

## CHAPTER-V

### INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT ARRANGEMENT

#### 5.1 Police Department

##### Highlights

- **Offices of the Director General of Police, Haryana, the Inspector General of Police (CID) and the Superintendent of Police (GRP) did not reconcile the treasury schedules with the cash book during 2000-05, as required under financial rules, to ensure that all the drawals from treasury were recorded in the cash-book.**

*(Paragraph 5.1.13)*

- **Inspector General of Police, Ambala Range accorded financial sanctions beyond his powers for Rs 33.63 lakh by splitting the sanctions into several parts.**

*(Paragraph 5.1.9)*

- **The system of Petrol, Oil and Lubricant (POL) coupons evolved by Finance Department to control the expenditure on POL was not followed properly. As a result, Rs 9.67 crore were spent on POL during 2000-05 in excess of the prescribed limits.**

*(Paragraph 5.1.10)*

- **The Director General of Police did not evolve any system to have a control over execution of works by Haryana Police Housing Corporation (HPHC). As a result, HPHC took up construction of 97 buildings at an estimated cost of Rs 75.15 crore, without approved budget allotments and spent Rs 33.25 crore on these works by diverting funds from other sanctioned works.**

*(Paragraph 5.1.7)*

- **Internal Audit of 71 per cent of the units was in arrears. Out of 392 internal audit paragraphs issued during 2001-2005, only 91 were settled, which is indicative of inaction on the part of Departmental officers in the matter of audit observations.**

(Paragraphs 5.1.17 and 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.

## **Organisational set up**

**5.1.2** The Financial Commissioner and Principal Secretary to Government of Haryana, Home Department is the administrative head of the Department in the Government. The Director General of Police (DGP) is the head of the Police Department and also the Controlling Officer. Separate offices for Criminal Investigation, Government Railway Police (GRP), Telecommunications and Armed Police each headed by an Inspector General of Police (IGP) are working in the State. Besides, the Police Headquarters at Panchkula, the State is divided into six ranges headed by an IGP each with two to five Superintendents of Police (SP) offices in each range. IGP's and SP's are the drawing and disbursing officers (DDOs) in the Department.

A Senior Accounts Officer posted at the Directorate and one Section Officer posted at each range office are entrusted with conducting internal audit in addition to their other duties.

## **Audit objectives**

**5.1.3** The evaluation of Internal Control System and Internal Audit Arrangements in the Police Department covered checks on adherence to various control measures envisaged in the codes, manuals, guidelines and instructions of the Government and to watch the effectiveness of internal

audit. For this purpose, the following issues were checked in audit:

- whether budgetary system was properly followed;
- whether expenditure was incurred as per prescribed rules;
- whether proper system for drawal of funds from treasury, maintenance of cash-book, etc. was followed;
- whether operational controls were adhered to; and
- whether the internal audit system was adequate and effective.

#### **Audit coverage**

**5.1.4** The Punjab Financial Rules (PFR), Civil Services Rules (CSR), Punjab Police Rules (PPR), etc., contain consolidated instructions on various controls in relation to financial management and administrative aspects to be exercised at different levels. The administrative Reforms Department, Haryana had also issued instructions from time to time to all the Departments for evolving effective control mechanism. The audit was conducted keeping all these rules and instructions in view.

The functioning of the Internal Audit System and the effectiveness of Internal Audit in Police Department for the period 2000-05 was also reviewed. Between April and August 2005 test-check of records of nine<sup>1</sup> out of 41 offices was carried out. The results of review are discussed in the succeeding paragraphs.

#### **Budgetary Controls**

##### ***Belated-submission of budget estimates***

**5.1.5** According to the Punjab Budget Manual, as applicable to Haryana State, the head of the Department is required to send schedules of new expenditure to the Administrative Department and the Budget Estimates (BEs) to the Finance Department by 20 September and 25 October respectively.

It was, however, noticed that submission of BEs and schedules of new expenditure was delayed by 18 days to 67 days by the head of

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<sup>1</sup> DGP, Haryana; IGP (Crime Investigation Department); IGP Ambala range; SPs, Panchkula and Panipat; SP, GRP, Haryana, Ambala; Commandant, Fifth Battalion, Haryana Armed Police, Madhuban; Director, Haryana Police Academy, Madhuban; and SP, Telecommunications, Panchkula.

Department as shown below:

Year	Actual date of submission of BEs to Finance Department	Delay (Number of days)	Actual date of submission of schedule of new expenditure to Administrative Department	Delay (Number of days)
2000-01	12 November 1999	18	11 November 1999	52
2001-02	09 October 2000	-	17 November 2000	58
2002-03	24 December 2001	60	22 November 2001	63
2003-04	02 December 2002	38	26 November 2002	67
2004-05	12 December 2003	48	09 October 2003	19

It was noticed that since no calendar of returns was maintained, the Department was not able to ensure submission of BEs on due dates. Belated submission of BEs is a constraint for a meaningful and timely scrutiny of estimates at higher levels. The DGP assured (July 2005) that BEs in future would be sent by the prescribed dates.

