

CHAPTER-V
INTERNAL CONTROL SYSTEM IN GOVERNMENT
DEPARTMENT

AGRICULTURE DEPARTMENT

5.1 Internal Control System in Agriculture Department

Highlights

Internal control is an integral component of an organisations' management processes which are established in order to provide reasonable assurance that the operations are carried out effectively and efficiently, financial reports and operational data is reliable, applicable laws and regulations are complied with so as to achieve organisational objectives. A review of internal control of selected areas of Agriculture Department has shown that budgetary, expenditure and operational controls required strengthening. Some of the important findings are given below.

Budgetary controls were ineffective which resulted in savings, surrenders and unnecessary supplementary grants.

(Paragraph 5.1.5.1)

Poor financial management resulted in pending DC bills amounting to Rs 98.09 crore and unadjusted advances of Rs 24.92 crore as on 31 March 2007.

(Paragraph 5.1.5.6 & 5.1.5.7)

Sample tests of fertilizers, seed and soil were below the targets. No action was taken on substandard samples.

(Paragraph 5.1.6.6)

Despite expenditure of Rs 1.01 crore, the soil and water testing facilities could not be established. Expenditure incurred on development of market yards amounting to Rs 1.38 crore remained unfruitful.

(Paragraph 5.1.6.7 & 5.1.6.8)

Rupees 21.32 crore was spent on payment of salary to idle staff of 154 seed production farms during 2002-07.

(Paragraph 5.1.7)

The coverage by internal audit was low as only 17 offices out of 334 were audited during 2002-07.

(Paragraph 5.1.8.2)

5.1.1 Introduction

Internal Control System is a process meant to ensure that the departmental operations are carried out according to the applicable laws and regulations and in an economical, efficient and effective manner so as to give a reasonable assurance that organisation's objectives are achieved.

As per Rules of Executive Business 1979, the Agriculture Department was responsible for agricultural education, extension and research, protection

against pests, prevention of plant diseases; agriculture marketing and warehousing. Administrative control of Agro-Industrial Development Corporation, Seeds Corporation, Rajendra Agriculture University and Agriculture Marketing Board was also vested with the Department.

The centrally sponsored schemes i.e. Macromode Management (2002) and Integrated Scheme of Oilseeds, Pulses, Oil Palm and Maize (ISOPOM) were implemented (2004) with a view to increase production of foodgrains, oilseeds and pulses in the State.

5.1.2 Organisations set up

Agriculture Production Commissioner (APC) was overall incharge of the Department and responsible for the planning and management of agriculture activities of the State. He was assisted by the Director of Agriculture, Additional Director, seven Joint Directors, 11 Deputy Directors, 36 District Agriculture Officers (DAOs), 20 Assistant Soil Scientists, Principal (Training Centre) and 50 Sub-divisional Agriculture Officers.

5.1.3 Audit objectives

The audit objectives were to assess whether:

- the budgetary and expenditure controls were adequate ;
- the operational controls were adequate to achieve the objectives of the Department in an economic, efficient and effective manner ;
- the monitoring was adequate and
- the effective internal audit arrangement was in place.

5.1.4 Audit coverage and methodology

Internal Control System in the Department for the period 2002-07 was reviewed between January 2007 and July 2007 by test check of the records of the Director, Agriculture Department and 10 District Agriculture Offices¹ fertilizer quality control laboratory, three seed testing laboratories² and four soil testing laboratories³, Rajendra Agriculture University and Bihar State Agriculture Marketing Board.

An entry conference was held with the Agriculture Production Commissioner (APC) to explain the audit objectives and methodology in July 2007. The findings as well as recommendations of audit were discussed with Senior Officials of the Department in a meeting held in October 2007.

¹ Bhagalpur, Bhojpur, Chapra, Darbhanga, Gaya, Gopalganj, Madhubani, Munger, Muzaffarpur and Patna.

