

CHAPTER-V

INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT ARRANGEMENT

5.1 Social Justice and Empowerment Department

Highlights

Internal Control System is an integral process by which an organisation governs its activities to effectively achieve its objectives. It provides an assurance to the management for minimizing the risk of errors, irregularities and protecting resources against loss due to waste, abuse and mismanagement. An audit evaluation of the internal control system and internal audit arrangement in Social Justice and Empowerment Department revealed weaknesses in the internal control mechanism of the Department, pertaining to non-compliance with rules, manuals and codes in the areas of financial, administrative and operational controls. Adequate attention was not paid towards conducting internal audit, as periodicity of audit for field units of the department was not prescribed and prompt/due compliance of its audit observations not ensured.

- **Maintenance of cash book and its reconciliation with the treasury schedules were found to be deficient which was fraught with the risk of misappropriation of funds remaining undetected.**

(Paragraphs 5.1.6.1 and 5.1.6.2)

- **Pension amounting to Rs 1.29 crore was disbursed to pensioners in five test checked districts without proper identification as required under the rules indicating that operational controls were weak.**

(Paragraph 5.1.7.1)

- **Though an Internal audit wing existed, no manual was prepared to regulate its activities. As a result Internal Audit of units was heavily in arrears and settlement of Audit paragraphs, besides the department was denied the valuable inputs of internal audit.**

(Paragraphs 5.1.8.1 and 5.1.8.3)

5.1.1 Introduction

Social Justice and Empowerment Department is implementing social welfare schemes for upliftment, development and rehabilitation of vulnerable groups of the society by giving financial assistance in the shape of pensions to widows, destitute women, handicapped and old persons. Besides, the department provides grants-in-aid to voluntary organisations engaged in the welfare of socially and economically backward women, physically handicapped persons and destitute/orphan/street children. Internal control is

an integral part of an organisation's operations and management and is the principal focus of Internal Audit's attention. Internal Control systems provide an assurance to the management on 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 examine and evaluate the level of compliance to departmental rules and procedures and provide independent assurance to management on the adequacy or otherwise of the existing internal control systems. In Haryana, no independent centrally controlled Internal Audit Organisation exists. However, major departments have Internal Audit System for which Accounts Officers and Section Officers are provided by the State Finance Department, who are entrusted with conducting internal audit of accounts of the department and its subordinate offices.

5.1.2 Organisational set up

The Financial Commissioner and Principal Secretary to Government of Haryana, Social Justice and Empowerment Department (the department) is the administrative head of the department and is responsible for formulation of State Government's policies and programmes relating to the welfare of vulnerable groups of society. The Director, Social Justice and Empowerment Department heads the department as Controlling Officer and is in overall charge for implementation of the various schemes of the department. There are 19 District Social Welfare Officers (DSWOs) who are implementing the departmental schemes at the district level. Besides, there are 10¹ Welfare Institutions in the State, the functioning of which is looked after by respective Superintendents.

For internal audit of the department, one Accounts Officer was posted at Directorate and four Accounts Officers one each in the offices of DSWOs, Gurgaon, Hisar, Kurukshetra and Rohtak at divisional level to conduct internal audit of all the district level offices and Institutions in the State.

5.1.3 Audit objectives

The evaluation of internal control system and internal audit arrangement in the department covered checks on adherence to various control measures envisaged in the codes, manuals, guidelines of schemes and instructions of the Government and to watch the effectiveness of internal audit. For this purpose, the following issues were checked in audit to assess whether:

- budgetary system was properly followed and controls exercised;
- proper system for drawal of funds from treasury, maintenance of cash-book, etc. was followed;

¹ (i) State After Care Home (girls), Karnal; (ii) Mahila Ashram, Karnal; (iii) Mahila Ashram, Rohtak; (iv), Kasturba Sewa Sadan, Faridabad; (v) Government Institute for Blind, Panipat; (vi), Training Institute for Adult Blind, Panipat; (vii) State After Care Home for Boys, Sonipat; (viii) Special Home (for minor children), Sonipat; (ix) Observation Home, Sonipat and (x) Home for Aged and Infirms, Rewari.

- operational controls were exercised; and
- internal audit system was adequate and effective.

5.1.4 Audit coverage

Internal control system and effectiveness of internal audit in Social Justice and Empowerment Department for the period 2001-06 was reviewed during March-May 2006. Records of Directorate and seven², out of 29 field offices, in five³ (out of 20) districts were test checked. The results of review are discussed in the succeeding paragraphs.

