

## CHAPTER- V

### INTERNAL CONTROL SYSTEM PRIMARY AND MASS EDUCATION DEPARTMENT

#### 5 Internal control mechanism and internal audit system

##### *Highlights*

*Internal control mechanism is an integral part of management process by which an organization governs its activities to effectively achieve its objectives. Adherence to a built in internal control which includes statutes, codes and manuals minimise the risk of errors and irregularities. A check of the internal control mechanism in the Primary & Mass Education Department showed that the internal control system were not functioning effectively.*

**Budget estimates for 2000-04 were prepared without taking into account the actual requirements.**

*(Paragraph 5.5.1)*

**There was lack of monitoring and internal coordination in the implementation of the total literacy campaign and the Sarva Siksha Abhiyan.**

*(Paragraph 5.6.1)*

**Non-adherence to the prescribed controls led to misappropriation of Government money of Rs 2.62 lakh.**

*(Paragraph 5.6.2)*

**The number of units audited by internal audit was 0.18 per cent of the total number of auditee units of the department during 1999-2004. There was poor follow up of inspection reports.**

*(Paragraph 5.7)*

##### **5.1 Introduction**

Internal controls are laid down in the rules, regulations, codes and manuals applicable to a department and adherence to provides a reasonable assurance to departmental officers regarding the proper functioning of the department. The controls act as safeguards against errors and irregularities in operational and financial matters.

##### **5.2 Organisational set up**

The department is headed by the Secretary and assisted by two Directors (one each for primary education and mass education). They are assisted by Deputy Directors and Assistant Directors. There are 37 District Superintendents of

Education (DSEs) and 37 District Mass Education Officers (DMEOs) at the field level.

### **5.3        *Scope of audit***

The functioning of internal control mechanism and internal audit system in the Department was reviewed during July 2004 to September 2004 through test-check of the records of the Secretariat/Directorate and six DSEs and six DMEOs<sup>1</sup> for the period from 1999 to 2004.

### **5.4.        *Audit Objective***

The objectives of the review were to examine whether:

- proper internal controls existed in the department in respect of financial management including budgeting and control of expenditure,
- officers of headquarters level visited field offices regularly to monitor the execution of schemes and the functioning of the field offices,
- the department had evolved adequate internal audit system to judge the efficacy of the working of the department.

### **5.5        *Financial control***

#### **5.5.1        *Provision of budget manual not followed***

The Bihar Budget Manual envisaged adherence to budgetary controls, which among other things required the administrative departments to prepare budget estimates based on inputs from lower formations, spend within the budgeted allocations, avoid rush of expenditure towards the close of the year and surrender the anticipated savings in time. Supplementary provision for funds was to be asked only in case the original allotment would prove insufficient. This required regular monitoring of monthly expenditure incurred by the Drawing and Disbursing Officers (DDOs) of sub-ordinate offices by the Directorate. The expenditure at the Directorate was to be monitored by the administrative department. The Finance Department also issued explicit orders imposing restrictions on filling up of vacant posts and stipulating that budget provision for such vacant posts should not be made.

Appropriation Accounts of the Department from 1999-2000 to 2003-04 revealed persistent savings from year to year, indicating deficiency in estimation of the requirement of funds. Besides, the supplementary grants obtained during each year proved unnecessary.

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<sup>1</sup> *Munger, West Champaran, Madhubani, Nalanda, Katihar and Siwan*

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(Rupees in crore)

**Preparation of inflated budget estimates**

Year	Original		Supplementary		Surrender		Total		Expenditure		Saving		Percentage of Saving
	Plan	Non plan	Plan	Non plan	Plan	Non plan	Plan	Non plan	Plan	Non plan	Plan	Non plan	
1999-00 Revenue	137.36	2677.79	54.19	4.34	11.17	14.92	180.38	2667.21	91.29	2539.95	(-) 89.09	(-) 127.2	7.60
2000-01 Revenue	2724.52		0.02		234.78		2489.76		2123.42		366.34		14.71
2001-02 Revenue	111.51	1871.51	8.39	8.39	43.32	248.30	76.58	1632.05	47.68	1517.33	(-) 28.90	(-) 114.72	8.41
Capital	47.21	-	8.58	-	33.32	-	22.47	-	19.67	-	(-) 2.80	-	12.46
2002-03 Revenue	186.50	1844.56	74.91	0.07	149.38	266.71	112.03	1577.92	106.13	1580.72	(-) 5.90	(+) 2.80	0.18
Capital	30.00	-	34.00	-	17.37	-	46.69	-	30.77	-	(-) 15.92	-	34.10
2003-04 Revenue	228.97	2035.99	21.75	0.12	8.41	-	242.31	2036.11	178.80	1545.56	(-) 63.51	(-) 490.55	24.32
Capital	54.86	-	-	-	-	-	54.85	-	43.35	-	(-) 11.51	-	20.98