² Dholi, Darbhanga and Patna

³ Gaya, Chapra, Gopalganj and Muzaffarpur

Audit findings

5.1.5 Financial management

5.1.5.1 Compliance with instructions in the Budget Manual

Internationally the best practices in internal control have been given in the COSO⁴ framework, which is widely accepted model for internal controls. The Government of India has prescribed comprehensive instructions on maintenance of internal control in Government departments through Rule-64 of General Financial Rules 2005 enlisting the duties and responsibilities of the chief accounting authority i.e., the Secretary of a Ministry/ Department. However, no such framework has been made in the Bihar Financial Rules (October 2007).

Bihar Budget Manual and standing instructions for the Drawing and Disbursing Officers (DDOs) provides that revised estimates for the current year and budget estimates for the next year should be sent to the Department by the first July which in turn sends it to the Finance Department by the first October every year.

Budget preparation exercise was marked by delays at the level of districts as well as Department

The delay in receipt of the budget estimates from DAOs ranged from one to seven months and the delay in submission by the Agriculture Department to the Finance Department ranged from one to three months during 2002-07. This shows that the department did not observe the control prescribed for submission of budget estimates. The Budget provision and the expenditure incurred during period 2002-07 are shown in the following table:

(Rupees in crore)

| Year | Budget provision | Supplementary provision | Total | Expenditure | Saving (per cent) |
|--------------|------------------|-------------------------|----------------|---------------------|-------------------|
| 2002-03 | 211.38 | 16.45 | 227.83 | 138.76 | 89.07(39) |
| 2003-04 | 205.47 | 4.61 | 210.08 | 136.17 | 73.91(35) |
| 2004-05 | 198.16 | 15.38 | 213.54 | 158.55 | 54.99(26) |
| 2005-06 | 245.14 | 0.00 | 245.14 | 241.15 ⁵ | 3.99(2) |
| 2006-07 | 195.66 | 92.87 | 288.53 | 247.95 | 40.58(14) |
| Total | 1055.81 | 129.31 | 1185.12 | 922.58 | 262.54(22) |

(Source: Detailed Appropriation Account)

Surrender of funds on 31 March

It may be seen from the table that there were substantial savings in each year except during 2005-06. Despite provision of the budget manual to surrender the unspent balance latest by 25th March of the year, Rs 260.45 crore (22 per cent) was surrendered after the stipulated date on 31 March.

5.1.5.2 Short utilisation of central funds

Rupees 79.32 crore and Rs 11 crore were spent during 2002-07 and 2004-07 respectively against available funds of Rs 109.50 crore under Macromode and Rs 17.44 crore under ISOPOM. Unspent funds ranged between 33 and 35 per cent during 2002-06 under macromode and 22 and 66 per cent during 2004-07

⁴ Committee of Sponsoring Organisation of the National Commission on Fraudulent Financial Reporting or the Tread way commission.

⁵ Rs 100 crore received under Rashtriya Sam Vikas Yojana was not included in the budget provision.

under ISOPOM indicating the failure of the Department to utilize the funds sanctioned for centrally sponsored schemes.

Non-reconciliation of expenditure

5.1.5.3 Non-reconciliation of expenditure

Rule 475 of Bihar Financial Rules provided that departmental controlling officers should reconcile the departmental figures of expenditure with the books of the Accountant General. The Department had not reconciled the figure for any years during the aforesaid period. Persistent non-reconciliation of the expenditure was fraught with the risk of serious irregularities.

5.1.5.4 Deficiencies in maintenance of the cash book

Rule 86 of the Bihar Treasury Code (BTC) provides that all monetary transactions should be entered in the cashbook as soon as they occur and head of the office should verify the cash balance in the cashbook at the end of each month. The following was noticed:

- Director withdrew Rs 2.06 crore under 2401-crop husbandry on 31 March 2007 but the transaction was not entered in the cashbook as of July 2007.
- A test check of records in the field offices disclosed that monthly physical verification was not conducted at the end of each month.
- In test-checked districts, there was a total difference of Rs 2.53 crore between the balances in the bank and in the cashbook. In absence of reconciliation, the possibility of serious irregularities such as fraud, misappropriation cannot be ruled out.
- In the District Agriculture Office, Munger, Rs 1.07 lakh interest earned in Munger Kshetriya Gramin Bank was not taken as receipt in the cashbook.