#### ***Rush of expenditure in March***

**Expenditure in March ranged between 13 and 43 per cent**

**5.1.6** The Budget Manual provides that rush of expenditure in the month of March should be avoided. Expenditure on contingencies should be staggered throughout the year and should not exceed 8.33 per cent of the total budget provision in the month of March.

However, there was rush of expenditure in the month of March in eight out of nine offices test checked as per details given below:

	DGP, Haryana, Panchkula	IGP (CID) Panchkula	SP, GRP Ambala	SP, Panchkula	Commandant, HAP-V <sup>th</sup> , Bn, Madhuban	Director, PTC, Madhuban	SP, Panipat	SP, Telecommunications
2000-01	29	33	29	46	23	31	38	84
2001-02	22	30	22	37	35	34	40	67
2002-03	19	30	27	30	59	24	45	35
2003-04	20	34	28	30	13	22	39	64
2004-05	13	17	23	29	22	21	29	43

Note: Percentage of expenditure in March with reference to total expenditure during the year.

The expenditure in March ranged between 13 and 43 per cent, which was much beyond the prescribed limit of 8.33 per cent. Department replied (July/August 2005) that rush of expenditure in the month of March was due to late allotment of funds by Government. This has to be avoided since heavy expenditure during March generally makes pre-scrutiny of bills more lax and more irregularities are likely to take place in a rush.

## Expenditure controls

Construction of 97 buildings was undertaken by the Department by diverting Rs 33.25 crore earmarked for other works

### *Execution of work without any financial sanction/allotment of funds*

**5.1.7** Haryana Police Housing Corporation (HPHC) was the executing agency for the construction works of Police Department. The Government was releasing funds for the execution of specific works through DGP. The Financial Commissioner and Principal Secretary to Government of Haryana, Home Department issued instructions (July 2004) that HPHC should not start construction works without the approval of the State Government. In respect of works where no administrative approval was issued by the State Government, but construction have been started, the HPHC should submit proposal through DGP. In respect of works for which scope of work had been changed at their own level, proposals along with full justification should be submitted through Police Department. Further, if any change was required in scope of work, proposal should be submitted through Police Department. Through this, the DGP exercises powers to have a control over the activities of the HPHC.

According to paragraph 2.89 of Public Works Department Code, no work should be commenced unless a properly detailed design and estimate have been sanctioned, allotment of funds made and orders for its commencement issued by the competent authority.

It was noticed that HPHC took up construction of 97 buildings (residential: 53 and non-residential 44) at an estimated cost of Rs 75.15 crore during 2000-05 without obtaining financial sanction of the Government. Funds were also not provided for construction of these buildings by the Government to HPHC. In 36 cases, the Government did not accord even administrative approvals. An expenditure of Rs 33.25 crore was incurred on these works as of July 2004 by diverting funds from other approved construction works, which were either not taken up or remained incomplete.

No system for watching utilisation of funds on specific works was evolved. As a result of this, the DGP could not exercise control over the execution of works by the HPHC, which led to irregular expenditure of Rs 33.25 crore.

### *Conditions of sanction of advances not adhered to*

**5.1.8** As per terms and conditions mentioned in the sanctions for loan to Government employees, vehicles, computers and plots should be purchased by the loanees within one, two and three months respectively after drawal of advance. Loanees were required to submit requisite documents i.e. seller's invoices, sale deeds, mortgage deeds, insurance policies, copy of registration of vehicles, etc. to the DDOs in support of having purchased the vehicles, computers or plots. In case the vehicles, computers or plots were not purchased within the stipulated period, the entire amount of advance was to be recovered in lump-sum along with penal interest. Scrutiny of records revealed that necessary documents in respect of 192 cases involving an

amount of Rs 1.13 crore were not obtained at all by six DDOs upto August 2005 as detailed below:

Sr. No.	Name of DDO	Year of advance	Number of cases	Amount (Rupees in lakh)
1.	DGP, Haryana, Panchkula	2003-04	10	4.10
		2004-05	2	0.70
2.	IGP (Crime Investigation), Haryana, Panchkula	2004-05	9	8.97
3.	S P, GRP, Haryana, Ambala	2002-03	19	6.68
		2003-04	18	5.50
		2004-05	29	15.17
4.	S P, Panchkula	2003-04	12	13.84
		2004-05	23	19.63
5.	S P, Panipat	2000-01	6	1.80
		2001-02	4	1.20
		2002-03	4	1.20
		2003-04	1	0.30
		2004-05	9	2.70
6.	S P, Telecommunications, Haryana, Panchkula	2003-04	3	0.90
		2004-05	43	30.56
<b>Total</b>			<b>192</b>	<b>113.25</b>

The amount of advance in lump-sum along with penal interest was also not recovered from the concerned officers/officials. This was a case of failure to enforce the internal control system, though in existence, for watching the utilisation of loans for the purpose for which these were sanctioned.

