

Chapter-III

Internal Control Mechanism

3.1 Internal controls

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 authorization and approval of payments, segregation of duties, reconciliation & verification, inspection and audit, review of operating performance and monitoring.

3.2 Common lapses in maintenance of records relating to execution of works

The PRIs are executing works against grants received under 10th FC, 11th FC, 12th FC, SGRY, NREGA/BREGA, MP/MLA/MLC and BRGF funds. The audit of execution of schemes in 30 ZPs, 122 PSs and 599 GPs showed the following shortcomings:

- (i) The work orders for developmental works were either not issued or if issued, the time required for completion was not indicated in the orders.
- (ii) The work completion certificate was not furnished by the test checked PRIs for any of the works executed by them.
- (iii) Photographic records of the works of the various stages of implementation and display board as required under various schemes were not kept.
- (iv) Asset Register showing assets created out of various development works and containing the details i.e. date of commencement, date of completion, cost involved, benefits derived and employment generated etc. were not maintained by any of the PRIs audited during 2008-09 and 2009-10 .
- (v) Employment Register showing period of engagement of labourers, position of employment of women and total number of labourers employed in a year was not maintained by any PRIs.
- (vi) Muster Roll sheets were not stitched and numbered and the sheets were certified only by the Junior Engineers who were the executing agents and these were not certified by any elected member of Gram Panchayat in whose area the works were executed.
- (vii) The Advance Ledger was not properly maintained by the PRIs.

3.3 Segregation of Duties

- To reduce risk of error, waste or wrongful acts and risk of not detecting such problems, no single individual or team should control all key stages of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure effective checks and balances exist. Scrutiny of accounting and payment system in PRIs revealed that one or two persons were controlling most of the stages of transactions or event. Details are given in **Table** below:

Table 3.1 - Segregation of duties

Stage	Responsibility in GPs	Responsibility in P.Ss.	Responsibility in Z.Ps.	Responsibility in State Government	Responsibility in Government of India
Maintenance of accounts	Panchayat Secretary	Executive Officer	Chief Accounts Officer	Accountant General (A&E)	Pay and Accounts Office
Bill preparation	Panchayat Secretary	Dealing Clerk	Dealing Clerk	Dealing clerk	Dealing clerk
Passing of bills	Mukhiya	Executive Officer	Chief Executive Officer	DDO	DDO
Pay order	Mukhiya	Executive Officer	Chief Executive Officer	Treasury officer	PAO
Handling of cash/cheque	Panchayat Secretary	Cashier	Cashier	Cashier	Cashier
Sanction to expenditure	Mukhiya	Pramukh	Adhyaksha	Sanctioning authority as per delegation of power	Sanctioning authority as per delegation of power

3.4 Monitoring

Monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. There are provisions for various levels of monitoring of works and schemes in PRIs.

Section 10 of BPR Act 2006 provides for formation of one or more **Vigilance Committees** by Gram Sabha from persons not 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. But the same is not functional and effective. Sections 61 and 88 of the Act lay down that Executive

Officer in P.S. and Chief Executive Officer in Z.P. shall supervise and control execution of all works. Due to lack of proper supervision and control by Gram Panchayats, Panchayat Samities, Zila Parishads and by their heads and executives serious irregularities were noticed in the implementation of projects which are as follows:

3.4.1 Incomplete works due to lack of monitoring

A number of projects were undertaken under various schemes by PRIs but due to lack of monitoring and supervision over works, many of them remained incomplete as detailed below:

(₹ in crore)

PRI	Number of Units	Number of Projects undertaken	Number of Incomplete Projects	Estimated cost of incomplete projects	Advance involved in incomplete projects
Z.Ps.	27	14270	5176	160.79	90.38
P.Ss.	121	27060	8130	166.82	80.95
G.Ps.	581	52624	5399	65.65	30.60
Total	729	93954	18705	393.26	201.933

Execution of large number of works was entrusted to a few executing agents viz. AEs/JEs/Panchayat Sewaks/Panchayat Rojgar Sewaks, resulting in non-completion of projects. The departmental execution of works from all types of grants was thus inefficient as the DDOs could not exercise enough control over advances paid and failure to ensure its timely adjustment.