Monthly verification of cashbook was not conducted

Difference of Rs 2.53 crore between the balances in bank and in the cashbook

5.1.5.5 Drawal of funds without immediate requirement

Rule 300 of BTC stipulates that no money should be drawn from the treasury unless it is required for immediate payment. The unspent balance of the amount so drawn should be refunded before the end of the financial year.

Rupees 8.43 crore retained as closing balance

The DAOs of the test checked districts drew funds without immediate requirement and retained the accumulated undisbursed cash in hand/deposited in banks in the form of deposit-at-call receipts (DCR)/bank drafts etc. The balances ranged between Rs 1.34 crore and Rs 8.43 crore during 2002-07 as shown in the table below:

(Rupees in lakh)

| Sl.No. | Name of DAOs | Closing Balance as on 31 March | | | | |
|--------|--------------|--------------------------------|---------|---------|---------|---------|
| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| 1. | Bhagalpur | 23.67 | 15.65 | 38.10 | 48.70 | 103.11 |
| 2. | Bhojpur | 3.78 | 1.46 | 0.96 | 27.66 | 56.95 |
| 3. | Chhapra | 19.29 | 28.72 | 30.60 | 38.83 | 70.98 |
| 4. | Darbhanga | 6.57 | 7.58 | 30.60 | 22.40 | 129.64 |
| 5. | Gaya | 40.24 | 32.40 | 58.49 | 37.37 | 129.92 |
| 6. | Gopalganj | 4.85 | 3.41 | 5.58 | 6.09 | 23.63 |
| 7. | Madhubani | 6.34 | 13.73 | 36.08 | 49.07 | 94.59 |

(Rupees in lakh)

| Sl.No. | Name of DAOs | Closing Balance as on 31 March | | | | |
|--------------|--------------|--------------------------------|---------------|---------------|---------------|---------------|
| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| 8. | Munger | 11.09 | 14.37 | 8.19 | 18.71 | 28.90 |
| 9. | Muzaffarpur | 7.84 | 15.59 | 16.52 | 45.57 | 85.14 |
| 10. | Patna | 10.26 | 20.06 | 36.35 | 21.78 | 120.35 |
| Total | | 133.93 | 152.97 | 261.47 | 316.18 | 843.21 |

The heavy closing balances at the end of the financial year indicate lack of financial control. The funds were drawn in violation of the codal provision to avoid lapse of the budget grant. Further, as the funds were parked in banks, they were not part of cash balance of the Government.

5.1.5.6 Drawal of funds through abstract contingent bills

Pending submission of DC Bills amounting to Rs 98.09 crore

Rule 322(2) of BTC stipulates that the detailed contingent (DC) bills against abstract contingent (AC) bills drawn should be submitted to the Accountant General by 25th of the following month (revised to six months from November 2006) failing which no subsequent drawal on AC bill was permitted.

DC bills for Rs 98.09 crore in the office of the Director (Rs 87.09 crore⁶) and in test checked districts (Rs 11 crore⁷) during 2002-07 were pending for submission to the Accountant General. Out of Rs 11 crore, Rs 2.76 crore were unadjusted advances against different agencies (Zila Parishads, Block Agriculture Officers, Building Divisions etc.), Rs 3.84 crore kept in banks, Rs 0.52 crore kept in Civil Deposit and Rs 3.88 crore in the shape of unadmitted vouchers. Thus Department failed to monitor the adjustment of the AC bills since last five years. The details of DC bills in the Directorate amounting to Rs 87.09 crore though called for were not furnished.

5.1.5.7 Unadjusted advances

Paragraph 232 of Manual of Agriculture Department stipulates that advance shall not be drawn unless it is needed for immediate disbursement and a second advance shall not be granted until the first advance has been accounted for. An advance shall be regularly and promptly adjusted and any unspent balance of an advance shall be immediately refunded.