### *Irregular grant of financial sanctions*

#### **The IGP, Ambala Range accorded financial sanctions beyond his powers**

**5.1.9** The IGP, Ambala Range was competent to accord sanction for non-recurring expenditure of Rs 30,000 per item; Rs 15,000 for direct purchase of any one item of stores from the local market and Rs 50,000 per work for execution of minor works.

It was noticed that the IGP, Ambala Range accorded 254 sanctions during 2003-05 in favour of five<sup>2</sup> SP offices for purchase of stores items from local market, incurring of non-recurring expenditure and execution of minor works for Rs 33.63 lakh beyond his power by splitting the sanction orders into several parts for one item, which was in gross violation of rules framed for exercising financial controls.

The Inspector General of Police, Ambala Range stated (May – June 2005) that sanctions were accorded by his office to avoid delay keeping in view the law and order situation in the State. The reply was not convincing as the irregular

<sup>2</sup> SP, Ambala, Kurukshetra, Kaithal, Panchkula and Yamunanagar.

sanctions were not reported to and got regularised from the competent authorities. Moreover, 54 sanctions amounting to Rs 16.57 lakh accorded for purchase of water coolers, steel almirahs, computers and its parts, stationery, execution of minor works, etc. were not related to law and order problems.

### ***Expenditure without POL coupons***

**System of POL coupons not followed properly resulting in excess expenditure of Rs 9.67 crore on POL**

**5.1.10** The Finance Department, Haryana evolved (April 1974) a system of restricting expenditure on consumption of Petrol, Oil and Lubricant (POL), through POL coupons. Accordingly, POL coupons were to be issued by the Finance Department as per requirement of the Department and the same were required to be attached to the contingent bills while drawing the amount from the treasury by the drawing officers. No amount in excess of POL coupons was to be drawn from the treasury. The treasury officers were required to deface the POL coupons presented with the bill.

Scrutiny of records of DGP, Haryana revealed that the Department spent an amount of Rs 53.22 crore on POL against the coupons of Rs 43.55 crore issued by the Finance Department during 2000-2005 resulting in excess expenditure of Rs 9.67 crore (22 per cent). The Treasury Officers also passed the bills without insisting on coupons. Thus, the system evolved for controlling the expenditure on POL was given a complete go-by. The matter was reported to the Finance Department in July 2005; reply had not been received (August 2005).

### **Cash controls**

Audit scrutiny relating to cash controls brought out following shortcomings:

#### ***Deficiencies in maintenance of cash-book***

**5.1.11** Financial Rules provide that each head of the office should check the totals of cash-book or get it checked from a responsible subordinate other than the writer of the cash-book and record a certificate in the cash-book to this effect. The examination of the cash-books for the period 2000-2005 maintained in the test checked offices revealed that the totals of cash-book were not found checked by any official other than the writer of the cash-book in the offices of DGP and SP (GRP) Haryana.

#### ***Security from the cashier not obtained***

**5.1.12** As per provisions in the State Treasury Rules, the employees entrusted with the receipt and custody of cash are required to furnish security of an amount not less than 10 per cent of the maximum amount to be handled by them. It was noticed that no security from the cashiers was obtained in any of the offices test checked except SP, Panipat and SP, Telecommunications, Panchkula.

### ***Reconciliation of treasury schedules with cash-book not done***

**5.1.13** As provided in the Financial Rules, the head of office was required to ensure that all amounts drawn from the treasury were entered in the cash book. For this purpose, the head of office/Drawing and Disbursing Officer (DDO) should obtain from the treasury by the 15<sup>th</sup> of every month, a list of all bills (treasury schedule) drawn by him during the previous month and trace all the amounts in the cash-book and record a certificate on the list of treasury schedules to that effect. It was noticed that treasury schedules obtained from the treasury were not reconciled with the cash-book during 2000-05 by three<sup>3</sup> out of nine DDOs test checked; no certificate regarding reconciliation was found recorded on the treasury schedules in these cases.