Audit findings

5.1.5 Budget and expenditure controls

5.1.5.1 Budget provision and expenditure

Details of budget provision and expenditure during 2001-06 were as under:

(Rupees in crore)

Year	Budget provision			Expenditure			Excess (+) Saving (-)		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
2001-02	301.95	23.68	325.63	297.40	23.45	320.85	(-) 4.55	(-) 0.23	(-) 4.78
2002-03	307.58	28.12	335.70	288.44	27.79	316.23	(-) 19.14	(-) 0.33	(-) 19.47
2003-04	329.58	28.16	357.74	306.20	27.59	333.79	(-) 23.38	(-) 0.57	(-) 23.95
2004-05	329.76	28.07	357.83	370.91	30.63	401.54	(+) 41.15	(+) 2.56	(+) 43.71
2005-06	440.96	36.92	477.88	534.69	38.79	573.48	(+) 93.73	(+) 1.87	(+) 95.60
Total	1709.83	144.95	1854.78	1797.64	148.25	1945.89	(+) 87.81	(+) 3.30	(+) 91.11

The above details show that there were wide variations in the budget allocations and actual expenditure under plan schemes. During the years 2002-04, savings were attributable mainly to less enrolment of old age pensioners and less receipt of applications for grants-in-aid from voluntary organisations. The savings were surrendered through re-appropriations in the month of March. The excess expenditure, which ranged between 12 and 21 *per cent* during the years 2004-05 and 2005-06 was due to increase in the number of beneficiaries under old age pension schemes, enhancement in the rates of old age/widow/handicapped pensions from Rs 200 to Rs 300 per month from November 2004 and payment of one month's extra pension in November/ December 2005 on occasion of Diwali.

5.1.5.2 Belated submission of budget estimates

According to Punjab Budget Manual as applicable to Haryana State, the head of the Department is required to send schedules of new expenditure (SNE) for plan

² DSWO, Ambala, Gurgaon, Hisar, Kaithal, Panipat, Government Institute for Blind, Panipat and Government Training Institute for Adult Blind, Panipat.

³ Ambala, Gurgaon, Hisar, Kaithal and Panipat.

schemes to Administrative Department and the budget estimates (BEs) to the Finance Department by 20 September and 25 October respectively every year.

It was, however, noticed that submission of BEs and schedules of new expenditure were delayed by 3 to 32 days and 94 to 225 days respectively by the head of the Department as shown below:

Year	Actual date of submission of BEs to Finance Department	Delay (Number of days)	Actual date of submission of SNEs to Administrative Department	Delay (Number of days)
2001-02	03 November 2000	09	16 February 2001	149
2002-03	26 November 2001	32	30 January 2002	132
2003-04	28 October 2002	03	06 February 2003	139
2004-05	06 November 2003	12	23 December 2003	94
2005-06	09 November 2004	15	02 May 2005	225 ⁴

Audit further observed that since calendar of returns was not being maintained, the department was not able to ensure submission of schedules of new expenditure on due dates. Belated submission of these documents is a constraint for a meaningful and timely scrutiny of estimates at higher level.

5.1.5.3 Rush of expenditure in March

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.

It was, however, noticed that there was rush of expenditure in the month of March in all the test checked units as per details given below:

Expenditure in March ranged between 10 and 58 per cent

Year	Directorate	DSWO, Ambala	DSWO, Gurgaon	DSWO, Hisar	DSWO, Kaithal	DSWO, Panipat	Government Institute for Blind, Panipat	Training Institute for Adult Blind, Panipat
2001-02	11	40	18	10	35	31	19	-
2002-03	18	33	20	20	17	25	15	10
2003-04	18	19	16	28	37	29	20	11
2004-05	26	42	40	15	39	16	20	56
2005-06	33	20	-	13	42	21	29	58

Note: Figures show percentage of expenditure in March with reference to total expenditure during the year.

The expenditure in the month of March in the test checked units ranged between 10 and 58 per cent vis-à-vis department's 12 to 31 per cent which was much beyond the prescribed limits. The Drawing and Disbursing Officers concerned (except Directorate) stated (April/May 2006) that rush of expenditure in the month of March was due to late allotment of funds by the Government. Replies of the DDOs were not factually correct as funds were allocated to them at the beginning of the financial years i.e. usually in April-May by the Directorate office. In view of the above, heavy rush of expenditure towards end of the year could be avoided as heavy expenditure during March generally makes pre-scrutiny of bills more lax and more irregularities are likely to take place in a rush.

⁴ The delay of 225 days was due to Assembly elections in the State. Annual budget for 2005-06 was presented to the Assembly in June 2005 after the new Government was formed.

