

CHAPTER-V

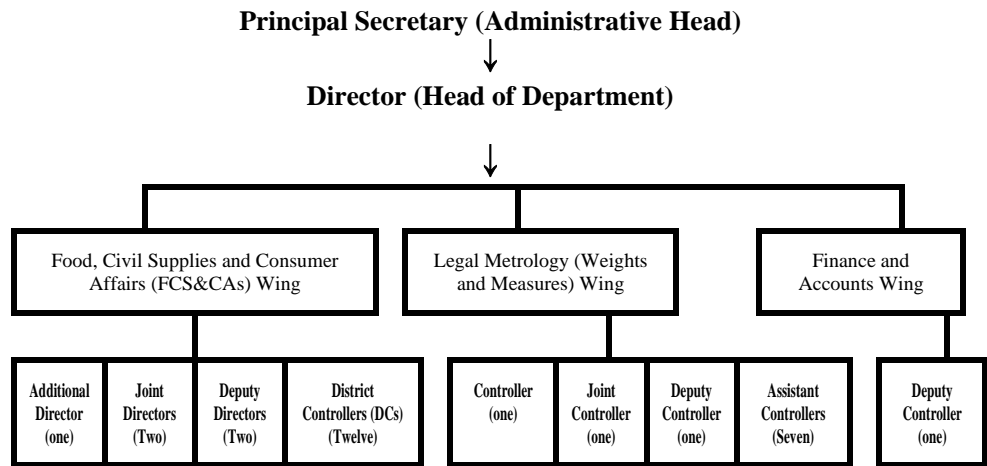
INTERNAL CONTROL AND INTERNAL AUDIT ARRANGEMENTS

Food, Civil Supplies and Consumer Affairs Department

5.1 Internal control and internal audit arrangements

The main functions of the department are to maintain prices under control, ensure availability of quality foodgrains and essential commodities to the people particularly those belonging to the Below Poverty Line (BPL) segment and *Antodaya Anna Yojna* (AAY) families under Targeted Public Distribution System (TPDS) at reasonable, uniform and affordable prices throughout the State through Fair Price Shops (FPSs), regular checking of FPSs and establishment of uniform standards of Weights and Measures, etc.

5.1.1 The organisational set up of the department is as under:



5.1.2 Internal control is an integral process and a management tool to provide reasonable assurance that organisational objectives are achieved. As adequacy and effectiveness of internal control rests with the department, it was to ensure that a proper internal control system was instituted, reviewed and updated to make it effective.

Test-check of records relating to adequacy of internal control system and internal audit arrangements in six¹ out of 22 units in the department and the

¹ DC, FCS&CAs: Bilaspur, Kinnaur and Solan; Controller, Legal Metrology (Weights and Measures), Shimla; Assistant Controllers, Bilaspur and Solan.

Directorate revealed (March-April 2005) the following:

Budgetary controls

Unrealistic budget estimates

5.1.3 Budget provision and expenditure thereagainst during 2000-2005 was as under:

Table: 5.1

(Rupees in crore)

Year	Total provision	Actual expenditure	Excess (+) Saving (-)	Saving per cent
2000-2001	46.39	23.90	(-) 22.49	48
2001-2002	38.93	9.25	(-) 29.68	76
2002-2003	13.97	11.28	(-) 2.69	19
2003-2004	11.25	10.84	(-) 0.41	4
2004-2005	9.33	9.14	(-) 0.19	2

Persistent savings were indicative of preparation of unrealistic budget proposals at lower formation level and lack of scrutiny at the departmental level.

The Director stated (April-May 2005) that savings were due to less requirement of wheat under Public Distribution System (PDS), transfer of wheat trade to Himachal Pradesh State Civil Supplies Corporation (HPSCSC), non-filling up of vacant posts and utilisation of funds lying in bank against *Annapurna* scheme. The reply is not convincing as wheat trade was transferred to HPSCSC from April 2001 and the department should have taken appropriate steps to prepare realistic budget proposals and surrender excess allotments during 2001-2005.

Delay in submission of budgetary returns

5.1.4 Various returns such as budget estimates and statements of excesses and surrenders were not submitted by the Director to the Finance Department (FD) during 2000-2005 on the dates prescribed in the budget manual. Delay in individual cases ranged between six and 77 days for which no reasons were intimated.

Non-maintenance of control records

5.1.5 Important control records such as Ledger Account of Appropriations and Liability Register were not maintained at the Directorate level, as required. The position of pending liabilities could thus not be monitored at the Directorate level. Non-maintenance of Ledger Account of Appropriation resulted in unrealistic preparation of budget estimates. The Director stated (March 2005) that the control records would be prepared.

Expenditure control

5.1.6 Audit scrutiny of records in the Directorate revealed that expenditure during the last quarter of each financial year during 2000-2005 ranged between 33 and 50 per cent against the prescribed percentage of 25. This,

according to the department, was due to the fact that financial sanctions were issued by the Government in the last quarter of the year. The deviations were not got approved from the FD, which was indicative of lack of control over expenditure.

