Chapter 8
Internal control system

8.1 Ineffective internal control system

Internal controls are an integral component of organization's management process which is designed to provide a reasonable assurance to the management that operations are carried out in an effective and efficient manner, financial reporting and operational data are reliable and applicable laws and regulations are complied with so as to achieve the organizational goals and objectives. Besides, internal audit, as an independent entity within or outside the department, was required to examine and evaluate the level of compliance to the departmental rules and procedures so as to provide independent assurance to senior management on the adequacy of risk management and internal control framework within the department.

Audit reviewed the internal control systems including internal audit in the Department and is of the opinion that the system largely remained ineffective and there were instances of non-compliance with financial Rules by most of the test checked DDOs. Further, monitoring by the CCO was very lax and ineffective.

Budgetary and financial controls

8.2 Inadequate budgetary controls

Review of budgetary provisions and actual expenditure incurred during 2006-11 revealed that out of the total budget provision of ₹ 1518.10 crore, the Agriculture wing utilized ₹ 1311.19 crore resulting in savings of ₹ 206.91 crore as indicated in Table 10 below. The total provisions included both plan and non-plan provisions.

Table 10: Budgetary provision and drawal during 2006-11 **(₹ in crore)**

Year	Original provision	Supplementary provision	Total provision	Expenditure	Savings	Percentage of saving
2006-07	142.81	4.42	147.23	137.23	10.00	7
2007-08	240.15	40.10	280.25	204.54	75.71	27
2008-09	230.72	55.44	286.16	254.33	31.83	11
2009-10	353.18	19.73	372.91	322.64	50.27	13
2010-11	386.41	45.14	431.55	392.45.	39.10	9
Total	**1353.27**	**164.83**	**1518.10**	**1311.19**	**206.91**	**14**

(Source: Information furnished by the Director of Agriculture, Odisha)

Director stated (May 2011) that the substantial savings of 27 *per cent* in 2007-08 was due to non-receipt of sanction / short release of funds by GoI compared to provision made, less area coverage in implementation of schemes, non-acceptance of bills by treasury, non-supply of materials by suppliers under Centrally sponsored Plan schemes, indicating improper and unrealistic budget estimates and expenditure controls by the Department.

➢ ***Unnecessary supplementary provision***

During 2006-11, in 24 cases of minor heads, the entire supplementary provision of ₹ 2.80 crore under salary component was unnecessary and was later surrendered **(*Appendix-7)***. The Director stated (November 2011) that these funds were surrendered due to non-sanction of increments, leave, non-fixation of pay in the revised pay etc. However, this did not explain the reason for seeking supplementary provisions when adequate funds already existed for the current level of activity.

8.3 Non-compliance with financial and treasury rules and service codes

Each head of the department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations in his department.

During 2006-11, out of ₹ 1107.29 crore available with 55 test checked DDOs ₹ 874.24 crore were utilised leaving ₹ 233.05 crore (21 *per cent*) unutilised as on 31 March 2011. These funds relating to different schemes under implementation and pay and allowances were unspent mainly due to large-scale vacancies. Review of funds management by different DDOs revealed that funds were not managed economically and efficiently as evidenced by unauthorised expenditure without budgetary provision, parking of funds in non-interest bearing accounts etc. as discussed below.

The Director, while noting the audit observation for guidance stated (November 2011) that effective steps would be taken to avoid future financial irregularities. The fact however remained that neither the Director nor the CCO-cum-Principal Secretary had ever reviewed and monitored expenditure in their department though rules explicitly assigned the responsibility of budget management to the controlling officer of the grant.

➢ ***Unauthorised expenditure without budgetary allocation***

The Odisha Treasury Code Vol I (SR 241) required that all charges actually incurred must be paid and drawn at once and under no circumstances may they be allowed to stand over to be paid from the grant of another year. Contrary to the said provision, 27 out of 55 test-checked DDOs incurred expenditure of ₹ 26.81 lakh on office contingencies, wages, petrol, oil, lubricants etc during 1993-2011 without budgetary allocation from the available cash showing the expenditure in the closing cash balance as ‘paid vouchers' (***Appendix-8)***.

Neither the CCO nor the Director had put any mechanism in place for fixing responsibility on the erring officials and recovering such amounts spent without legislative sanction from these officials.