Unadjusted advances amounting to Rs 24.92 crore

The details of unadjusted advances as on 31 March 2007 were shown in the table below:

(Rupees in lakh)

| Sl. No. | Name of districts | No. of cases | Amount of advance outstanding upto | | | | | Total |
|---------|-------------------------------|--------------|------------------------------------|---------|---------|---------|---------|---------|
| | | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | |
| 1. | Director of Agriculture Patna | 34 | 356.52 | 490.63 | 543.66 | 125.92 | 892.61 | 2409.34 |
| 2. | Bhagalpur | 28 | 0.31 | 0 | 0 | 0.79 | 5.18 | 6.28 |
| 3. | Bhojpur | 2 | 0 | 0 | 1.48 | 0 | 0 | 1.48 |

⁶ (1) Major Head: 2401-Crop Husbandary: 2003-04-Rs 10.17 crore, 2004-05-Rs 15.54 crore, 2005-06-Rs 5.04 crore and 2006-07-Rs 51.34 crore. (2) Major Head: 2415-Agriculture Research and Education: 2004-05-Rs 0.16 lakh, 2005-06-Rs 0.79 lakh and 2006-07- Rs 4.99 crore.

⁷ 2002-03: Rs 97 lakh, 2003-04: Rs 1.44 crore, 2004-05: Rs 3.34 crore, 2005-06: Rs 54 lakh and 2006-07: Rs 4.71 crore.

(Rupees in lakh)

| Sl. No. | Name of districts | No. of cases | Amount of advance outstanding upto | | | | | Total |
|---------|-------------------|------------------------|------------------------------------|---------------|---------------|---------------|---------------|----------------|
| | | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | |
| 4. | Chhapra | 146 since 16.06.1987 | 6.42 | 0.25 | 3.10 | 2.72 | 4.36 | 16.85 |
| 5. | Darbhanga | 25 since 31.01.1983 | 1.57 | 0 | 0 | 0.54 | 0 | 2.11 |
| 6. | Gaya | 24 prior to 20.10.1997 | 1.80 | 0.86 | 0.40 | 5.63 | 0.95 | 9.64 |
| 7. | Gopalganj | 1 since 1982-83 | 0.15 | 0 | 0 | 0 | 0 | 0.15 |
| 8. | Madhubani | 37 since 3.11.1987 | 0.38 | 0 | 0.72 | 2.02 | 1.84 | 4.96 |
| 9. | Munger | 1 | 0 | 0 | 0 | 0 | 0.20 | 0.20 |
| 10. | Muzaffarpur | 108 since 03.11.1987 | 0.52 | 7.34 | 0 | 18.32 | 1.35 | 27.53 |
| 11. | Patna | 61 since 06.06.1988 | 0.02 | 0.15 | 0.19 | 0.08 | 13.09 | 13.53 |
| | Total | 467 Cases | 367.69 | 499.23 | 549.55 | 156.02 | 919.58 | 2492.07 |

Payment of temporary advance without adjustment of previous advances

The advances remain outstanding for over a long period showed that controls were not working. In three test-checked districts Rs 22.50 lakh⁸ was paid for the same purpose without adjustment of previous advances.

5.1.5.8 Non-monitoring of funds advanced to other Departments

Clause 233 of the Manual of Agriculture Department provides that different accounts in the Advance Ledger shall be balanced quarterly and signed by the Officer concerned. The Officer signing the accounts shall satisfy himself that steps are being taken to recover or adjust the advances which have been outstanding for over three months. Test check disclosed that above provisions were not followed by the Department which led to outstanding advances for long period and consequent loss of interest as discussed below:

- A sum of Rs 3.53 crore was paid to the Bihar State Co-operative Milk Producers Federation Limited (COMFED) in March 2005 for establishment of the Fruit and Vegetable Federation. The COMFED did not take any action for setting up of Federation and returned the entire amount (July 2007) after a lapse of 27 months. This resulted in loss of interest of Rs 83 lakh to the Government due to lack of proper monitoring by the Department for setting up of federations.
- In eight test-checked districts, Rs 2.41 crore⁹ was advanced to Zila Parishads (ZPs) for execution of the schemes during 2003-05. Of these, Rs 1.30 crore¹⁰ were returned after delay ranging from two to 40 months without execution of schemes and Rs 1.11 crore was retained by ZPs. This resulted in loss of interest amounting to Rs 49.42 lakh and also adversely affected the implementation of Macromode and ISOPOM schemes.

