Appendix-E to implementing officers to avoid underutilisation of funds.

4.1.11.2 Financial controls

There were longstanding unadjusted balances in suspense account. Delay in reconciliation of cheques issued and remittances made was fraught with the risk of any fraud remaining undetected.

Recommendation: The State Government should prescribe a suitable mechanism to ensure that the divisional officers prepared a schedule of settlement with treasuries every month without fail as per Public Works Account Code to reconcile the differences and to detect excess encashment/short remittances.

4.1.11.3 Inventory controls

Failure to conduct physical verification of stores resulted in delay in detection of shortages and surplus and unserviceable articles remained un-disposed of.

Recommendation: The State Government should prescribe a time bound programme to departmental officers to complete physical verification of stores as per the codal provisions and take follow-up action expeditiously.

4.1.11.4 Operational controls

Instances of non-issue of designs and drawings to the contractors even after the due dates for completion of works and payments to works without check measurements by the divisional officer were indicative of poor operational controls in the Department.

Recommendation: The State Government should strengthen controls related to timely preparation of drawings and designs to ensure that the works are completed without any cost or time overrun. The controls for payments to contractors after proper measurement of work done should also be scrupulously observed.

4.1.11.5 Organisational and administrative controls

The monitoring cell set up to closely monitor the progress and quality of works, contract management aspects did not function effectively in these areas except for attending the complaints, media reports, *etc.* Inadequate inspections and surprise checks by departmental officers, lack of follow-up of vigilance cases were indicative of weak monitoring controls. The departmental

code laying down rules, procedures and controls for execution of works has not been revised since 1965. Draft code framed in 2005 was awaiting approval of the Government.

Recommendation: In view of manifold increase in the activities of the Department, revision of the departmental code is necessary for its efficient and effective functioning. This needs to be expedited. The State Government should also ensure effective functioning of the monitoring cell, maintenance of various control registers and improve inspection mechanism of the Department.

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