

CHAPTER V

INTERNAL CONTROL SYSTEM IN GOVERNMENT DEPARTMENTS

INDUSTRIES AND MINES DEPARTMENT

5.1 Internal Control System in Industries and Mines Department

Highlights

Internal control is an integral part of the process designed and affected by the management of an organisation to achieve its specified objectives ethically, economically and efficiently. The main objective of the Department is promotion of industries and creation of infrastructure. There were 43 per cent savings out of the provisions during 2001-06. Provisions of Gujarat Treasury Rules were not followed while maintaining Cash Book. Field offices have not furnished monthly expenditure statements to the Additional Chief Secretary, Industries and Mines Department. District Industries Centres have not registered industrial units within the timeframe. Control over payment of loans and subsidies was not efficient. There was no codified manual in the Department. Maintenance of Registers and physical verification of articles were not properly done. Department had not exercised any control over accountability of acquisition of properties by the officers and staff. Working of Vigilance organisation of the Department had not reached upto the expected level. Deficiencies were noticed in the internal audit wing.

Against the outlay of Rs.3025.41 crore during 2001-06, expenditure was Rs.1788.08 crore only and unspent balances under Central schemes were credited to State accounts in violation of the codal provisions.

(Paragraphs 5.1.5.1 and 5.1.7.1)

Industrial units benefited under subsidy schemes were not verified periodically; subsidies paid to closed units were not recovered.

(Paragraphs 5.1.8.3 and 5.1.8.4)

Internal audit system was not properly streamlined.

(Paragraph 5.1.10.1)

5.1.1 Introduction

Internal control is a process to provide reasonable assurance regarding the achievements of objectives in the areas of effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable rules and regulations. The main objectives of Industries and Mines Department is to give guidance as to how to use the public finance in industries and to get the maximum benefit out of it by way of promotion of industries, creating infrastructure required for development of industries, payment of assistance by way of loans, grants, subsidies to industries; both under public and private sectors.

5.1.2 Organisational set-up

Additional Chief Secretary (ACS), Industries and Mines Department (IMD), supervises and controls five Heads of the Department¹ (HODs), twelve Corporations² and five Boards³ for implementation of Government policies and programme of IMD. Twenty four District Industries Centres (DICs) implemented the schemes and programme of Industries Commissioner (IC) and Commissioner of Cottage Industries (CCI). Schemes and programme of Commissioner of Geology and Mining (CGM) were implemented by three zonal officers and 24 district level officers.

5.1.3 Audit objectives

The objective of review was to see whether the Internal Control System of the Department provides a reasonable assurance of adequacy and effectiveness of

- Budgetary controls;
- Cash controls;
- Expenditure controls;
- Operational controls;
- Administrative controls;
- Vigilance; and System of Internal Audit.

¹ (i) Industries Commissioner, (ii) Commissioner of Cottage Industries, (iii) Commissioner of Geology and Mining, (iv) Director of Printing and Stationary and (v) Commissioner of Payment

² (i) Industrial Extension Bureau, (ii) Gujarat Industrial Development Corporation, (iii) Gujarat Tourism Corporation, (iv) Gujarat Mineral Development Corporation, (v) Gujarat Industrial Investment Corporation, (vi) Gujarat State Finance Corporation, (vii) Gujarat Small Scale Industries Corporation, (viii) Gujarat Rural Industries Marketing Corporation, (ix) Institute of Rural Technology, (x) Gujarat Alkock Asdown (Guj.) Ltd, (xi) Centre for Entrepreneurship Development and (xii) Gujarat Growth Centre Development

³ (i) Gujarat Infrastructure Development Board, (ii) Gujarat Diamond Development Board, (iii) Gujarat Soil Works Attrition Board (iv) Gujarat State Khadi and Village Industries Board and (v) Gujarat Pavitra Yatra Dham Vikas Board.

5.1.4 Audit Coverage

Review of the adequacy and effectiveness of the Internal Control System including internal audit arrangements in the Department for the period April 2001 to March 2006 was conducted by check of records in the offices of Additional Chief Secretary-Industries and Mines Department (ACS-IMD), Industries Commissioner (IC), Commissioner of Cottage Industries (CCI), Commissioner of Geology and Mining (CGM) and Seven⁴ DICs.

