

CHAPTER-V

INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT ARRANGEMENT

PUBLIC WORKS DEPARTMENT

Highlights

- **Internal Control Mechanism (ICM) provides a tool to the senior management for financial and operational control and ensuring safeguards against error and fraud. An evaluation of ICM in Public Works Department (PWD) revealed weaknesses of the internal controls in the areas of budget and expenditure control, accountal of transactions, maintenance of stores and quality control of works executed. Systems of Departmental inspection was found deficient while internal audit was non existent.**

- **Excess expenditure of Rs. 2.58 crore over the deposits received occurred in four divisions.**
(Paragraph 5.1.5)

- **The expenditure booked was inflated by keeping the funds of Rs.45.84 crore under Civil Deposits.**
(Paragraph 5.1.5)

- **Due to failure of controls to ensure quality of material, undue benefit of Rs.56.45 crore was extended to contractors.**
(Paragraph 5.1.8)

- **Internal audit wing has not been set up in the Department.**
(Paragraph 5.1.10)

- **Advances for TA were released from works cash book.**
(Paragraph 5.1.5)

5.1 Evaluation of Internal Control Mechanism

5.1.1 Introduction

Internal Control Mechanism (ICM) provides a tool to the senior management for financial and operational control and ensuring safeguards against error and fraud. The controls are embodied in various provisions of Codes, Manuals and executive instructions of the Government. Internal control comprises of frame work of various rules, codes, manuals, circulars and instructions relating to budget, expenditure, operational activities and quality control. The Madhya Pradesh Works Department Manual, Madhya Pradesh Finance Code and Madhya Pradesh Treasury Code have been adopted by the Chhattisgarh State since November 2000 (date of formation of the State).

An evaluation of the internal control mechanism of Public Works Department (PWD) since formation (November 2000) of the new State of Chhattisgarh was taken up. The PWD is headed by Engineer in Chief (E-in-C) and comprises 169 units⁵⁰.

5.1.2 Audit coverage

Records relating to internal control system and internal audit arrangement for the period November 2000 to March 2004 were test checked during July & August 2004 in the offices of the Engineer-in-Chief and Chief Engineer, National Highway & Bridges of the PWD and Director of Treasuries and Accounts, Chhattisgarh respectively. Audit findings are discussed in succeeding paragraphs.

5.1.3. Audit objectives

The objectives of the review of the Internal Control Mechanism in the department were to examine the adequacy of

- Budgetary and expenditure controls.
- Stores and Inventory Management Controls.
- Operational controls.
- System of quality control, monitoring and internal audit.

Financial controls

5.1.4 Budgetary control

The Department is responsible for initial estimation and control over expenditure against the grant or appropriation placed at their disposal. Test check in audit revealed the following shortcomings in preparation of budget estimates.

⁵⁰ Chief Engineer Level: 3, Circles: 10, Divisions: 38, Sub divisions: 118

Persistent savings

According to the Madhya Pradesh Financial Code, it is the overall responsibility of the Department to prepare correct budget estimates. But a test-check of five grants revealed that there were huge savings of Rs.53.82 crore during November 2000 to March 2002 and in 2003-04 as given below.

(Rupees in crore)

Year	Allotment	Expenditure	(+) Saving / Excess (-)
November 2000 to March 2001	84.11	68.58	15.53
April 2001 to March 2002	252.06	217.82	34.24
April 2002 to March 2003	411.93	468.78	(-) 56.85
April 2003 to March 2004	550.68	546.63	4.05
Total	1298.78	1301.81	53.82 Saving 56.85 Excess

E-in-C, PWD stated that savings were mainly due to non-receipt of administrative approvals (AA). The reply itself indicated that budget provisions were made without assessment of actual requirements even when administrative approvals (AA) had not been accorded.

Substantial excess

There was also excess expenditure of Rs.56.85 crore during 2002-03. Further, excess of Rs.71.07 crore under nine sub heads in three grants were also noticed during 2001-02 and 2003-04 although there was net overall savings (*Appendix 5.1*). Regarding the excess expenditure it was stated by the E-in-C, PWD that prior to formation of the State, roads and buildings were in poor condition. Thus due to paucity of funds, there was heavy pressure to improve the condition of roads hence expenditure was incurred in anticipation of receipt of funds. However, the concerned Chief Engineers (CE's)/Superintending Engineers (SE's)/Executive Engineers (EE's) had been informed from time to time to incur expenditure as per instructions of the Finance Department. This reveals that the department failed in exercising requisite controls to ensure expenditure within budgeted limits in 2002-03. In 2001-02 and 2003-04, the Department also failed to pass requisite re-appropriation orders which could have ensured that there would be no excesses as there was net overall saving in these years.

