

CHAPTER V

INTERNAL CONTROL MECHANISM AND INTERNAL AUDIT

ANIMAL HUSBANDRY, DAIRY DEVELOPMENT AND FISHERIES DEPARTMENT

5.1 Evaluation of Internal Control Mechanism and Internal Audit System

Internal Control system is an integral process by which an organisation governs its activities to effectively achieve its objectives. A built-in Internal Control system and strict adherence to Statutes, Codes and Manuals minimise the risk of errors and irregularities, and helps to protect resources against loss due to waste, abuse and mismanagement. An evaluation of the internal controls and internal audit system in Animal Husbandry Department revealed the weakness of the internal controls in vogue in the department, non-compliance with rules, manuals and codes in the areas of budget preparation, expenditure control, procurement of medicines and equipment.

- ❖ Budget proposals were not submitted in time and estimates were not assessed correctly resulting in substantial plan funds remaining unutilised. Expenditure control was not also exercised.

[Paragraphs 5.1.6 and 5.1.7]

- ❖ Controls on manpower management were ineffective. A large number of vacancies in key posts, especially of Veterinary Assistant Surgeons adversely affected the functioning of the veterinary polyclinics, dispensaries and hospitals.

[Paragraph 5.1.13]

- ❖ There were shortfalls upto 90 per cent in departmental inspections. Timely rectification of the deficiencies was not ensured.

[Paragraph 5.1.14]

- ❖ No standards were set for conduct of internal audit and no annual plans were drawn up. Internal audit was conducted only in 26 offices in a year, as against 2274.

[Paragraphs 5.1.16 and 5.1.17]

- ❖ Large number of internal audit paras were outstanding and proper controls were absent for timely rectification of the deficiencies pointed out in internal audit reports.

[Paragraph 5.1.18]

Introduction

5.1.1 Internal control is an integral part of an organisation's operations and is the principal focus of Internal Audit's attention.

Internal control systems provide an excellent tool for managers to ensure efficient, effective and economic utilisation of resources. It also ensures that financial interests and resources are safeguarded and reliable information is available to the administration. Internal auditors, as an independent entity, examine and evaluate the level of compliance to the departmental rules and procedures and provide independent assurance to management on the adequacy or otherwise of the existing internal controls.

Objective **5.1.2** Main objective of the department is healthcare of livestock. The activities include treatment of animals, vaccinations, castrations, and artificial inseminations, at veterinary polyclinics, hospitals and dispensaries.

5.1.3 Organisational set up

The Director of Animal Husbandry supervises, monitors and guides his subordinate officers in the implementation of Government policies and programmes relating to Animal Husbandry. The Chief Accounts Officer is the financial adviser to the Director and is responsible for internal audit. He is assisted by three Additional Directors, four Joint Directors (JDs), one Deputy Director (DD) and five Assistant Directors (ADs), and Chief Accounts Officer (CAO) at the Directorate. At district level a Joint Director in each district is assisted by Assistant Directors, Veterinary Assistant Surgeons and other para-veterinary staff.

Audit objectives

5.1.4 Audit objectives were to see whether the internal control system of the department provides a reasonable assurance that the system is efficient to achieve its objectives through the following:

- Financial controls
- Organisational controls
- Procurement system
- Manpower management
- Compliance to departmental rules and procedures
- Effectiveness to Internal audit

5.1.5 Audit coverage

Audit review of the adequacy and effectiveness of the internal control mechanism including internal audit arrangements in the Department for the period from 1999-2004 was conducted at the Secretariat, the Directorate, six Joint Directors at district level¹ and 50-60 Drawing and Disbursing Officers in each district. The results of the review are discussed in the succeeding paragraphs.

¹ Anantapur, East Godavari, Karimnagar, Krishna, Nalgonda and RangaReddy

Financial controls

Scrutiny revealed ineffective budgetary controls and weak expenditure controls, which led to persistent savings under plan provision, drawal of funds in relaxation of treasury control, delayed submission of the budget estimates and the expenditure statements by the Controlling officers, as brought in succeeding paragraphs.