⁸ Chapra (Rs 7.25 lakh), Patna (Rs 7.87 lakh) and Gaya (Rs 7.38 lakh)

⁹ Bhagalpur (Rs 36.84 lakh), Bhojpur (Rs 9.26 lakh), Chhapra (Rs 49.86 lakh), Darbhanga (Rs 18.45 lakh), Gaya (Rs 14.25 lakh), Madhubani (Rs 44.52 lakh), Munger (Rs 13.63 lakh), Muzaffarpur (Rs 54.66 lakh)

¹⁰ Bhagalpur (Rs 25.89 lakh), Chhapra (Rs 38.17 lakh), Munger (Rs 11.40 lakh), Muzaffarpur (Rs 54.66 lakh)

5.1.6 Operational controls

5.1.6.1 Departmental manual

No updating of Manual (1956) of Agriculture Department

Every organisation should have a comprehensive manual prescribing the procedure of work, responsibility, structure and control mechanism. Documentation of procedure for various functions of the Department and its updation are essential. Further, Guard files containing correction slips and important departmental instructions issued by the Government from time to time are also to be maintained for effective control to achieve the objectives. The Agriculture Department has a manual compiled in 1956. Since then no updation was made despite expansion in the activities of the department.

5.1.6.2 Diversion of funds

BRBN unauthorisedly spent Rs 1.54 crore on payment of TA, telephone bills, electric bill etc.

An amount of Rs 7.35 crore was advanced (January 2007) to the Bihar Small Farmers Agriculture Trading Union for implementation of certified seed programme. Of this, Rs 7.02 crore was released to Bihar Rajya Beej Nigam (BRBN) for production of certified seeds. However, BRBN unauthorisedly diverted and spent Rs 1.54 crore on payment of traveling allowances, telephone bills and electric dues etc. Action taken by the Department for unauthorized diversion of fund by BRBN was not on record.

5.1.6.3 Seeds replacement

Seeds replacement rate for crops was below the norms

As stipulated in Bihar Seed Plan, the required Seed Replacement Rate was 25 *per cent* for self-pollinated crops and 33 *per cent* for cross pollinated crops. However, replacement rate ranged from seven to 12 *per cent* in Kharif crops except maize and five to 11 *per cent* in Rabi crops except maize and rai during 2004-07.

Thus, seeds replacement rate for food grains and pulses was far below the norms. However, Department has prepared a new seed plan (May 2007) to increase the seed replacement rate.

5.1.6.4 No increase in the cropped area

The total cropped area¹¹ remained almost same during 2002-07 at 79.46 lakh hectares. Total production of food grains declined from 110.85 lakh tonne in 2002-03 to 81.12 lakh tonne in 2005-06. The decline in food production together with stagnant total cropped area indicates failure of the Department to achieve its objective of enhancing agricultural production.

5.1.6.5 Subsidy claim submitted without physical verification

Fertilizer supplied to the farmers was not verified at the first point

Fertilizer supplied to the farmers was not verified physically at the first point i.e. at buffer godown, as instructed (July 2003) by the Government. The quantity was verified from entry in stock registers after a period ranging from three to 40 months. The reports regarding the certification of the physical

¹¹ Total cropped area = Net sown area + Area cropped more than once

verification in Form-A¹² was submitted to Government after delay ranging from six to 35 months during 2002-06 and the forms for the year 2006-07 were still being submitted. Similarly report in the Form B¹³ was submitted to State / Central Government after delay ranging from two to 35 months during 2002-06. The details were as under:

| Year | Total fertilizer supplied (MT) | Delay in verification from entry in the stock register (month) | Delay in submission of Form 'A' to the Government (month) | Delay in dispatch of Form 'B' after certification (month) |
|---------|--------------------------------|--|---|---|
| 2002-03 | 44844.82 | 10-40 | 17-35 | 14-35 |
| 2003-04 | 23272.90 | 6-28 | 6-24 | 2-23 |
| 2004-05 | 73197.10 | 4-22 | 9-21 | 4-22 |
| 2005-06 | 102362.72 | 3-15 | 8-15 | 4-15 |

Thus, report for subsidy claims were forwarded to the Government of India without physical verification.