In reply, the Director stated (November 2011) that the DDOs were instructed not to repeat such practice in future. The reply appeared very casual and vague as regularisation of such unauthorised expenditure was awaited.

➢ ***Irregular management of advances:*** Codal provision (SR 509 of Odisha Treasury Code volume I) prescribed that advances granted for departmental and allied purposes were to be recovered within one month from the date of advance. Audit scrutiny revealed that in 52 out of 55 DDOs test checked, advances of ₹ 183.30 crore remained unadjusted as of March 2011 ***(Appendix-9)***. This included advances of ₹ 74.34 crore outstanding for more than one to 32 years out of which ₹ 61.72 crore pertained to office of the Director of Agriculture alone. Further analysis revealed that the above advances includes ₹ 1.34 crore outstanding against 255 ex-employees for one to 28 years.

The above total advances included ₹ 149.38 crore advanced by the Director to APICOL during May 1997 to March 2011 towards subsidy component remaining outstanding due to non-submission of UCs by it for want of recommendation from DAOs on implementation of the various projects assigned/entrusted to them. Non-adjustment of these advances was prone to defalcation and mis-appropriation, besides entailing a presumptive minimum yearly loss of interest amounting to ₹ 3.09 crore to the exchequer at four *per cent* per annum applicable to savings bank account.

Though the DDO were responsible for recovery/adjustment of advances, they could not explain the reason for non-recovery/non-adjustment of the same. In the exit conference, the Principal Secretary assured to recover/adjust the above outstanding amounts. However, fact remains that the CCO-cum-Principal Secretary had failed to get this monitored on a regular basis as a result of which advances were pending for such unusually long period.

➢ ***Irregular parking of scheme funds in civil deposit***

Codal provisions (SR 242 of Odisha Treasury Code volume I) prohibited drawal of funds without immediate requirement and to prevent lapse of budgetary allocation. We noticed that 25 out of 55 test checked DDOs drew ₹6.80 crore from the treasury during 1970-71 to 2003-04 without immediate requirement for payment and parked the same in civil deposits. Of which a substantial amount of ₹5.63 crore related to office of the Director of Agriculture.

As per the Finance Department instructions (July 2010) all these amounts up to 2004-05 were lapsed and no longer available to the DDOs for drawal. The DDOs were still showing these amounts under civil deposits in their books of accounts. Parking of scheme funds in civil deposits and its subsequent credit to Government account as revenue is an example of poor fund management.

➢ ***Irregular retention of scheme funds in current accounts with banks resulting in loss of interest:***

Contrary to the prudent financial management practices, 51 out of 55 test checked DDOs retained scheme funds of ₹ 32.79 crore in current account with banks as on 31 March 2011 instead of in interest bearing account of any nationalized bank. DDOs who retained substantial amounts of scheme funds in current accounts were (i) DDA, Bolangir (₹ 1.31 crore); (ii) Executive Engineer, Central Zone, Bhubaneswar (₹ 10.33 crore); (iii) Executive Engineer, Berhampur (₹ 2.26 crore) and (iv) Executive Engineer, Agriculture, Sambalpur (₹ 8.22 crore). Keeping Government money in current account of banks entails yearly loss of interest amounting to ₹ 1.31 crore at four *per cent* per annum applicable to savings bank account.

➢ ***Mis-utilisation of interest:*** As per RKVY operational guidelines, interest earned on scheme funds was to be treated as additional resources for the schemes and was to be utilised in implementation of the schemes. During audit, it was noticed that the IMAGE utilised interest of ₹ 36.42 lakh earned on RKVY funds for (i) civil works of the mini-conference hall at Rajiv Bhavan ₹ 19.83 lakh and (ii) repair and renovation of IMAGE Hostel No-1 ₹ 16.59 lakh. Similarly, the Director, Agriculture spent (2010-11) interest of ₹ 13.90

lakh earned on NFSM funds for civil works as decided in the meeting (March 2010) of the State NFSM Advisory Committee.

The Director, IMAGE stated (September 2011) that the expenditure was incurred with the permission of the Chairman, IMAGE (Principal Secretary). The Director of Agriculture Stated (July 2012) that the State Food Security Mission Executive Committee in a meeting approved the work and the minutes of the meeting was sent to GoI for specific approval. The reply was silent about receipt of GoI's approval. The replies were not tenable since even the State Government did not have the authority to make inadmissible expenditure from GoI scheme funds like RKVY, NFSM etc. This also reflected poorly on the administrative and supervisory control that was exercised by the Government over IMAGE, when the former itself approved such inadmissible expenditure.