5.1.6 Budgetary control mechanism

Budget control mechanism was ineffective

Budget provision vis-a-vis expenditure of the department during 1999-2004 was as follows:

(Rupees in crore)

| Year | Budget provision | | | Expenditure | | | Saving | | |
|--------------|------------------|-------|---------------|-------------|------|---------------|----------|-------------------|--------------|
| | Non-plan | Plan | Total | Non-plan | Plan | Total | Non-plan | Plan (percentage) | Total |
| 1999-2000 | 144.00 | 11.93 | 155.93 | 129.37 | 8.93 | 138.30 | 14.63 | 3.00 (25) | 17.63 |
| 2000-01 | 156.72 | 13.99 | 170.71 | 148.44 | 9.94 | 158.38 | 8.28 | 4.05 (29) | 12.33 |
| 2001-02 | 149.79 | 10.30 | 160.09 | 142.44 | 4.96 | 147.40 | 7.35 | 5.34 (52) | 12.69 |
| 2002-03 | 167.06 | 6.30 | 173.36 | 150.32 | 3.64 | 153.96 | 16.75 | 2.65 (42) | 19.40 |
| 2003-04 | 157.60 | 3.63 | 161.23 | 137.44 | 1.98 | 139.42 | 20.16 | 1.65 (45) | 21.81 |
| Total | | | 821.32 | | | 737.46 | | | 83.86 |

The Director attributed (June 2004) non-utilisation of plan funds to delay in receipt of administrative sanctions, release of funds at the fag end of the year by the Government, non-existence of valid rate contract for procurement of drugs/medicines/equipment and freezing of funds. Saving under Non-plan was due to non-filling up of vacant posts and freezing of funds. It was, however, observed that the Department did not have adequate controls in preparation of budget estimates, utilisation of funds and organisation of surrenders.

5.1.7 Belated submission of estimates

According to the Budget Manual, the Chief Controlling Officer is required to send the Revised Estimates for the current year and Budget Estimates for the next year to the Administrative Department by 1 October every year who in turn submits the estimates to Finance Department by 15 October every year.

Submission of BEs delayed by Director and also by the administrative department

It was however, noticed that the submission of BEs was delayed by 109 days to 150 days by the Director and by 99 days to 146 days by the Administrative Department during 2000-04 as shown below:

| Year | Date of submission to administrative department | Delay (Number of days) | Date of submission to Finance department | Delay (Number of days) |
|---------|---|------------------------|--|------------------------|
| 2000-01 | 18.01.2000 | 109 | 23.01.2000 | 99 |
| 2001-02 | 24.01.2001 | 115 | 07.02.2001 | 114 |
| 2002-03 | 26.02.2002 | 148 | 05.03.2002 | 140 |
| 2003-04 | 28.02.2003 | 150 | 11.03.2003 | 146 |

Belated submission of BEs renders any meaningful scrutiny of estimates difficult. Further, for the years 2002-03 and 2003-04, submission of BEs to the Finance Department in March 2002 and March 2003 did not serve any purpose, as the budgets for these years were decided by Finance department without input from the Animal Husbandry Department and presented in the Legislative Assembly in February 2002 and February 2003 respectively. Thus the whole budgetary exercise proved to be futile, which was due to lack of proper controls both at the level of the Director and at the level of the Secretary to Government.

5.1.8 Amounts drawn in relaxation of treasury control

Funds were drawn in excess of the budget provision

During the years 1999-2000 and 2000-01, Government accorded sanctions for drawal of Rs 4.16 crore² in relaxation of treasury control, pending provision of funds by obtaining supplementary grant at appropriate time during the financial year. However, supplementary grants were not obtained subsequently. This indicated lack of budgetary control in the Department.

5.1.9 Persistent savings

Lack of planning in reappropriations

Budget Manual prescribes that budget estimates should receive the careful personal attention of the officers who submit them, so that they are neither inflated nor underestimated and are as accurate as possible.

However, the table under Para 5.1.6 supra indicated that there were persistent savings involving significant amounts (25 to 52 per cent under Plan). Audit also observed that the department did not make reappropriations judiciously resulting in huge savings or excess during the years 1999-2000, 2001-02 and 2002-03, as detailed in *Appendix 5.1*. Thus, budgetary control was deficient.