(Bifurcated figures for 2000-01 under plan and non plan are not available)

**5.5.2 Failure to carry out reconciliation of expenditure****Expenditure control mechanism non-existent**

According to Rules 471 and 472 of the Bihar Financial Rules, the responsibility for internal control of expenditure rests with the Director, Education (Primary and mass education). This involves periodical examination of account records of all the subordinate drawing and disbursing officers (DDOs). However, the field offices did not submit monthly expenditure reports to the Director and no reconciliation of expenditure was done with the records of the Accountant General. The annual expenditure report was submitted late ranging from one to eight months by the field offices.

**5.5.3 Deficiencies in cash management**

Rule 86 of Bihar Treasury Code, Volume-I provides that all monetary transactions should be entered in the Cash Book as soon as they occur and attested by the head of office in token of check exercised by him.

Test-check of records of two DSEs<sup>2</sup> revealed that the closing balance of Rs 182.56 lakh was not mentioned at the end of 2003-04. There was no analysis of monthly closing balances in the cashbook. As a result, age-wise and scheme-wise unspent balances were not ascertainable thereby increasing the scope of misutilisation and diversion of funds for unauthorised purposes.

The cash books were not attested daily; daily totals in the cash book were not verified; physical verification of cash at the end of each month and surprise verification of cash were not carried out by the heads of the offices.

Surety bond by the persons handling cash was not deposited by them which violated the codal provision of Bihar Financial Rule 435.

<sup>2</sup> Siwan: Rs 79.82 lakh, Munger : Rs 102.74 lakh

## 5.6 Supervisory control

Non utilisation of National Literacy Mission fund

### 5.6.1 Non implementation of total literacy campaign and post literacy programme

In order to achieve total literacy during 1991–2002, the National Literacy Mission (NLM) Scheme targeted 44.87 lakh learners to complete primer III stage in 11 districts.

The report of external evaluation agencies on the implementation of total literacy campaign disclosed that out of Rs 34.36 crore sanctioned for 11 districts<sup>3</sup>, Rs 19.60 (57 per cent) crore was spent for total literacy campaign, but literacy achieved in these districts was only 27 per cent.

In nine districts<sup>4</sup>, out of Rs 10.87 crore made available by the Central and the State Governments during 1996-2003 for the total literacy campaign and the post literacy programme (TLC/PLP), Rs 8.13 crore remained unutilised as of September 2004. Expenditure of Rs 2.74 crore on survey of targeted learners also proved unfruitful due to non-implementation of programme (Refer *Appendix XXXIV*). The main reason for the poor performance was lack of motivation among the *preraks* (motivators). Such underspending indicated lack of monitoring and internal control over the programme.

### Study material not supplied

Under Sarva Siksha Abhiyan in Nalanda district under the Education Guarantee Scheme, an amount of Rs 36.34 lakh was provided during 2003-04 to Panchayats for the payment of honorarium to teachers which included Rs 13.69 lakh for purchase of study materials. During audit it was observed that no study material was purchased. However, payment of Rs 22.75 lakh was made to teachers as honorarium for teaching. But without distribution of study material, the intended purpose was not achieved and to that extent the expenditure proved ineffectual. This was clearly a case of lack of internal coordination in the management of programme.

### 5.6.2 Non-adherence to prescribed controls

Misappropriation of fund by showing inflated enrolment of students under mid day meals

During test-check of records of mid day meals of DSE East Champaran (Motihari), it was observed that the number of students to whom mid day meals were given was in excess of the actual enrolment registers, as shown in the table below. This led to misappropriation of Rs 2.62 lakh (at the rate of Rs.390 per child per year x 672) during October 2003 to September 2004. This could have been avoided if the mid day meal scheme was inspected regularly by the District Magistrate, the District Education Officer, the DSEs and the Block officials as envisaged in the scheme.

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<sup>3</sup> Madhepura, Saharsa, Begusarai, Jehanabad, Khagaria, Darbhanga, Supaul, Munger, Aurangabad, Siwan and Seohar.

<sup>4</sup> Siwan, Aurangabad, Saran, Samastipur,, Nawada, Muzaffarpur, Sheikhpura,, Kaimur and Supaul.