Audit findings

5.1.5 Budgetary controls

5.1.5.1 Preparation of inflated budget estimates

Budget provision and expenditure incurred there against by the Department during 2001-06 were as under –

(Rupees in crore)

Year	Provisions			Expenditure			(+ excess (-) savings			Percentage of excess/ savings	
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan
2001-02	212.37	993.36	1205.73	227.42	179.00	406.42	(+) 15.05	(-) 814.36	(-) 779.31	7	82
2002-03	303.96	327.88	631.84	137.16	169.15	306.31	(-) 166.80	(-) 158.73	(-) 325.53	55	48
2003-04	281.91	160.33	442.24	142.88	100.06	242.94	(-)139.03	(-) 60.27	(-) 199.30	49	38
2004-05	247.28	110.67	357.95	333.27	99.19	432.46	(+) 85.99	(-) 11.48	(+) 74.51	35	10
2005-06	302.20	85.45	387.65	313.13	86.82	399.95	(+) 10.93	(+)1.37	(+) 12.30	4	2
Total	1,347.72	1,677.69	3,025.41	1,153.86	634.22	1,788.08	(-) 193.86	(-) 1,043.47	(-) 1,237.33		

As against total outlay of Rs.3,025.41 crore, expenditure of Rs.1,788.08 crore (59 per cent) was incurred during 2001-06, leaving a balance of Rs.1,237.33 crore (41 per cent); this indicated poor fund management and faulty preparation of Budget Estimates, resulting in huge savings. The department attributed the reasons for saving due to reduction in Plan expenditure by General Administration Department (GAD) and due to vacant posts, excess is due to increase in Dearness Allowance(DA) and merger of DA at the rate of 50 per cent as Dearness Pay (DP).

⁴ (i) Ahmedabad, (ii) Gandhinagar, (iii) Jamnagar, (iv) Junagadh, (v) Kachchh, (vi) Rajkot and (vii) Vadodara

5.1.6 Cash Controls

5.1.6.1 Transactions made outside cash book

Gujarat Treasury Rules (GTR) 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 checks. The head of office should verify the totaling of cash book or have this done by some responsible subordinate other than the writer of the cash book and initial it as correct. The GTR also provided that at the end of each month the head of the office should verify the cash balance in the cash book and record signed and dated certificate to that effect mentioning therein the balance both in words and figures. However, scrutiny of records of DIC, Ahmedabad revealed that grants amounting to Rs.8.96 crore received during 2002-06 towards payment of subsidy to cottage industries, bankable loan and contingency and subsidy under Prime Minister's Rojgar Yojna; were spent without routing through cash book and instead the transactions were only entered in a Register and transactions were also not authenticated.

5.1.6.2 Deficiencies in the system of maintenance of Cash chest

Gujarat Treasury Rules provide that cash and other valuables held in the safe custody on behalf of Government by departmental officers should be kept in an adequately strong cash chest or almirah. The cash chest/almirah should be secured by two locks of different patterns so that the keys of such locks should be kept in different person's custody where practicable and in any case, should be kept apart from that of the other lock so that the chest will not be accessible to unauthorised persons. The chest should not be opened unless both the custodians of the two locks are present for the purpose.

Duplicate keys of cash chest/almirah should be placed in separate cover and lodged with strong room of the District Treasury/Sub-Treasury, as the case may be. A register of Duplicate Keys is to be maintained indicating the authorities with whom they were lodged. Once in every year in April key must be sent for examination and returned under fresh sealed covers to respective Treasury/Sub-Treasury Officers with whom they are meant to be lodged and a note kept in the register that they have been inspected and found intact and genuine and sent back to the nominated authorities. Similarly entries should be made in the register in regard to any occasion when the duplicate keys had to be obtained for opening the chest and the date of resealing and lodging with the nominated authorities.

In any of the offices test checked, duplicate keys were not deposited with the Treasury.