5.1.10 Expenditure control mechanism

According to para 19.6 of Budget Manual all the Drawing and Disbursing Officers (DDOs) are required to furnish the expenditure statements, duly reconciled with the Treasury, to the Controlling Officer (CO) not later than 4th of each month, who in turn will forward them after consolidation by 7th of every month to the Chief Controlling Officer (CCO).

Submission of expenditure statements by the COs was delayed

There are 39 COs supervising 2274 DDOs in the Department. Each CO is required to submit monthly statements of expenditure (SOE) incurred by the DDOs to the Director to enable him to exercise effective control over expenditure. The Director has to carry out

² 1999-2000 : Rs 0.75 crore; 2000-01 : Rs 3.41 crore (not exhaustive but illustrative only)

reconciliation of the department's figures of expenditure with those booked by the Accountant General (A&E).

Audit observed that though the SOEs were received from the COs, there were delays in submission ranging up to nine months as shown below:

| Year | Delay in receipt of monthly statements (number of days) | |
|---------|--|---------|
| | Minimum | Maximum |
| 2000-01 | 49 | 263 |
| 2001-02 | 32 | 145 |
| 2002-03 | 33 | 172 |
| 2003-04 | 25 | 112 |

As per the standing instructions, also as specified in the Budget Manual, the COs were to submit the monthly statements of expenditure on the 7th of each month. The Director, however, called for the expenditure statements from the COs every month, which was issued with delays ranging from two to four months. This led to delays in submission of statements of expenditure by the COs. Consequently, the CCO could not effectively exercise expenditure control in time.

Organisational controls

Scrutiny revealed that organisational controls were not effective leading to inaccurate reporting of programme achievements, shortfall in manpower in key posts and poor monitoring. Internal audit was also neglected.

Lack of proper controls led to inaccurate reporting of achievements

5.1.11 Main objective of the department is healthcare of the livestock. Targets and achievements of various activities during 2000-04 are indicated below:

| Activity | 2000-01 | | 2001-02 | | 2002-03 | | 2003-04 | |
|---|---------|--------|---------|--------|---------|--------|---------|--------|
| | T | A | T | A | T | A | T | A |
| Treatment of cases (in lakh numbers) | 417.02 | 488.75 | 441.10 | 516.19 | 515.44 | 613.32 | 515.44 | 629.27 |
| Vaccinations done (in lakh numbers) | 463.49 | 555.93 | 480.82 | 565.51 | 593.00 | 702.48 | 593.00 | 753.03 |
| Castrations done (in lakh numbers) | 9.27 | 10.85 | 9.37 | 11.05 | 11.58 | 13.58 | 11.58 | 13.66 |
| Artificial inseminations (in lakh numbers) | 21.51 | 25.62 | 29.25 | 26.70 | 31.13 | 29.62 | 32.00 | 31.04 |
| Fodder development (in acres) | 3.56 | 5.12 | 4.20 | 6.33 | 8.18 | 13.14 | 9.00 | 15.06 |

T : Target

A : Achievement

The achievements reported were, however, far above the targets fixed in all the years for all the activities (except for Artificial

inseminations in 2001-02 to 2003-04). Audit observed that the achievements were inflated by the dispensaries/hospitals by including the treatment and vaccination cases of poultry, though not included in the targets. The achievements reported by the Director were unrealistic also in the context of acute shortage of Veterinary Assistant Surgeons (Para 5.1.13 refers). This indicated absence of adequate controls at Additional Director's level to check the achievements reported by the Joint Directors in the districts.

5.1.12 Procurement system

Inadequate procurement controls

AP Financial Code³ provided that bulk purchase of stores should be made after inviting tenders and entering into an agreement with the lowest tenderer. Purchase of medicines and equipment should be done through a rate contract agreement (RC) entered into with the supplying firms. The agreement would be valid for one year and thereafter the RC has to be revised after review.

It was seen that Director concluded (November 2001) RC for the year 2001-02 with the pharmaceutical and other firms, which expired on 31 August 2002. The Director, to avoid prolonged exercise involved in finalising the new RC, sought (May 2002) extension of the RC for one more year up to August 2003, which was accepted (October 2002) by the Government. When the extended RC expired on 31 August 2003, no action was initiated to finalise new RC. In February 2004, Director requested the Government for further extension up to March 2004. Pending finalisation of new RC, Government accorded (February 2004) extension of time up to March 2004.

