

## CHAPTER-III

### INTERNAL CONTROL MECHANISM

Effective Internal Control system helps to provide reasonable assurance of adherence to laws, rules, regulations and orders, safeguards against fraud, abuse and mismanagement and ensures reliable financial and management information to higher authorities. The control activities include documentation, system of authorisation and approval of payments, segregation of duties, reconciliation and verification, inspection and audit, review of operating performance and monitoring.

#### 3.1 Monitoring

Section 10 of BPR Act 2006 provides for formation of one or more Vigilance Committees by Gram Sabha from persons not being the members of Gram Panchayat to supervise Gram Panchayat works, schemes and other activities relating to that village and to put up reports related to them in its meeting. Further, Sections 61 and 88 of the Act lay down that Executive Officer (EO) in PS and CEO in ZP shall supervise and control execution of all works. Due to lack of proper supervision and control by GPs, PSs, ZPs and by their heads and executives, serious irregularities were noticed in the implementation of works which are as follows:

##### 3.1.1 Non-Start of Work despite Advance Payment of ₹18.36 Lakh

In a large number of projects undertaken by PRIs, advances were made in the shape of either cash or food grains to the executing agencies but neither the projects were started nor the advances were recovered. Scrutiny of records of 11 PSs and four GPs disclosed that 111 works (**Appendix-IV**) were not started despite making advance of ₹ 18.36 lakh by respective PSs and GPs as detailed in **Table - 6**.

**Table – 6**

**Advances Paid but Works not Started**

<b>Sl. No.</b>	<b>PRI</b>	<b>Number of Units</b>	<b>Amount of Advance (₹ in lakh)</b>	<b>No. of Works for which Advance was Given</b>
<b>1</b>	Panchayat Samitis	11	16.74	103
<b>2</b>	Gram Panchayats	4	1.62	8
	<b>Total</b>	<b>15</b>	<b>18.36</b>	<b>111</b>

**3.1.2 Non-Adjustment of Advances - ₹ 104.14 Crore**

In violation of Rule 90 (b) of Bihar Panchayat Samiti & Zila Parishad (Budget & Accounts) Rules, 1964 the authorities of PRIs continued to pay second, third and fourth advances to a work without ensuring adjustment of earlier advances. Further, as per Rule 90 (e) of the Act *ibid.* adjustment of advances is required to be done regularly and promptly.

In violation of the aforesaid rules, in eight ZPs and two PSs it was noticed that advance of ₹ 104.14 crore was unadjusted as on March 2010 (**Appendix-V**).

The authorities did not take effective steps for adjustments/recovery of advance and remained interested only in granting advances to executing agents. Non-adjustment of advances for long period indicates lack of internal control and improper financial management.

**3.2 External Audit**

The State Government has entrusted the audit of PRIs to ELA vide its letter no. - 3P/Misc.-6037/06-4008/PRI, Patna dated – 18/10/2006.

The ELA forwards audit reports to each PRI after completion of audit in compliance of section 31, 59 and 86 of the Act.

The Executive Officer (EO) of the PRIs are required to comply with the observations contained in the Audit Report (AR). They are required to remove the irregularities pointed out in AR and send compliance report through proper channel to the ELA, Bihar within three months from the date of receipt of the ARs. The EOs did not take effective steps for settlement of outstanding paras as is evident from mounting numbers of it.

Details of reports and paragraphs outstanding, for the period 2008-09 to 2010-11 are detailed in the **Table – 7**.

**Table - 7**  
**Position of Outstanding Paras in PRIs**

*(₹ in Crore)*

Period	Total No. of A.R.	Total No. of Paras	Amount Involved	No of A.R Settled	No. of Paras Settled	No. of Paras Outstanding	Amount of Settlement	Money Value of Paras Outstanding
2008-09	850	5291	60.24	21	2251	3040	2.19	58.05
2009-10	659	12000	71.48	21	2593	9407	1.20	70.28
2010-11	866	2365	178.80	Nil	1959	406	27.52	151.28
<b>Total</b>	<b>2375</b>	<b>19656</b>	<b>310.52</b>	<b>42</b>	<b>6803</b>	<b>12853</b>	<b>30.91</b>	<b>279.61</b>

*(Source: PRI Section of Local Audit Wing, O/o A. G. (Audit), Bihar, Patna)*

### 3.3 Recommendations

- (i) Stepwise documentation of execution of works must be ensured.
- (ii) Duties in PSs and GPs may be segregated in such a way that no single individual or team should control all key stages of a transaction or an event.
- (iii) Advances for execution of work may be released in instalments and second and further instalments may be made only after completion of fixed stages of works.
- (iv) Acts and provisions are required to be revised in such manner as to include best contemporary practices of internal audit.
- (v) Regular revision of Audit Paras may be done by three tier committees constituted by State Government for compliance of annual reports.