5.1.7 Expenditure Controls

5.1.7.1 Crediting unspent balance of Central assistance to the State funds

At the end of March 2003, 16 DICs had an unspent balance of Rs.10.11⁵ crore under the Prime Minister's Rojgar Yojna (PMRY) and Thrift-Fund (weavers' scheme). Instead of refunding the amounts to the Government of India (GOI), the DICs credited the amounts to the State Government accounts. Further, Government closed down all Personal Ledger Accounts (PLAs) with all DICs with effect from December 2003. However, it was observed that DICs, Ahmedabad, Kachchh and Vadodara had an unspent balance of Rs.87.99 lakh, Rs.325.42 lakh and Rs.2.85 lakh respectively under PMRY and Thrift-Fund; the amount was lying in the PLA of the concerned DICs as on March 2006. Besides loss of interest, lack of control resulted in blockage of GOI funds in PLA in violation of Government instructions in this regard.

5.1.7.2 Expenditure against allotments

Additional Chief Secretary, IMD, being the Chief Controlling Officer of the Department, allots grants to various HODs, Boards and Corporations. Instructions in this regard provided that the subordinate officers/Boards/Corporations should submit monthly expenditure statement by fifth of succeeding month. However, none of the HODs/Boards/Corporations such as IC, CCI, Gujarat Tourism Corporation, Gujarat Infrastructure Development Board had submitted the monthly expenditure statement to Government during 2001-06. The ACS therefore, lost expenditure control over the subordinate HODs, Boards and Corporations which eventually resulted in savings of Rs.1,237.33 crore (2001-06) out of the budget sanction of Rs.3,025.41 crore.

5.1.8 Operational Controls

5.1.8.1 Operation of Savings Bank account in place of Fixed Deposits

For the benefit of weavers organised under co-operative sector, Government decided (December 1987) to contribute at the rate equal to eight *per cent*⁶ of the salary of the vankers (weavers) for credit to Thrift Fund. After five years, the beneficiaries are entitled to withdraw a maximum of 75 *per cent* of the accumulation under the contingencies specified. Scheme stipulated settlement of account of beneficiary upon his death or when the beneficiary decides to leave the scheme.

⁵ Amreli (Rs.0.15 crore), Banaskantha (Rs.0.52 crore), Bharuch (Rs.0.70 crore), Bhavnagar (Rs.0.11 crore), Gandhinagar (Rs.1.81 crore), Junagadh (Rs.0.32 crore) Jamnagar (Rs.1.46 crore), Kachchh (Rs.0.34 crore), Kheda (Rs.0.62 crore), Mehsana (Rs.0.62 crore), Rajkot (Rs.0.32 crore), Sabarkanta (Rs.0.51 crore), Surat (Rs.0.90 crore), Surendranagar (Rs.0.12 crore), Vadodara (Rs.1.02 crore) and Valsad (Rs.0.59 crore)

⁶ Four *per cent* each by State and Central Governments

Under the Scheme, the contributions made by Government were required to be kept in fixed deposits with the District Co-operative Banks. Principal and interest earned thereon were to be credited to the Individual Running Ledger Account of the beneficiary weavers.

During 2001-06, total contribution from State and Central to Thrift Fund was Rs.35.41 lakh for 65 beneficiary units. Scrutiny of records of DICs revealed that the amounts were deposited in the Saving Bank Accounts in the joint account of General Manager, DIC and the Secretary/President of the Weavers' Co-operative Societies. Consequently, the beneficiaries were deprived of the benefit of interest that was to accrue from these funds.

5.1.8.2 Deficiencies in system of loans and recoveries

For promoting cottage industries and self-employed persons, share capital loan and margin money loan were being paid through DICs. A test check of records pertaining to share capital/margin money loan revealed that the Department did not take any action to ensure that the amounts were utilised for the purpose for which they were sanctioned; loan Recovery Registers were not up-dated and outstanding balance at the end of each year were not communicated to the loanees and confirmation obtained; notices on due dates were also not issued to loanees. Further, reconciliation of loan remittances with Treasury figures were not conducted; and also department did not pursue recovery of loans; random notices were only issued to the defaulters. After issuing Revenue Recovery Certificates to revenue authorities (2001-06), the department also failed in following up the matter further.

As a result, correct position of payment of loans, their utilisation and recoveries were not susceptible for verification in audit.