Since there was no valid RC from September 2003 to February 2004, the department could not utilise the funds provided in the budget for the third and fourth quarters of the year 2003-04 under "Drugs, Medicines and Materials". This led to surrender of Rs 1.65 crore (22 per cent of the budget provision), even while the veterinary institutions were facing acute shortage of drugs and medicines.

Thus, procurement control was lacking, since the Director failed to call for tenders and decide the Rate contract for the years 2002-03 and 2003-04; he also failed to extend the validity of existing RC in time.

Manpower management

Vacancies existed in key posts

5.1.13 The Joint Directors, Deputy Directors, Assistant Directors, Veterinary Assistant Surgeons and other para veterinary staff are crucial for effective implementation of programmes/schemes in the field for coordination of the activities at various levels. However,

³ Article 122 to 125 of APFC Vol I

huge vacancies existed in the key posts for the last one to two years as shown below, indicating that the sanctioned strength itself needs to be reviewed.

| Name of the posts | Sanctioned | Men-in-position | Vacant (percentage) |
|-------------------------------------|------------|-----------------|---------------------|
| Joint Director | 27 | 15 | 12(44) |
| Deputy Director | 60 | 41 | 19(32) |
| Assistant Director | 519 | 457 | 62(12) |
| Veterinary Assistant Surgeons (VAS) | 2002 | 1410 | 592(30) |

The Director stated that the vacant posts of JDs, DDs and ADs could not be filled up since departmental promotion committees had not been convened. Director submitted proposals to Government for convening DPCs to fill up the posts of DDs and JDs only in August 2004 and September 2004 respectively; Government orders were awaited (October 2004). Director did not also take action to fill up the vacant posts in the cadre of VAS. The huge shortfall in the posts of VAS affected the functioning of veterinary polyclinics, hospitals and dispensaries.

Compliance to the departmental rules and procedures

5.1.14 Shortfall in Inspections/Monitoring

Huge shortfalls (up to 90 per cent) in departmental inspections

As per the Departmental Manual, Additional Directors are required to conduct annual inspection of 30 offices of JDs including certain State level offices every year. Audit observed shortfalls in inspection ranged from 40 per cent to 90 per cent as shown below:

| Year | Actually conducted | Shortfall (percentage) |
|-----------|--------------------|------------------------|
| 1999-2000 | 6 | 24(80) |
| 2000-01 | 18 | 12(40) |
| 2001-02 | 3 | 27(90) |
| 2002-03 | 11 | 19(63) |
| 2003-04 | 8 | 22(73) |

Though 46 inspections were conducted during 1999-2004, as many as 19⁴ inspection reports had not been issued by the Directorate even as of July 2004 to the units inspected. Of these, eight inspections reports pertained to inspections conducted in 2000-01 (5) and 2001-02 (3).

Similarly, JDs in-charge of the districts were required to conduct inspection of offices under their control. Shortfall in the inspections was very high during 2001-03. However the position improved

⁴ 2000-01 : 5; 2001-02 : 3; 2002-03 : 4; 2003-04 : 7

during 2003-04 except in Krishna District; as shown below:

| District | 2001-02 | | 2002-03 | | 2003-04 | |
|---------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | Inspections to be done | Shortfall (percentage) | Inspections to be done | Shortfall (percentage) | Inspections to be done | Shortfall (percentage) |
| Anantapur | 36 | 10(28) | 37 | 20(54) | 37 | 7(19) |
| East Godavari | 31 | 12(39) | 31 | 2(6) | 31 | 14(45) |
| Krishna | 30 | 15(50) | 33 | 17(52) | 30 | 18(60) |
| Nalgonda | 29 | 13(45) | 29 | 18(62) | 30 | 7(23) |
| RangaReddy | 39 | 20(51) | 39 | 18(46) | 39 | 4(10) |

Huge shortfall in departmental inspection would lead to poor monitoring of the functions of the department. Besides, timely rectification of deficiencies was not possible, since the inspection reports had not been issued to the units in time.