- ***Non-recovery of license fees:*** Government order (January 1999) provided that on transfer, a Government employee could retain his quarter at the old station on payment of flat license fee for one month and standard licence fee for subsequent two months. However, four out of 55 DDOs did not recover house license fee amounting to ₹ 5.78 lakh from the salary of 49 employees / ex-employees from 1998-99 onwards in respect of Government accommodation availed by them as of March 2011. Out of the above, a sum of ₹ 5.21 lakh (90 per *cent*) relating to the office of the Director IMAGE was pending for recovery from 43 employees since December 2008. The concerned DDOs were responsible for non-realisation of the house licence fee from the employees / ex-employees. This indicated that the internal control mechanism in place for adherence to the Government order was not robust. The CCO-cum-Principal Secretary needed to look into this.

- ***Non-deposit of revenue into Government account:*** As per the provisions of the Odisha Treasury Rules, all revenues realised were to be deposited into Government account immediately and not later than three working days. However, though Executive Engineer, (Agriculture), Berhampur deducted ₹ 5.15 lakh from contractors' bill towards royalty during 2009-11, he did not deposit the same into the treasury until July 2011. Similarly, ₹ 11.49 lakh, being the cost of tender papers realised by Executive Engineer (Agriculture), Sambalpur during May 2010 to March 2011, were not remitted to Government account until July 2011.

8.4 Idling of "Failed bore well compensation scheme" funds of ₹ 3.12 crore

"Failed bore well compensation scheme" (February 2001) was intended to indemnify the farmers against failure of bore wells for which risk premium at the rate of ₹ 3000 was to be collected from the beneficiary prior to the execution of the well, credited to "Failed Bore well Compensation Fund" and compensation at a maximum of ₹ 30000 was to be paid to the farmer in each case of failure of the bore wells. As of March 2011, an amount of ₹ 3.12 crore was accumulated in the fund maintained by the APICOL in commercial banks and no fund was utilised out of the same since 2009 in absence of any claim for compensation. Neither the Director nor the CCO reviewed the matter which led to idling of funds of ₹ 3.12 crore at the hands of the APICOL in absence of any clear guidelines / instructions for making investments to meet future claims.

8.5 Inadequate monitoring of funds released to Implementing Agencies

We noticed that though during 2007-11, IMAGE released ₹ 14.59 crore to Odisha University of Agriculture and Technology (OUAT) and ₹ 3.87 crore to Odisha State Agriculture Marketing Board under RKVY scheme for carrying out infrastructure works and research projects, yet the status of execution was not properly monitored by Director, IMAGE / Principal Secretary.

In reply the Director, IMAGE (the consultant of State level RKVY Cell) stated (July 2011) that the Dean, Research and Extension, OUAT was requested (May 2011) to indicate the reasons for blockage of RKVY funds, final reply was still awaited (October 2011). It was rather ironical that, IMAGE swung into action only after the same was brought to its notice by Audit in May 2011.

This indicated that CCO-cum-Principal Secretary as head of the Department and chief of the accountability set up of the Government did not monitor the activities of IMAGE.

8.6 Inadequate Internal Audit

Internal Audit wing was functioning in the Department under the Financial Advisor (FA) of the Department with sanctioned strength of one Internal Audit Officer in the rank of Under Secretary, two Audit Officers, eight Audit Superintendents and 64 Auditors. The internal audit wing after completion of their audit assignments reported the findings to the audited units through Internal Audit Reports (IARs) and watched compliance to the same. However, we observed that 28 posts of Auditors (44 *per cent*) were lying vacant as on 31 March 2011. Audit noticed that out of 98 DDOs planned for coverage during 2009-10 (58) and 2010-11 (40), only 34 DDOs were covered in these two years.