5.1.8.3 Non verification of units that had benefited out of subsidy scheme

According to the conditions of sanction of subsidies, industries availing subsidy should operate their unit at least for five years. The DICs were to carry out annual inspection and take action to recover subsidy wherever the units had ceased to function before completion of specified period of five years. Scrutiny of records revealed that none of the 8559 units availed subsidy during 2001-06 in Rajkot was verified during the last five years.

- out of 58,675 units due for verification in Ahmedabad district, only 348 units were verified
- out of 26460 units due for verification in Kachchh district, only 183 units were verified.
- out of 39187 units due for verification in Vadodara district, only 2291 units were verified

Thus, the Department could not ensure that the purposes for which subsidies paid were achieved.

5.1.8.4 Recovery of subsidy from closed units

As per terms and condition of payment of subsidy, the subsidy paid would be recoverable from the units not functioned for the minimum period of five years. A test check of records revealed that in all 569 industrial units, to whom IC paid subsidies aggregating to Rs.12.33 crore, were closed as at the end of 2005-06. Only Rs.13.54 lakh were recovered from the total amount of Rs.12.65 crore that was recoverable, leaving a balance of Rs.12.33 crore unrecovered. DIC, Rajkot had not maintained any records regarding the number of closed units and consequentially, recoveries were pending since 1994; and during 2001-06, DICs Gandhinagar and Junagadh have not effected any recovery of subsidy from the 45 closed industrial units.

Thus, there was no control over monitoring the closed industrial units and recovery of subsidy paid to them.

5.1.8.5 Deficiencies in system of issue of Lubricant Licences

In pursuance to the orders of Government of India (March 1987), Gujarat Government authorised DICs (November 1987) to grant and renew lubricant licences under Essential Commodities Act. Mamlatdars of Civil Supplies Department were authorised to check and initiate penal action on the defaulters. IC instructed (July 1988) DICs to furnish monthly returns regarding the licences issued, pending cases, etc.

It was seen from the records of the DICs that periodical returns regarding licences issued, etc. were not furnished to the higher authorities; as a result, mechanism for intimating Mamlatdars of Civil Supplies Department was not evolved. A test check of records revealed that –

Six hundred, 22, 240, 53, 279 and 336 licences were not renewed for the period ranging from one to 13 years in Ahmedabad, Gandhinagar, Jamnagar, Kachchh, Rajkot and Vadodara respectively.

Due to non-exercise of control mechanism for want of required information from DICs, the designated authorities could not exercise adequate control over the units operated without renewal of licences. Also, penal action under the provisions of Essential Commodities Act was not initiated.

5.1.8.6 Audit of industrial Co-operative Societies

Under the provision of Co-operative Society Act, 1961 audit of Industrial Co-operative Societies were to be carried out by the DICs.

During the test check of records, it was seen that –

- since 1999 DIC, Rajkot had not conducted any audit of Co-operative Societies under its control
- in DICs, Ahmedabad, Junagadh, Kachchh and Vadodara audit of 2,859, 2,680, 649 and 468 units respectively were not carried out during 2001-06.

Thus, control over the Co-operative Societies under the five DICs was not exercised and thereby their accountability could not be ensured.

5.1.8.7 Non-maintenance of Registers in prescribed format

According to the provision of Gujarat Treasury Rules (GTRs), various records/registers were required to be maintained in the prescribed format. It was however, observed that in Industries and Mines Department the basic accounting records were not maintained in the prescribed format. Non maintenance of basic accounting records, registers in the prescribed format may lead to duplication of payments, non-recovery of Government dues, watch the timely passing of bills etc.

5.1.8.8 Physical verification not carried out

According to the provisions contained in Gujarat Financial Rules, all dead stock articles, library books, stationary articles and consumable articles are to be physically verified annually and certificate to that effect recorded in the respective Registers. However, physical verification was not done in any of the offices test-checked.

5.1.9 Vigilance Mechanism

Though it was provided that preliminary enquiries were to be completed within three months from the date of receipt of complaint; however Additional Chief Secretary (ACS), Industries and Mines Department had not maintained any control register to watch vigilance inquiry.