5.1.15 Failure to enforce accountability for settlement of inspection reports of the Accountant General (AG)

Accountability absent for settlement of IRs of the AG

The irregularities noticed during the audit conducted by the AG are communicated through Inspection Reports (IRs) to the Heads of offices with a copy to the HOD. First replies to the inspection reports should be sent to the AG within four weeks. A half-yearly report of pending IRs is sent by the AG to the Secretary of the concerned administrative department to facilitate monitoring of the action on the audit observations.

As of June 2004, 264 Inspection Reports and 566 paras were outstanding, as indicated below, due to non-receipt of replies by the Accountant General from the offices audited.

| Year | Pending settlement | |
|-----------------|--------------------|------------|
| | IRs | Paras |
| Up to 1999-2000 | 115 | 240 |
| 2000-01 | 27 | 60 |
| 2001-02 | 31 | 66 |
| 2002-03 | 31 | 52 |
| 2003-04 | 60 | 148 |
| Total | 264 | 566 |

Departmental Audit Committee Meetings were not convened by the Secretary as of September 2004 although the matter was pursued by Audit (Para 4.6.4 also refers).

Effectiveness of Internal Audit

5.1.16 Non-existence of Internal Audit Standards

No standards set for Internal audit

Internal Audit (IA) is necessary to judge the efficacy of internal control system. However no standards were set by Government for

internal audit. No training was imparted to the staff in internal audit methodology and techniques, as of September 2004.

5.1.17 Insufficient arrangements for Internal Audit

No exclusive posts were created in the Directorate for conduct of internal audit. One JAO, three Senior Accountants, and one Junior Accountant were set apart from among the staff sanctioned to the Accounts Branch for internal audit of the subordinate offices.

It was noticed that the Director did not draw up annual plan for conduct of internal audit. Although there are 2274 DDOs in the department, the Internal Audit Wing covered only seven to 26 DDOs in a year. This shows that little importance was given to internal audit. Therefore, assurance to the department about compliance to rules and prescribed procedures was absent.

5.1.18 Huge pendency in settlement of Internal Audit observations

Large number of Internal audit reports were outstanding

Internal audit reports were to be issued by the Director to the respective subordinate offices for rectification of deficiencies and the compliance reports were to be submitted within 30 days.

Audit noticed that there was no system for watching the clearance of internal audit observations in the Directorate. A large number of internal audit reports (93) was pending settlement as of March 2004 as shown below:

| Year | IRs issued | IRs cleared | Pending | |
|--------------------|------------|-------------|------------------|-------|
| | | | IRs (percentage) | Paras |
| 1973-74 to 1998-99 | 88 | 10 | 78(89) | 527 |
| 1999-2000 | 7 | 5 | 2(29) | 10 |
| 2000-01 | 26 | 23 | 3(12) | 8 |
| 2001-02 | 18 | 10 | 8(44) | 45 |
| 2002-03 | 10 | 8 | 2(20) | 18 |
| 2003-04 | Nil | Nil | Nil | Nil |

Thus the deficiencies pointed out in the internal audit reports were ignored, defeating the purpose of internal audit.

5.1.19 Conclusions

Internal controls viz., budget controls, expenditure controls, programme performance/procurement controls, manpower controls and monitoring mechanism were inadequate and ineffective in the department. Arrangements for Internal audit too were inadequate. There was no mechanism to ensure action on internal audit reports. This would have adverse implication in implementation of the animal healthcare programmes/schemes.

5.1.20 Recommendations

- Budget control system should be strengthened to ensure allotment of funds on a realistic basis and to avoid persistent savings.
- Mechanism for procurement of stores should be improved to ensure availability of medicines for the livestock.
- Departmental inspections should be conducted regularly and reports issued promptly to ensure efficient functioning of district offices and to facilitate prompt rectification of deficiencies.
- Annual Plan for internal audit should be drawn up to cover all the DDOs over a period of three years. Corrective action suggested in the internal audit reports should be ensured.
- Review of the sanctioned strength of all cadres needs to be carried out and essential posts filled up. Adequate staff has to be provided for the internal audit wing also.

The above points were referred to Government in August 2004; reply had not been received (October 2004).

**Hyderabad
The**

**(A. SRINIVAS KUMAR)
Accountant General (Civil Audit)
Andhra Pradesh**

Countersigned

**New Delhi
The**

**(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India**