5.1.6.6 Quality testing of fertilizers, seeds and soil

An analysis of the samples in respect of the performance of one Fertilizers Quality Testing Laboratory, Patna, seven seed testing laboratories and four soil-testing laboratories during 2002-07 disclosed the following:

- 5950 samples were analysed during 2002-05 against the total of 7397 samples of fertilizers. Of these, 162 samples were found substandard. No action was taken on the samples found substandard.
- Testing of seed sample was only 54715 (30 per cent) against the target of 179400 samples. No action was taken against the 2192 samples found substandard in testing.
- Only 40670 (21 per cent) soil samples were tested in four laboratories against the target of 194500 samples.

Thus, Department failed to provide scientific information to farmers in respect of seeds, fertilizers and soil.

5.1.6.7 Setting up of soil and water testing laboratories

The Indian Council of Agriculture Research (ICAR) provided Rs 1.06 crore during 2004-05 to Rajendra Agriculture University (RAU), Pusa, Samastipur for establishing soil and water testing laboratories in its nine Krishi Vigyan Kendras (KVKs)¹⁴. A test-check (May 2007) of records of RAU disclosed that university spent Rs 67 lakh on purchase of equipment, chemical, glass wares

Non-establishment of soil and water testing laboratories despite expenditure of Rs 1.01 crore

¹² Form 'A' : Statement of physical verification by DAOs to be submitted within one month from receipt of fertilizer.

¹³ Form 'B' : Statement of report on sales by Director of Agriculture to be submitted to GOI within two months of receipt of Form 'A' from districts.

¹⁴ KVKs: Agwanpur (Barh), Agwanpur (Saharsa), Banka, Harnaut, Hariharpur, Jale, Khodawand pur, Munger. and Saraiya,

during December 2004 to March 2005 and released Rs 6.30 lakh to KVKs for soil and plant survey, processing of storage facility and for purchase of petty items. Further, an amount of Rs 27.63 lakh was released (February-March 2005) to its engineering division for setting up of laboratories.

The university authorities, however, did not monitor utilisation of Rs 33.93 lakh during 2005-07. At the instance of audit (May 2007), the university authorities directed (May 2007) the KVKs to intimate the status of aforesaid works. All the laboratories were non-functional due to non-availability of laboratory building (5), technical expert and electric supply (3) and specialist of soil science (1).

Thus despite expenditure of Rs 1.01 crore, soil and water testing laboratories in KVKs could not be made functional and university failed to extend soil-testing facility to farmers.

5.1.6.8 Development of Marketing Yards

Expenditure incurred on development of market yards amounting to Rs 1.38 crore remained unfruitful

The Agriculture Commissioner released (March 2004), central share of Rs 2.38 crore (out of available central funds of Rs 2.65 crore) to Bihar State Agriculture Marketing Board (BSAMB) for development of market yards under Macromode Management Scheme for the year 2003-04. The BSAMB undertook the work to provide drainage facilities in Agriculture Marketing Yards at Musallahpur (Patna), Muzaffarpur and Gulab bagh (Purnea) at an estimated cost of Rs 2.36 crore and released Rs 1.58 crore to works divisions¹⁵ for execution of work in 2005-07.

The divisions could spend only Rs 1.38 crore against the work as on October 2006. In the meantime, the Government of Bihar decided (September 2006) to dissolve the BSAMB and consequently, all ongoing schemes were left incomplete since September 2006. No action so far (September 2007) has been taken to complete the ongoing schemes.

Thus, expenditure of Rs 1.38 crore incurred on the incomplete schemes was remained unfruitful.