In ACS office, 15⁷ vigilance cases were pending as at the end of March 2006, but not in a single case, preliminary inquiry was completed within the prescribed period. Out of these 15 cases, preliminary enquiry started only in five cases.

⁷ 1998-one case; 2000-two cases, 2002-five cases; 2003-two cases, 2004-one case and 2005-four cases

Against this, as per information furnished by two HODs⁸, 51 vigilance cases were pending as at the end of March 2006; reasons for the discrepancies were not stated by the ACS.

5.1.10 Internal Audit

5.1.10.1 Deficiency in the system of Internal Audit

Internal Audit (IA) is necessary to keep watch on strict compliance to the Government rules and orders as well as the pattern and the flow of Government spending. The General Administration Department had specifically directed (August 1987) that all the Departments, while carrying out IA to assess the work done, the schemes and programmes carried out, the implementation of rules and regulations, hearing and redressal of the complaints of public and the Government servants and maintenance of office records.

However, the reports of IA contained only routine observations regarding the maintenance of records and drawal of bills, etc.

During 2001-06, ACS had not conducted any internal audit of the HODs. In respect of Commissioner of Geology and Mining, internal audit was carried out by diversion of staff from Accounts Branch and only accounting related checks were exercised.

In the offices of IC and CCI, Internal Audit was conducted by transfer of persons without adequate training.

5.1.10.2 Pendency of internal audit

According to the IA plan, all HODs were to be audited annually; and subordinate offices were to be audited according to the periodicity prescribed depending upon the quantum of transactions.

However, scrutiny of records revealed shortfall in IA of offices of the HODs and subordinate offices as shown below:

⁸ Industries Commissioner and Commissioner of Cottage Industries

(Number of offices)

Name of HOD	Pending over 10 years	Pending between 5 and 10 years	Pending between 2 and 5 years	Pending 6 months to 2 years	Less than 6 months
CGM	4	10	9	0	0
IC	0	0	4	20	0
CCI	0	0	0	24	0
Total	4	10	13	44	0

Though all units were to be covered by IA once in every year, in respect of four units, IA was pending for more than 10 years. Pendency of IA in respect of 10 units ranged between five and 10 years, 13 units ranged between two to five years and 44 units ranged between six months to two years. Thus, the Department could not ensure compliance of Government instructions.

5.1.10.3 Settlement of internal audit observations

Internal Audit reports were to be issued to respective subordinate offices for rectification of deficiencies.

It was however, seen that there was no system of monitoring for clearance of internal audit observations by HODs. In absence of control registers, timely issue of inspection reports to the Drawing and Disbursing Officers, money value objections and monitoring the outstanding paragraphs could not be verified.

5.1.11 Conclusion

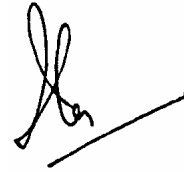
Budget and Expenditure controls were weak as evidenced from huge savings over the sanctioned provisions. Cash controls were not effectively exercised. Unspent Central funds were credited to State account/blocked in Personal Ledger Accounts. Field Officers were not furnishing monthly expenditure statements to the Additional Chief Secretary, Industries and Mines Department. Loan payments and recoveries were not monitored and units that had availed subsidy were not verified and recovery of subsidy from the closed units was not effective. The department had not codified the Manuals, while the system of internal audit was weak.

5.1.12 Recommendations

- Budget control system should be strengthened to ensure that demands for funds are on a realistic basis and to avoid persistent savings
- Unspent balances pertaining to schemes lying in PLA accounts should be credited to Government account immediately

- Balances under Thrift Fund should be kept in fixed deposits so that benefit of interest is also available to the beneficiaries
- System of monitoring over the loans and the subsidies that has been released to the units needs a complete review in the light of mounting dues and absence of any system of monitoring
- Internal Audit should be strengthened to facilitate prompt rectification of deficiencies.

The matter was reported to Government (July 2006); but no reply was received (October 2006).

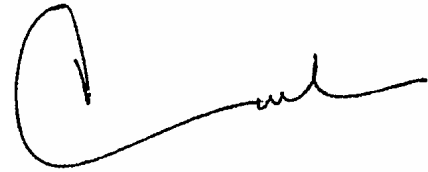


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