5.1.6 Cash control

Audit scrutiny relating to cash controls brought out following shortcomings:

5.1.6.1 Deficiencies in the maintenance of cash-book

A sound financial control system must ensure that no financial transaction is handled by only one person from beginning to end. This principle, called segregation of duties, is pivot to an effective internal financial control system. Financial Rules provide that each head of 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 cash-books for the period 2001-06 maintained in the test checked offices revealed that the totals of cash-book were not found checked by the Head of the office or by an official other than the writer of the cash-book in any of the offices test checked. Non-checking of totals of cash book by the Head of the office or by an official other than its writer was fraught with the risk of mistakes in totals having remained undetected leading to possible misappropriation of funds. DSWOs and Superintendents concerned stated (April-May 2006) that the compliance for removing the deficiency would be made in future.

5.1.6.2 Reconciliation of treasury schedules with cash-book not done

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 the purpose, the head of the office/drawing and disbursing officer (DDO) was required to obtain from the treasury by 15th 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 though obtained from the treasury were not reconciled with the cash-book during 2001-2006 by any of the offices test checked except the Government Institute for Blind, Panipat. No certificate regarding reconciliation was found recorded on the treasury schedules in these cases. Non-reconciliation with treasury schedules was fraught with the risk of serious financial irregularities including fraud, embezzlement, etc. remaining undetected. The DSWOs and Superintendents concerned stated (April-May 2006) that compliance would be made in future.

Reconciliation of treasury schedules with cash-book was not done by six offices test checked

5.1.7 Operational Controls**5.1.7.1 Prescribed procedure for disbursement of pension not followed**

Haryana Government was providing pension to old age persons, widows and destitute women and handicapped persons. To have a watch over the disbursement of pension and to ensure that it was being disbursed to genuine persons only, following checks were to be exercised by pension disbursing officers:

Pension amounting to Rs 1.29 crore were disbursed without following prescribed procedure

- (i) Actual Payees Receipts (APR)-cum-feed back form prescribed for monitoring pension disbursement were required to be signed by the pension disbursing officers i.e Circle Revenue Officers, Secretary of Municipal Committee, etc.

- (ii) The name of the actual payee was to be written against the thumb impression/signatures of pensioners and every pensioner was to be identified by the *lamberdar/panch/sarpanch/secretary* of Municipal Committee by putting their signatures in token of having identified the pensioner.
- (iii) Every APR was to be checked and signed by the concerned District Social Welfare Officer or Section Officer.

It was noticed that none of the above mentioned checks were exercised in five test checked districts as detailed below:

Sr. No.	District	Period of payment	Number of cases where prescribed procedure not followed	Amount of pension paid (Rupee in lakh)
1	Ambala	November 2004 and March 2005	6,749	17.12
2	Hisar	March 2005 and September 2005	10,081	30.24
3	Kaithal	March 2005 and September 2005	30,235	80.51
4	Gurgaon	February 2006 and March 2006	162	0.49
5	Panipat	February 2006	114	0.34
Total			47,341	128.70

Due to non-exercising of the above checks, it could not be ensured that the pension payments were being disbursed to genuine persons only. There was lack of effective control over disbursement of pension which needed to be looked into to ensure that there were no chances of misappropriation or fraudulent payments of pensions. Even the Internal audit of the department failed to point out these lapses through their reports.

5.1.7.2 Security from the cashier not obtained

As per provisions in the State Treasury Rules, 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 cashiers was obtained in any of the test checked offices. The Director replied (May 2006) that since salary of their employees was paid through bank account, no security was obtained from cashier. Other DSWOs and Superintendents concerned stated (April-May 2006) that there was no permanent post of cashier and any official of the office was given the charge of cash and as such no security was obtained. The reply was not acceptable as any employee, entrusted with receipt and custody of cash, was required to furnish security. In the absence of such security, recovery of cash shortage or misappropriated amount, if any, immediately from the cashier is not possible.

5.1.7.3 System of calendar of dates/events not followed

According to Haryana Government instructions issued in March 1997, each Government office was required to use and attach calendar of dates/events in the prescribed form while submitting the cases to higher authorities to ensure quick disposal of cases and avoid delay in their finalisation. Reasons for delaying the files for more than three days were also to be recorded by the officials concerned. However, these instructions were not followed and the calendar of dates/events was not used in any of the offices test checked. Failure to comply with Government instructions could lead to delay in finalisation of cases. In the absence of this system, the delay in disposal of

cases, if any, could not be brought on record and thus, was not ascertainable for taking remedial measures. The DSWOs and Superintendents concerned, while admitting the facts, stated (April/May 2006) that these instructions would be followed in future.