3.4.2 Non-start of work despite advances made

In a large number of projects undertaken by PRIs and advances were made in the shape of either cash or food grain to the executing agents but neither the projects were started nor the advances were recovered. The scrutiny of records of 10 Zila Parishads and 22 Panchayat Samitis and 22 Gram Panchayats disclosed that 584 projects were not started despite making of advance payment of ₹ 2.10 crore as detailed below:-

Table-3.2 : Details of advances paid on works which were not started

(₹ in crore)

PRI	Number of Units	Amount of advance	No of works for which advance was given	Status of the work as on 31 st March, 2009
Z.Ps.	10	0.62	97	Work not started

P.Ss.	22	1.27	358	Work not started
G.Ps.	22	0.21	129	Work not started
Total	54	2.10	584	

(Details in **Appendix- III**)

3.4.3 Diversion of Grant

Eight Zila Parishads and Six Panchayat Samitis diverted ₹ 4.7 crore out of, SGRY, MGNREGS, and road construction grants for other purposes which have not been recouped at the end of concerned year. (**Appendix-IV**) Due to irregular diversion of specific grant meant for execution of development works the desired objectives of those grants remained unachieved.

3.5 Internal Audit

Sections 31(3), 59(3) and 86(3) of BPR Act 2006 lay down provisions for concurrent or special audit of PRIs. But under these provisions no manuals or rules have been prepared for the PRIs. Section 153 of the Act ibid has provision for inspection of the offices of Panchayats and records and accounts. The Act also provides that Finance, Audit and Planning Committees shall perform functions relating to audit. But no such reports in token of such internal check/audit were made available.

Government of West Bengal has made detailed provision for internal audit of PRIs. Under section 30(1) of West Bengal Panchayat (Gram Panchayat Accounts, Audit & Budget) Rules, 2007 Internal Audit Officer has been entrusted to conduct internal audit of the accounts of G.P. under its jurisdiction at least once in every three months. Under section 212 (1) of West Bengal (Zilla Parishad & Panchayat Samiti) Accounts and Finance Rules-2003, the Samiti Accounts and Audit Officer and Parishad Accounts and Audit Officer shall organize, examine and audit periodically of the accounts of Panchayat Samiti and Zilla Parishad respectively. Bihar Acts and Provisions do not elaborate such visible machinery of Internal Control in PRIs.

3.6 External Audit

The State Govt. has entrusted the audit of PRIs to Examiner of Local Accounts (ELA) vide its letter no. -3P/Misc.-6037/06-4008/PRI. Patna dated - 18-10-2006.

The ELA forwards audit reports to the each PRI after completion of audit in compliance of section 31, 59 and 86 of the Act. The PRIs have to send compliance of the Audit Report to the Examiner of Local Accounts within three months. But the Executives of ZPs/PSs/GPs did not take any initiative to settle the outstanding paras despite issue of reminders. Under Bihar Panchyat Raj, Act 2006 the standing

committee on Finance, Audit and Planning in Zila Parishads and Panchayat Samitis is to discuss the audit report and take suitable action but none of the standing committees of test checked 30 ZPs and 122 PS either discussed the Audit report or took steps for settlement of paras.

3.7 Poor response to audit observations

The Executive Officers of the PRIs are required to comply with the observations contained in the Audit Report (AR). They are required to remedy the irregularities pointed out in AR and send compliance report through proper channel to the Examiner of Local Accounts, Bihar within three months from the date of receipt of the ARs. The Executive Officers do not take effective steps for settlement of outstanding paras despite issue of several reminders. Due to non-settlement of outstanding paras the irregularities pointed out in ARs continue to occur.