5.1.5 Expenditure control**Rush of expenditure**

Financial rules require that Government expenditure be evenly phased throughout the year as far as practicable. Rush of expenditure at the close of the year can lead to infructuous, nugatory or ill planned expenditure. It was observed that under the grant no.42 and 68, out of total expenditure of Rs.117.11 crore and Rs.12.25 crore, expenditure in March was to tune of

Rs.48.27 crore (41 per cent) and Rs.4.04 crore (33 per cent) respectively. E-in-C replied (July 2004) that this was due to execution of works after rainy season. Reply is not acceptable because the rainy season ends in July-August. This indicated laxity in controls as the Department was unable to effectively spread its expenditure.

Excess expenditure over the Letter of credit (LOC)

As per para 4.143 of Work Department Manual, Superintending Engineer (SE) shall keep control over expenditure by issuing Letter of Credit (LOC) from time to time. It shall mention the amount that shall be expended by Executive Engineer (EE), sub head wise in the specified period. The EE is required to submit monthly expenditure statements to enable SE to monitor expenditure against the LOC. Though the statements of expenditure were furnished by the EE, the SE failed to exercise requisite control. A test check revealed excess expenditure as compared to LOC under sub-heads as detailed below:

In PWD (B/R) Dn.No.1, Raipur, expenditure of Rs.5.15 crore was incurred against an LOC of Rs.1.87 crore under grant 24 during 2002-03. In PWD (B/R) Dn.No.II, Raipur, expenditure of Rs.11.26 crore was incurred against the available LOC of Rs.3.60 crore under the above stated head during 2003-04. In reply (July 2004) EE stated that excess was due to unavoidable repairs of Government buildings and roads in the Capital on account of formation of the new State. Additional allotment was requested for from higher authorities to cover excess expenditure. However, total cheques drawn did not exceed the amount of LOC.

Excess expenditure over LOC, is indicative of failure of the control specifically put in place for the purpose of keeping expenditure within limits.

Excess over allotment

As per rules, the controlling officers should ensure that the expenditure on works should not exceed the allotment. It was observed in 12 divisions⁵¹, expenditure was incurred in excess of allotment by Rs.3.42 crore, Rs.37.24 crore, and Rs.28.44 crore during 2001-02,2002-03 and 2003-04 respectively. This indicated that the CE/SE failed to exercise necessary control over expenditure on works.

⁵¹ PWD Divisions-Jagdapur,Bemetara,Dhamtari,Rajnandgaon,Ambikapur, Kondagaon, Divisions-I,II & III Raipur, Vidhan Sabha Division, Raipur, E/M Division-Raipur,NH-Division-I, Raipur

Excess expenditure on deposit work

As per instructions, the expenditure on deposit works should not exceed the deposit provided for the work. It was observed that in four divisions⁵², excess expenditure of Rs.2.58 crore was incurred upto March 2004 in excess of the deposit received for execution of the works. This indicated lack of effective control.

Absence of Reconciliation of expenditure figures

It was the responsibility of the Department to reconcile monthly the expenditure figures with those booked by the Accountant General. Due to incomplete reconciliation, there were differences of Rs.222.77 crore under four grants between the Departmental figures and those booked by the Accountant General, Chhattisgarh during the period 2001-02 to 2003-04 (December 2004) as shown in **Appendix 5.2**. Thus, a key control for ensuring accuracy of accounts was disregarded.

Transfer of funds to Public Account from Consolidated Fund

Financial Rules provide that no money shall be drawn from the treasury unless required for immediate disbursement. However, the department had drawn Rs.45.84 crore (March 2002 and March 2003) and kept it under Civil Deposits under the Public Account as given in **Appendix 5.3**. Consequently, inflated expenditure figures from the consolidated fund were shown in the accounts.

On this being pointed out, the E-in-C, PWD stated that the allotment was received near the end of financial year through supplementary budget and it was kept under Civil Deposits to avoid lapse.

Non-adjustment of temporary advances

As per rules, advances for purposes other than works expenditure are to be drawn through the treasury in PWD divisions. In violation, TA advances were given from works cash book against simple receipt. Even the officers of controlling/administrative offices had obtained advances of Rs.3.99 lakh as of June 2004 from the work cash book of one Headquarter division i.e. PWD division No.1, Raipur. An amount of Rs.1.21 lakh was also outstanding as of June 2004 against the Secretary PWD. The Department replied (July 2004) that instructions were being issued for recovering the amount. Thus, the key controls for segregating works and establishment transactions failed and the subsequent scrutiny and control of treasury were bypassed.

5.1.6 Store Management and Inventory Control

Non-fixation of Reserve Stock Limit

As per provisions of State PWD manual, a Reserve Stock Limit (RSL) has to be fixed for every division by CE to exercise the control so that unnecessary

⁵² PWD Divisions-Bilaspur, Dantewara, Ambikapur and Jagdalpur

overstocking does not take place. It was however, observed in audit that no RSL was fixed by the CE (March 2004) for the 29 divisions⁵³ test checked.