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Name of School	Total enrolment	Reported figure of Student	Excess
<i>In number</i>			
Govt. Middle School Shekhona Bankatwa Block	380	680	300
Madhya Vidyalay Bijbani Bankatwa Block	386	758	372
<b>Total</b>	<b>766</b>	<b>1438</b>	<b>672</b>

As per provision of rule 132 Bihar Financial Rule the stock entry of all materials purchased should invariably be made and rule 143 and 144 envisaged that the physical verification of stores should be done annually. During test-check it was noticed that physical verification of stores was not done in Patna and Banka District Literacy Committees.

Scrutiny revealed that material purchased amounting to Rs 3.73 lakh in nine District Literacy Committees, one DSE and one DMEO was not accounted for. Thus store material worth Rs 3.73 lakh was misappropriated (Refer *Appendix- XXXV*).

### 5.6.3 Failure of monitoring mechanism

Poor inspection by officials of the department

As per order of April 1981 and May 1995 of Education Department, Government of Bihar, the supervisory officers were required to inspect the primary and middle schools. As per the norms<sup>5</sup> prescribed for inspection, the Regional Deputy Director (RDD) of Education was required to inspect five schools in each district under his jurisdiction and the DSE was to inspect 20 schools of his district on a monthly basis. They were required to submit their inspection report in this regard to the Directorate of education within a week of inspection. Test check revealed that against the required annual inspection of 360<sup>6</sup> schools, RDD of Education, Patna inspected schools ranging from only 0 to 12 every year during 1999-2004. Similarly, DSE Betia inspected schools ranging from 0 to 35 every year during 1999-2004 against the required norm of 240 inspections in a year.

Lack of adequate inspections at various levels affected the proper implementation of various schemes and activities.

### 5.7 Performance of internal audit

The State Government had established (1953) the internal audit wing under the control of Finance Department merging all the internal audit cells in different departments. The internal audit wing is headed by the Chief Controller of Accounts and functions under the administrative control of the Secretary cum Commissioner of Finance Department. There was no separate internal audit wing in the Department.

<sup>5</sup> Letter no. 9/3-122/95 dated 23.05.95 of Secretary to Government of Bihar.

<sup>6</sup> (6 districts x 5 schools x 12 months = 360) There were six districts under the jurisdiction of RDD education Patna.

The number of units of Primary Education Department audited by the Internal Audit wing ranged from one to 18 in each year during 1999-2004, which was 0.18 per cent of the total number (9835) of auditee units. Thus coverage by internal audit was highly insufficient.

**Lack of pursuance  
for settlement of  
objections**

During the last five years the Finance Department had issued 338 Inspection Reports (IRs) to the Education Department against 9835 annual auditee units. The department failed to comply with the points raised in the inspection reports. As a result no para was settled as of September 2004. The Chief Controller of Accounts, Finance (Audit) Department has also accepted (February 2005) this figure and replied that its efforts to settle paras have not yielded results.

Nature of internal audit observations during the last five years was as under:

Year	Total No. of IRs issued	Defalcation/ Misappropriation	Recoverable Amount	Dues	Amount under objections	Loss (Revenue)	Un – adjusted Advances	Grand Total
		Amount						
(Rupees in lakh)								
1999-00	39	0.38	22.50	7.59	458.40	0.09	15.94	504.90
2000-01	17	0.91	39.95	-	54.72	7.41	25.91	128.90
2001-02	148	4.21	86.08	0.23	653.52	92.44	183.39	1019.87
2002-03	65	17.30	167.33	0.30	319.78	2.32	243.49	750.52
2003-04	69	3.69	265.00	1.89	10849.89	2.75	212.28	11335.50
<b>Total</b>	<b>338</b>	<b>26.49</b>	<b>580.86</b>	<b>10.01</b>	<b>12336.30</b>	<b>105.01</b>	<b>681.02</b>	<b>13739.69</b>

As per direction of the Secretary, Finance Department cases of defalcation / embezzlement of public fund exceeding Rs 500 should have been reported to the Minister-in-charge which was not done.

### **5.8 Conclusions**

The internal controls viz. budget control, expenditure control and supervisory controls were inadequate and ineffective in the Department which led to surrender of funds, excess expenditure and non-achievement of the programme objectives. Coverage by internal audit was insufficient and compliance to internal audit observations was also poor.

### **Recommendations**

- Budget estimate needs to be prepared on a realistic basis ;
- Field formations should be directed to submit monthly expenditure reports as required under Rules;
- Inspection of schools by the Regional Deputy Director of Education, and other functionaries of the Department needs to be conducted to the required extent on a regular basis;

- Internal audit coverage needs to be increased and compliance with observations of internal audit needs to be ensured. Cases of defalcation/misappropriation need to be investigated immediately.

The matter was referred to Government (January 2005); their reply had been received (February 2005) and incorporated wherever necessary.

**Patna**  
**The**

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**The**

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