5.1.7 Manpower management

Rupees 21.32 crore spent on payment of salaries to idle staff of seed production farms during 2002-07

The manpower of an organisation should be so utilised that optimum output is achieved from the available manpower for attaining the objectives of the Department. The Director did not furnish the number of sanctioned strength and men-in-position of the Department. In test-checked districts, there were vacancies ranging from 39 to 48 *per cent* in all cadres as on March 2007. Further, 407 staff of 154 seed production farms remained idle during 2002-07 as no seed production was carried out during aforesaid period though Rs 21.32 crore¹⁶ was spent on payment of salary to these staff during 2002-07.

¹⁵ Muzaffarpur, Patna and Purnea.

¹⁶ 2002-03: Rs 4.21 crore, 2003-04: Rs 3.96 crore, 2004-05: Rs 3.64 crore, 2005-06: Rs 3.94 crore and 2006-07: Rs 5.57 crore.

No service book was updated at Secretariat level and services of the employees were not verified. Leave accounts were also not being maintained.

This shows that the manpower management in the Department was inadequate, which adversely affected the programme implementation as well as activities of the Department.

5.1.8 Monitoring including Internal Audit

5.1.8.1 Monitoring

Monitoring is an important control tool, which should be exercised effectively by the Department. Though monthly meetings were being organised, it did not translate into higher production and productivity. Quality of fertilisers and seeds being distributed was also not being monitored.

5.1.8.2 Internal Audit

Very low coverage of internal audit

Internal audit was to examine and evaluate the level of compliance to the Departmental rules, regulations and procedures so as to provide assurance to the management on the adequacy of the risk management and internal control framework of the Department.

There was no internal audit wing functioning under the control of Agriculture Department. However, internal audit wing was established (1953) under the administrative control of Finance Department. During the period of 2002-07, the internal audit wing could audit 17 offices of the Agriculture Department out of 334, which indicates that coverage of units was very low.

5.1.8.3 Lack of response to statutory audit

Inadequate follow up action led to accumulation of unsettled audit objections

As of June 2007, 347 paragraphs pertaining to 68 Inspection Reports (IRs) worth Rs 32.33 crore were pending for settlement. Of these, thirty one paragraphs pertaining to 28 IRs were of serious irregularities like suspected defalcation (Rs 6.21 lakh)¹⁷, losses (Rs 3.41 lakh)¹⁸, recoverable amount (Rs 2.77 lakh)¹⁹ and unfruitful expenditure (Rs 6.45 crore)²⁰.

This showed lack of response and absence of suitable mechanism to closely monitor timely action on audit objections.

5.1.9 Conclusion

The Internal Control system in the Agriculture Department was found to be deficient. Budgetary and expenditure controls were weak as evidenced by persistent savings against budget provisions, unreconciled differences between bank balance statement and cashbook balances, pending DC bills and unadjusted advances. The department did not update its manual for last 50

¹⁷ 2003-04: Rs 1.11 lakh and 2006-07: Rs 5.10 lakh

¹⁸ 2003-04: Rs 3.41 lakh.

¹⁹ 2003-04: Rs 2.62 lakh and 2004-05: Rs 0.15 lakh.

²⁰ 2002-03: Rs 32.87 lakh, 2003-04: Rs 5.17 crore, 2004-05: Rs 0.94 crore and 2005-06: Rs 1.08 lakh.

years. Ineffective operational control resulted in stagnant gross cropped area along with decline in agricultural production during 2002-07 as well as non-establishing the soil and water testing laboratories. Inefficient manpower management was reflected in payment of salary to idle staff. Internal audit coverage was inadequate and there was lack of response to statutory audit conducted by the Principal Accountant General (Audit), Bihar.

Recommendations

- To strengthen internal control system, a provision may be made in the Bihar Financial Rules on the lines prescribed under Rule-64 of the General Financial Rules, 2005 of the Government of India.
- Budget control system should be made effective so as to ensure realistic assessment of requirement and timely utilisation of funds.
- Control checks prescribed for the cashbook and bank reconciliation should be ensured to guard against possible fraud and defalcation.
- Internal audit should be strengthened.

The matter was reported to Government (September 2007); their reply had not been received (October 2007).

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