Lack of control over procurement

According to the rules, stores should be purchased after assessing the requirement and with the sanction of SE and CE. It was observed that in four divisions⁵⁴ surplus stores worth Rs.85.03 lakh were lying unutilised in stock (March 2004). This was due to purchase in excess of requirements and without the sanctions of SE/CE. This also resulted in blockage of Government money due to excess purchases.

Physical verification

As per Works Department Manual, physical verification of stores should be conducted once in a year. It was observed that in two divisions (Bridge Division Bilaspur and PWD Division Ambikapur), no physical verification of stores was conducted as of March 2004, whereas in eight divisions⁵⁵ it was delayed by one to eight years.

Improper maintenance of Material at Site (MAS) account

The works Department Manual stipulates that material issued or procured for use in works was to be accounted in the Material at Site (MAS) account and was to be physically verified once in a year. It was observed in three divisions (PWD Manendgarh, Jagdalpur, E/M Division Raipur), material worth Rs.1.96 crore was not accounted for in MAS account upto March 2004. Further, failure to conduct yearly physical verification of MAS account led to non-maintenance of MAS account in 14 divisions⁵⁶.

Road Metal Return (RMR)

As per codal provisions, a register showing all receipt and issue of road metal was to be maintained in sub divisions. In respect of seven divisions⁵⁷, the subordinate sub divisions did not maintain RMR account at all where as in respect of nine divisions⁵⁸ these were not maintained since 2003.

⁵³ PWD Divisions, Dhamtari, Mahasamund, Ambikapur, Bijapur, Khairagarh, Division-I,II &III, Raipur, Bemetara, Rajnandgaon, Kondagaon, Manendragarh, Champa, Jagdalpur, Kanker, Jashpur Nagar, Dantewada, E&M Divisions- Raipur, Jagdalpur, NH Divisions- Ambikapur, Raipur, Jagdalpur, Bilaspur, Bridge Divisions- Raipur, Bilaspur, Jagdalpur, Ambikapur and Vidhan Sabha Division- Raipur

⁵⁴ PWD Divisions- Bilaspur, Ambikapur, Jashpur Nagar Manendragarh

⁵⁵ PWD Divisions- I, II Raipur, Bilaspur, Khairagarh, Manendragarh, Rajnandgaon, Vidhan Sabha, Raipur, and NH Division- Jagdalpur

⁵⁶ PWD Divisions- No-I, Raipur, Bilaspur, Bijapur, Bemetara, Manendragarh, Champa, Ambikapur, Jagdalpur, Jashpur Nagar, NH Division- Ambikapur, Bridge Divisions- Raipur, Bilaspur and Ambikapur, E/M Division Jagdalpur

⁵⁷ PWD Divisions- No. I Raipur, Dhamtari, Bemetara, Bilaspur, Jagdalpur, Bridge Division- Jagdalpur and NH Division- Ambikapur

⁵⁸ PWD Division No. I Raipur, Rajnandgaon, Kondagaon, Jagdalpur, Ambikapur, Kanker, Vidhan Sabha, Raipur and NH Divisions- Bilaspur and Jagdalpur

5.1.7 Operational controls

Deviation from approved estimates

In six divisions⁵⁹, works were executed with higher specification as against the provisions made in the original estimate, which resulted an avoidable cost of Rs.5.43 crore.

Non-renewal of bank guarantee

According to the agreements for the works, contractors have to furnish bank guarantees for the performance security before start of the work. It was observed that bank guarantees for Rs.88.62 lakh were not furnished by four contractors in two divisions (PWD Division No-II, Raipur and Kondagaon).

According to the rules, bank guarantees should be renewed on expiry. In PWD Division, Ambikapur four bank guarantees amounting to Rs.27.71 lakh were not renewed on their expiry. The irregularity indicated absence of proper control over operations.

Excess over administrative approval (AA) and technical sanction (TS)

As per Works Department Manual, the expenditure on works should not exceed the amount of administrative approval (AA) or technical sanction (TS). It was observed that in three divisions (PWD Divisions-Dhamatari, Bridge Divisions-Raipur and Ambikapur), the expenditure on 34 works exceeded the AA by Rs.11.70 crore while in nine works the expenditure exceeded the TS by Rs.1.25 crore.

Miscellaneous Public Work Advances (MPWA)

As per rules, the transaction accounted in MPWA should be cleared or adjusted within a reasonable time. It was observed that in 25 divisions⁶⁰, 3,518 items aggregating Rs.29.73 crore were outstanding, for period upto ten years at the end of March 2004. Due to non-clearance of items, possibility of losses to that extent can not be ruled out. This indicated lack of monitoring at higher level.