5.1.7.4 Non-maintenance of calendar of returns/charts of statement

Each Government office was required to maintain calendar of returns/charts of statement to ensure timely submission of returns and statements to the concerned higher authorities. However, the calendar of returns/charts of statements was not maintained in any of the offices test checked. Due to non-maintenance of calendar of returns, the department failed to observe due dates for submission of budget estimates to the State Government as brought out in paragraph 5.1.5.2. All the officers' incharge concerned while admitting the facts stated (April/May 2006) that registers would be maintained in future.

5.1.7.5 Non-maintenance of branch diary

As per instructions issued in March 1989 by Administrative Reforms Department, Government of Haryana, each Government office was required to maintain a central diary as well as branch diary to avoid delay in tracing the letters at any stage later on. After diarising all the letters in central diary, these letters were required to be entered in the branch diary to watch their movement/ disposal. It was noticed that while central diary was maintained, diary at branch level was not maintained in any of the test checked offices. In the absence of branch diary, delay in disposal of letters and their pendency was not being checked by the Head of the Office which weakened this important control system. The officers concerned while admitting the failure, stated (April/May 2006) that branch diaries would be maintained in future.

5.1.7.6 Non-maintenance of complaint register

As per the instructions issued (March 1989) by the Administrative Reforms Department, Government of Haryana, each office was to maintain a complaint register in the prescribed form indicating total number of complaint cases at the beginning of the month, cases received/disposed off during the month and total number of complaints outstanding at the end of each month for monthly review of the complaints. In the offices test checked, however, no such register was maintained, consequently the monthly review of complaint cases could not be carried out by Head of the Office. Scrutiny of Directorate's records disclosed that 16 complaints regarding non-sanction and delay in disbursement of pensions were received during 2001-06 which were forwarded to DSWOs concerned for taking appropriate action but action taken on these complaints could not be watched by the Director in the absence of complaints register. The officers concerned assured (April/May 2006) that complaint register would be maintained in future.

5.1.8 Internal Audit Arrangement

For conducting internal audit in the department, one Accounts Officer at Directorate and four Accounts Officers were posted in the offices of DSWOs at Kurukshetra, Gurgaon, Hisar and Rohtak. Besides, one Section Officer was

posted in each of the remaining DSWOs offices. Test-check of records revealed the following points:

5.1.8.1 Planning and coverage of internal audit

Audit planning not done

The department did not have any manual to facilitate preparation of department's work plans for internal audit and other activities. No audit planning was done to cover all the auditable units in a specific time frame. Further, no roster/programme register was maintained to monitor the coverage of all units for audit. The department had neither fixed any periodicity for audit nor any norms to work out the number of mandays required for audit of each unit.

The Director admitted the fact (May 2006) that no audit planning was made for conducting the audit of units in the field and stated that four programmes were prepared at directorate level and communicated to the concerned Accounts Officers who conducted audit as per these programmes.

Internal audit of 28 out of 30 units was pending

Further, test-check of records revealed that of the 28 units pending for internal audit as of March 2006, audit had not been conducted in two units for more than three years, in 12 units for more than two years and in 14 units for over a year. The Director stated (July 2006) that internal audit could not be conducted on regular basis due to shortage of staff. While agreeing with the handicap of inadequate staff, audit feels that more units could have been covered in a timely manner with proper audit planning with the existing staff.

Internal audit of directorate was not conducted

Internal audit wing did not conduct internal audit of the Directorate during 2001-06. The Director, while admitting the fact, did not furnish the reasons for the same.

Periodicity of internal audit was not fixed and the audit was conducted on adhoc basis as per details given below:

Audit periodicity was not fixed

Sr. No.	Name of unit	Period covered in audit	Months covered
1	DSWO, Ambala	October 2001 to February 2002	5
		March 2002 to June 2002	4
		July 2002 to October 2004	28
2	DSWO, Gurgaon	March 2001 to September 2002	19
		October 2002 to September 2003	12
		April 2003 to August 2005	29
3	DSWO, Hisar	April 2001 to March 2002	12
		April 2002 to June 2002	3
		July 2002 to September 2002	3
		October 2002 to September 2004	24
		October 2004 to December 2004	3
4	DSWO, Kaithal	January 1996 to September 2003	93
		October 2003 to August 2005	23
5	DSWO, Panipat	April 2001 to February 2002	11
		March 2002 to January 2004	23
6	Government Institute for Blind, Panipat	February 1998 to January 2005	84
7	Government Training Institute for Blind, Panipat	February 1998 to December 2004	83

As evident from the details above, audit was not conducted regularly. The period covered in audit ranged between three and 93 months. Out of above

seven units, audit of three units was conducted only once in more than seven years.