## **Operational Controls**

### ***System of calendars of dates/events not followed***

**5.1.14** Each government office was required to use and attach calendars of dates/events in the prescribed form while submitting the cases to higher authorities to ensure quick disposal and avoid delay in finalisation of cases. Reasons for detaining the files for more than three days were also to be recorded by the concerned officials. However, these instructions were not followed and the calendar of dates/events was not used in any of the offices test checked (except SP, Telecommunications, Panchkula). The concerned officers of four<sup>4</sup> offices stated (July 2005) that the instructions would be followed in future.

### ***Non-preparation of calendar of returns/charts of statement***

**5.1.15** Each government office was to prepare a calendar of returns/charts of statement to ensure timely submission of returns and statements to the concerned authorities. The calendar of returns/charts of statement was not prepared in any of the offices test checked. As brought out in paragraph 5.1.5, BEs were not being submitted to higher authorities in time due to non-preparation of calendar of returns. The concerned officers while admitting the facts stated (July 2005) that the needful would be done in future.

## **Internal Audit Arrangements**

A Senior Accounts Officer posted at DGP office and one Section Officer each posted in all the six range offices, were entrusted with conducting internal

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<sup>3</sup> DGP, IGP (CID) and SP (GRP).

<sup>4</sup> IGP, Ambala Range; SP, Panipat; Director, Haryana Police Academy, Madhuban; Commandant Fifth Battalion, Madhuban.



audit in addition to their other duties. Test-check of records revealed the following points:

### ***Planning of internal audit***

**5.1.16** The audit of all the units was to be conducted annually, but no audit planning was made. There were no norms for providing mandays for audit of each unit and selection of priority units. No training was imparted to the internal audit staff during 2000-05.

### ***Pendency of audit***

**5.1.17** The details of total number of units, units audited and those pending during 2000-2005 were as under:

Sr. No.	Period of audit	Number of units	Number of units audited	Pending for internal audit	Percentage of units not audited.
1.	2000-01	37	14	23	62
2.	2001-02	37	12	25	68
3.	2002-03	38	10	28	74
4.	2003-04	38	11	27	71

As evident from above table, the audit of 71 *per cent* units was in arrears as of March 2005. Test-check of records revealed that of the 27 units pending for internal audit as of March 2005, audit had not been conducted in 21 units for four years, in one unit for three years, in two units for two years and in three units for one year. Further scrutiny revealed that out of these 27 units, 9 units might be considered high-risk units as more than seven paragraphs of inspection report of the Accountant General (Audit) in each case were outstanding against them.

### ***Delay in issue of Inspection Reports of internal audit and settlement of old objections***

**5.1.18** The Inspection Reports (IRs) were required to be issued to auditee units within six weeks from the completion of audit. Out of 47 IRs, 27 were issued late by one to five months.

Out of 392 paragraphs issued during 2001-2005, only 91 paragraphs were settled and 301 paragraphs were outstanding as of March 2005. Even first replies were not received in respect of 17 IRs.

**Internal audit of 71 *per cent* units was pending**

**Out of 392 paragraphs, only 91 paragraphs were settled**

The outstanding paragraphs were increasing every year as detailed below:

Year	Number of paras issued	Number of paras settled	Number of paras outstanding
2000-01	106	27	79
2001-02	106	28	157
2002-03	81	24	214
2003-04	99	12	301

Increasing trend of outstanding paragraphs indicated poor pursuance of old outstanding objections and also inaction on the part of the auditee units. The lack of monitoring and non-arranging of meetings for clearance of audit objections further aggravated the pendency of audit paragraphs. Thus, the internal audit system failed to bring out any substantial improvement in the Department.

### **Conclusions**

**5.1.19** The Internal Control system in the Police Department was not functioning effectively. As a result, works were being executed without sanctions. Some officers passed orders in excess of their financial powers and Petrol Oil and Lubricant was being consumed in excess of prescribed limits. The drawal of funds was also not being reconciled with the treasuries. These deficiencies are fraught with the risk of serious financial irregularities and mismanagement of Departmental activities, if not set right in time.

The objective of evolving an internal audit system largely remained unfulfilled as evidenced by pendency in audit, delay in issue of IRs and increase in number of outstanding paragraphs.

### **Recommendations**

**5.1.20** The Police Department should consider appropriate measures to activate the internal control system evolved through rules, manuals and codes by way of:

- regular reconciliation of drawal of funds with treasury to avoid chances of misappropriation of funds;
- effective implementation of the coupon system evolved by the Finance Department for controlling the expenditure on POL;
- following the system of calendar of returns/charts of statements to ensure timely submission of information to higher authorities; and

- preparation of proper internal audit plan for audit of each unit, so that audit does not remain pending for long and timely securing of compliance to audit observations to make internal audit effective.

These points were referred to Government (July 2005), reply had not been received (August 2005).

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