Review of the Internal Audit Reports (IARs) of the above 34 DDOs revealed that IARs relating to nine DDOs (26 *per cent*) were not issued for more than seven months (October 2011). Of the remaining 25 DDOs, in six cases, the IARs were issued within a year, in 17 cases after one year and in two cases after two years of completion of audit. These 25 IARs contained 464 paragraphs with money value of ₹ 17.36 crore which included suggestion for recovery of ₹ 3.31 crore including advances of ₹ 2.90 crore. Despite such serious audit findings, first compliance was not received (October 2011) for all these 25 IARs issued during June 2011 to October 2011. The Financial Advisor attributed (October 2011) late issue of IARs to shortage of typists, Auditors and engagement of audit staff in conducting special audits. The CCO-cum-Principal Secretary had also not reviewed the position (October 2011).

Thus, not only was internal audit inadequate and response to audit was poor but also the follow-up action of these IARs was close to non-existent reflecting very poorly on the importance assigned by the CCO-cum-Principal Secretary to such vital instrument of internal control mechanism in the Department.

We further noticed that no ‘Internal Audit Manual’ was prescribed; the Financial Adviser could not furnish any reason for the same.

8.7 Ineffective vigilance control and low disposal of disciplinary cases

Internal vigilance cell of the Department had not been made operational though one Deputy Secretary had been declared (July 2010) as the Chief Vigilance Officer of the Department. Instances of misappropriation of Government money, fraud, theft and embezzlement cases were dealt by the confidential branch of the Department and were referred to 'Commissioner for Departmental Enquiry' for appropriate action. As on 1 April 2006, 30 disciplinary cases were pending to which another 22 were added during 2006-11. Of this 17 cases were finalised during 2006-11 Besides, in the remaining 35 unsettled cases, 17 cases were pending for more than five years and three for more than 10 years. The position of 35 unsettled cases was as under:

- in three cases, enquiry officer has not been appointed for more than six months,
- in 22 cases, enquiry officer were appointed but report not submitted for over three months to nine years,
- in six cases, report from enquiry officer were received but proceedings not finalised for over eight months to nine years,
- in three cases departmental proceeding was suspended due to conviction of delinquents in court of law, and
- one case was pending in vigilance court,

This was indicative of absolute lax of oversight by the CCO over vigilance and disciplinary cases in the Department which, in our opinion, does not augur well for the all over vigilance control environment in the Department.

8.8 Inadequate inspection and monitoring

The system of inspection and monitoring of the performances of DDOs by the CCO-cum-Principal Secretary and Controlling Officers and Deputy Directors of Agriculture were reviewed in Audit. We are of the opinion that both inspection and monitoring were neither adequate nor effective as evidenced by the following:

- The CCO-cum-Principal Secretary had not fixed any norm for inspection of the office of the Director, Agriculture and the same had never been conducted during 2006-11.
- Against the target of conducting inspection of 177 DDOs by the Controlling Officer (Director) during 2006-11, only 32 inspections (18 *per cent*) were conducted. However, no norms were fixed for such inspections. In reply, the Director stated that some officers of the Directorate have been nominated as Nodal Officers to carry out inspection work in addition to their own duties. The reply did not explain the reason why the nodal officers failed to follow the instructions.
- As per instruction of the Director, all the 30 nodal officers were to visit the 30 revenue districts assigned to them once in a month. There was shortfall in visit of Nodal Officers to the field offices by 25 *per cent*

during 2009-10 and 33 *per cent* during 2010-11. Nodal Officers were to report to the Director about problems faced by field offices for remedial action. But test check revealed that the nodal officers reported 13 problems of the field offices to the Director and discussed in the nodal officers' meeting during 2010-11, but no follow-up action was taken by the Director. No reason for non-redressal of problems was furnished by the Director.

- Similarly, the test checked Range Deputy Directors conducted only eight inspections as against 71 programmed by the Director for them during 2006-11, resulting in shortfall of 89 *per cent* of inspections. The reason for such shortfall was stated (July 2011) by them to be pressure of work. Although the CO assigned the Deputy Directors with inspection work each year specifying the offices to be inspected, no norms were fixed for the same.

Director issued instructions to the Range Deputy Directors of Agriculture (November 2011) to conduct annual administrative inspection of field offices. However, regular inspection of sub-ordinates by their seniors and culminating in inspections of the Directorate by the CCO-cum-Principal Secretary as an instrument of exercising administrative oversight and guidance was totally missing. Thus, it was evident that decisions taken by the CCO-cum-Principal Secretary relating to the growth and development of agriculture of the State were not based on ground realities.