5.1.8.2 Training of internal audit staff

Further, no training was imparted to internal audit staff which was essential to equip them and improve their audit skills for discharging their duties efficiently and effectively. The Director stated (August 2006) that the training could not be imparted as no training programme was received from Haryana Institute of Public Administration.

5.1.8.3 Huge pendency of unsettled internal audit paragraphs

Internal audit reports were to be issued by the Director to the respective subordinate offices for rectification of deficiencies who were to report compliance within 30 days.

Out of 372 paragraphs issued, only 52 paragraphs were settled

Audit noticed that there was no system in the form of consolidated unit-wise data regarding number of paragraphs outstanding, amount involved therein, number of paras settled, etc. in the Directorate for watching the clearance of internal audit paragraphs. Scrutiny of Inspection Reports revealed that out of 372 paragraphs issued through 50 IRs of 28 DDOs during 2001-06, only 52 paragraphs were settled while 320 paragraphs were outstanding, of which 188 were more than two years old (March 2006).

Further, no register indicating the date of audit, date of issue of IRs etc. was maintained in the Directorate to watch the timely issue of IRs and receipt of replies thereto.

The number of outstanding paragraphs was increasing every year as detailed below:

Year	No. of paras issued	No. of paras settled	No. of paras outstanding as of March 2006
2001-02	33	9	24
2002-03	83	29	78
2003-04	116	6	188
2004-05	123	8	303
2005-06	17	-	320
Total	372	52	

Increasing trend of outstanding paragraphs indicated poor pursuance of old outstanding observations and also non-compliance by the auditee units. The lack of monitoring and non-arranging of meetings for clearance of audit observations resulted in huge pendency. Thus, internal audit system failed to bring about any useful/qualitative improvement in the functioning of the internal audit mechanism of the department. The benefits of the internal audit report were not fruitfully utilised for rectifying the errors.

5.1.9 Vigilance mechanism

The department did not have any vigilance mechanism to look into complaints against employees and to keep a vigil over the functioning of the department, especially in the identification of old age pensioners. The Director intimated (August 2006) that a vigilance cell would be created as and when such instructions are received from the Government.

5.1.10 Monitoring

The State Government issued (August 1988) instructions for carrying out periodic inspections of subordinate offices by the head of the department (HOD) and of the offices of HOD by the Administrative Secretaries concerned to ensure that proper records were maintained in Government offices. Records in the units test checked showed that neither periodicity nor procedure for such inspections were formulated nor the HOD carried out any inspection during 2001-06 as confirmed by five⁵ out of seven test checked units.

5.1.11 Conclusions

The objective of internal control system was to provide reasonable assurance to the management on efficient, effective and economic utilisation of resources. The system, however, was not functioning effectively. There were deficiencies in budget and expenditure control and funds management as there was rush of expenditure in the month of March making pre-scrutiny of bills more lax, drawal of funds was not being reconciled with treasuries which could lead to serious financial irregularities. Operational Controls were also weak as pensions were being disbursed without identification of pensioners through *lamberdars/panches/sarpanches/secretaries* of Municipal Committees and without authentication of APRs by DSWOs. Calendar of returns was not being maintained to ensure timely submission of returns to higher authorities.

The objective of evolving an internal audit system also largely remained unfulfilled as evidenced from pendency in audit, absence of audit planning and delayed/non-compliance of audit paragraphs resulting in an increase in pending audit paragraphs.

5.1.12 Recommendations

To activate the internal control system and internal audit arrangements, the Government should consider the following recommendations:

- Funds management system needs to be streamlined through regular reconciliation of drawal of funds with treasury to avoid chances of misappropriation;
- System should be introduced to take punitive action against those not adhering to the system of identification of pensioners;
- The department should create a post of cashier;
- Internal Audit Manual should be prepared immediately to ensure effectiveness of Internal Audit and initiate action against those who have not carried out inspections as prescribed;

⁵ DSWOs, Ambala, Gurgaon, Hisar, Kaithal and Panipat.

- Training to internal staff should be imparted so that requisite audit skills are made available to them; and
- Vigilance cell should be created not only to keep a vigil over the functioning of the department but to dispose of vigilance cases expeditiously.

These points were demi-officially referred to the Financial Commissioner and Principal Secretary to Government Haryana, Social Justice and Empowerment Department in June 2006; reply had not been received (July 2006).

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