As of March 2010, total no. of 65,061 outstanding paras involving ₹ 371.16 crore were outstanding for settlement in various PRIs. During the year 2009-10, 2,593 paras were cleared. Year-wise details of reports and paragraphs outstanding are detailed in the Table 3.3-

Table-3.3: Position of outstanding Paras in PRIs

(₹ in crore)									
Sl. No.	Period	Total No. of AR	Total No. of Paras	Amount involved	No of A.R settled	No. of Paras settled	No. of outstanding paras	Amount of settlement	Money value of outstanding Paras
1	Up to 2005	818	16126	76.78	Nil	3	16123	0.02	76.76
2	2005-06	741	10055	72.51	Nil	21	10034	0.33	72.18
3	2006-07	566	7543	59.54	Nil	112	7431	2.30	57.24
4	2007-08	741	13997	35.53	21	874	13123	0.19	35.34
5	2008-09	703	11194	61.55	21	2251	8943	2.19	59.36
6	2009-10	659	12000	71.48	21	2593	9407	1.20	70.28
Total		4228	70915	377.39	63	5854	65061	6.23	371.16

3.8 Persistence of Irregularities

Some irregularities which are occurring in almost all PRIs year-after-year have been discussed in subsequent paragraphs:

➤ **Common lapses in execution of works**

The PRIs are executing a number of works out of grants received from Centre and State Govt. Audit of records of these works revealed various common shortcomings across the PRIs such as: non-issuance of work order, non-furnishing of work completion certificate, photographic record of work, non-maintenance of asset register showing assets created, employment register, advance ledger, uncertified muster rolls *etc.*

➤ **Incomplete works**

The PRIs undertake a large number of schemes out of grants received from the Central and State Govt. Audit observed that a large number of works remained incomplete despite payment of huge advances to the executing agents. In many cases works were neither started by the executing agents even after taking advances nor the advances returned. Due to non-completion of works, intended benefit out of these schemes could not be achieved.

➤ **Unadjusted Advances**

The PRIs granted advances to the executing agents for execution of schemes. Audit observed that a huge amount of advances were unadjusted as the executing agents did not submit adjustment bills as a large number of schemes were incomplete. Zila Parishads gave advances to its employees for various purposes. These advances were also not adjusted in many cases.

➤ **Irregularities in Muster Rolls**

Muster Rolls are used as a record of engagement of labour in various schemes. Scrutiny of muster rolls of schemes revealed many irregularities such as: not certified by elected representative, monitoring committee, supervising authority, repetition of names of labourers, non-recording of period, job card registration number *etc.*

These irregularities were reported to the PRIs as well as government through the previous Annual Reports. The happening of above irregularities indicates failure of monitoring, control and supervision of the authorities concerned who are responsible for the proper functioning of PRIs. This shows lack of internal control over PRIs. The govt. of Bihar (March 2010) informed that a three tier committee viz. District level, Department level and govt. level has been constituted to review and

compliance of the Annual Audit Report. But, no further development regarding settlement of paras have been received.

3.9 Annual Administrative Report (AAR)

As per Section 169(1) of BPR Act 2006 as soon as may be after the 1st day of April in every year and not later than such date as may be fixed by the government the Panchayat Secretary of Gram Panchayat shall submit AAR to the Zila Parishad with resolution of the Gram Panchayat. As per Section 169(2) the Executive Officer shall prepare AAR and submit to the Zila Parishad with the resolution of Panchayat Samiti. As per Section 169(3) Zila Parishad shall on receipt of AARs review the working of G.Ps. and P.Ss. and submit a consolidated report in this behalf to the Government. As per Section 169(4) the Chief Executive Officer shall prepare AAR and submit to government with the approval of the Zila Parishad. As per Section 169(5) the AARs submitted to the Government together with the memorandum by the Government reviewing the working of the Gram Panchayats, Panchayat Samitis and Zila Parishads shall be laid before both houses of the State Legislature. In course of audit it was found that, no such reports were prepared by the PRIs.

3.10 Recommendation

- a) Stepwise documentation of execution of works must be ensured,
- b) Duties in PSs and GPs may be segregated in such way that no single individual or team should control all key stages of a transactions or event,
- c) Advances for execution of work may be released in instalments and second and further instalments may be made only after completion of fixed stage of works,
- d) Acts and provisions are required to be revised in such manner as to include best contemporary practices of internal audit,
- e) Regular revision of audit paras may be done by three tier committees constituted by State Govt. for compliance of annual reports.