Pending Accountant General's adjustment memos

Purchases made through Director General of Supplies and Disposal (DGS&D) are settled through the Accountant General. It was observed that in 16 divisions⁶¹, Accountant General's adjustment memos amounting to Rs.12.87

⁵⁹ *Khairagarh, Dhamtari, Raipur No.I and II, Ambikapur and Kanker*

⁶⁰ *PWD Divisions No.I, II & III, Raipur, Bilaspur, Dhamtari, Mahasamund, Bijapur, Khairagarh, Rajnandgaon, Kondagaon, Manendragarh, Champa, Jagdalpur, Ambikapur, Bilaspur, Kanker, Jashpur Nagar, Dantewara, Jagdalpur, NH Divisions-Ambikapur, Bilaspur, Vidhan Sabha Division Raipur, E/M Division Raipur, Jagdalpur and Bridge Division Raipur*

⁶¹ *PWD Divisions No.I, II Raipur, Bilaspur, Khairagarh, Rajnandgaon, Kondagaon, Manendragarh, Champa, Jagdalpur, Ambikapur, Kanker, Jashpur Nagar, Dantewara, NH Division No.I Raipur and Jagdalpur and Bridge Division Ambikapur*

crore were pending adjustment for upto ten years. The non- adjustment indicated lack of monitoring at appropriate levels.

5.1.8 Quality Control of material used in road works

In Bituminous topped renewal of roads by the Department, inferior quality of bitumen (80/100 grade) was used in lieu of 60/70 grade bitumen by 165 contractors in 1051 agreements. This resulted in undue benefit of Rs.56.45 crore to the contractors. The use of inferior quality of bitumen occurred due to laxity in controls prescribed for ensuring quality of material as per specifications. Government stated that the matter was investigated in detail and recovery was ordered from the defaulting contractors. Details of recovery are awaited in audit (February 2005).

The works Department manual provides for controls to guard against inferior quality material through the provisions of testing of materials at various stages i.e. purchase, execution and completion, supervision during execution and analysis of test results before releasing payments.

As per instructions issued by the PWD every contract should have a clause that test report of materials purchased for use in works should be produced by contractor to Departmental authority before starting execution.

However, in PWD (B&R) division, Bijapur and National Highway Division, Ambikapur bitumen was purchased by contractor and used on works upto March 2004 in nine agreements without submitting any test results to the divisions. Moreover, bills in support of purchase were also not produced by the contractor.

On this being pointed out in audit (December 2003), the EE PWD (B&R) Division, Bijapur stated that test report and purchase bills were being collected from the contractor. The EE National Highway Division, Ambikapur stated that there was no clear instruction in the agreement to produce purchase bill for bitumen and test report before execution of work.

These cases indicated that the departmental authorities did not exercise requisite control provided in the rules for ensuring quality in road works.

5.1.9 Departmental Inspection

Departmental inspection of subordinate offices ensures that they are working in accordance with the rules, regulations and instructions issued from time to time by superiors. Works Department Manual provides that departmental inspection should be conducted and the E-in-C will obtain in the last week of every quarter, a return from the CE/SE/EEs showing the inspections due and those actually conducted during the quarter. After consolidation of these reports, it maybe sent to Government by the E-in-C. It was observed that the codal provision was not being followed in the Department. In reply the Senior Accounts Officer on behalf of the E-in-C, PWD replied (July 2004) that he was not aware of the Manual's provision.

During the test-check of record of CE, NH and Bridge Zone, PWD, Raipur, it was observed that inspection reports of the divisions were issued with delay of eight to 12 months and none of the divisions inspected had furnished their compliance to the CE. Thus, inspection did not serve its intended purpose and the CE failed to exercise any control.

Evaluation of Internal Audit System

5.1.10 Internal audit system

No Internal Audit system was established in the department. Though the Internal Audit Manual of Directorate of Treasury and Accounts (1989) had prescribed specific duties to be performed in respect of this department, internal audit had not been done since formation of the Chhattisgarh State.

5.1.11 Conclusions

There were deficiencies in internal controls resulting in budgetary savings, excess expenditure, non-reconciliation, transfers to Public Account, irregular drawals, defective procurement and stores accounting, poor monitoring and inspection and inadequate quality control. Internal audit was also non-existent.

5.1.12 Recommendations

- ❑ Effective quality testing arrangements should be made and be strictly followed.
- ❑ Departmental Inspection should be strengthened and compliance reports should be monitored by appropriate authority.
- ❑ The Department should devise manual/codal provision for internal audit providing periodicity and detailed procedure for carrying out internal audit.
- ❑ Expenditure within the limits of LOC should be ensured.
- ❑ Advances from works cash book should be recovered and proper monitoring arrangements should be made to avoid such recurrence.
- ❑ Proper monitoring over yearly physical verification and maintenance of accounts for material should be done.