Non-submission of monthly expenditure statements to Finance Department

5.1.7 Expenditure statements received from the Drawing and Disbursing Officers (DDOs) were not submitted to the FD after consolidation during 2000-2005, as required. Reasons for this lapse were not intimated (March 2005).

Irregular expenditure on decretal payments

5.1.8 Test-check of records revealed that payments on account of Court decrees/awards amounting to Rs 0.57 lakh were made by the Controller, Legal Metrology (Weights and Measures), Shimla (Rs 0.51 lakh) and District Controller, FCS&CA, Kinnaur (Rs 0.06 lakh) out of voted grants instead of charged appropriations, during 2001-2003. The provisions of Article 202 (3) of the Constitution of India were thus not kept in view.

Irregular release of grants-in-aid

5.1.9 As per provisions contained in the budget manual, no order/sanction for grants-in-aid, loan, etc., should be issued after Ist March in any financial year.

Contrary to these provisions, State Government released grants-in-aid and loan amounting to Rs 23.20 lakh (grants-in-aid: Rs 15.20 lakh and loan: Rs eight lakh) to the HPSCSC, Shimla during 2002-2003 on 31st March.

Maintenance of cash book

5.1.10 In the five test-checked units², cash balance in the chest was not physically verified by the DDOs during the period covered in audit, as required. Certificates of physical verification of cash balance recorded in the cash books of Directorate and two DDOs were not found correct as undisbursed bank drafts/banker cheques for Rs 2.57 crore (Directorate: Rs 2.52 crore and two DDOs: Rs 0.05 crore³) prepared between March 2001 and March 2004 and lying undisbursed at the close of the relevant months were not included in the cash balance.

Hence, physical verification certificates recorded by the DDOs were not based on checking of cash chests.

All transactions of receipts and disbursements should be routed through cash book of the DDOs. This is necessary to prevent the chances of

2 Controller, Legal Metrology (Weights and Measures) Shimla, Assistant Controllers, Legal Metrology (Weights and Measures) Bilaspur and Solan, District Controller, FCS&CA, Bilaspur and Solan.

3 Controller, Legal Metrology (Weights and Measures), Shimla: Rs 0.05 crore and District Controller, FCS&CA, Solan: Rs 0.001 crore.

misappropriation or frauds, etc. In five test-checked units⁴, receipts amounting to Rs 1.32 crore realised between 2000-2005 were not accounted for in the main cash books of the DDOs and the same were remitted direct to the treasury.

Drawal of funds on AC bills

5.1.11 According to Financial Rules, funds drawn on Abstract Contingent bills should be adjusted through Detailed Countersigned bills, submitted to the Controlling Officer within 60 days from the drawal of the amount.

It was noticed in the Directorate that Rs two crore drawn on AC bills in June 2000 had not been adjusted as of April 2005. This is indicative of weak financial control.

Operational controls

Office inspections not conducted

5.1.12 The Director was required to inspect his office and subordinate units annually to ensure correct maintenance of essential records and to devise ways and means for improvement, etc. He was also required to prepare an inspection note for the unit inspected for taking remedial measures.

During 2000-2005, targets to inspect the units were not fixed. However, only two out of 23 units were inspected by the Director. The Director stated (April 2005) that inspections could not be conducted due to heavy workload. The reply is not tenable as provisions of the manual were not adhered to; besides, correctness of records maintained in subordinate units could not be ensured.

Shortage of wheat stocks

5.1.13 As per Wheat Trade Account Manual, physical verification of wheat stock was required to be conducted by the Circle Officer twice a year and at least one of these verifications were to be carried out at all centres in the month of March every year. Though physical verification was conducted in November 2000, shortage of 1150.20 quintals of wheat valued at Rs 6.29 lakh was not detected at Ghati foodgrains centre (Solan district). The shortage came to notice at the time of transfer of stock to HPSCSC in May 2001. Action to recover the shortage had, however, been initiated by the department.

Public distribution system

5.1.14 Guidelines for effective implementation/review of PDS required that Vigilance Committees (VCs) should be constituted at State, district, tehsil and FPS levels to monitor the implementation of Targeted Public Distribution System (TPDS) at FPSs. It was, however, noticed that no such VCs were constituted during 2000-2005, except at FPS level where 18,080 VCs were

4 District Controllers, FCS&CA: Bilaspur: Rs 5.09 lakh and Solan: Rs 9.22 lakh and Assistant Controllers (Weights and Measures) Shimla: Rs 28.23 lakh; Bilaspur: Rs 40.42 lakh and Solan: Rs 48.60 lakh.

constituted against the required 20,132 committees. Meetings of VCs were, however, not held during 2000-2005. The implementation of TPDS could thus not be monitored effectively.

Reasons for not holding meetings of the VCs were not furnished by the Director and DCs, FCS&CA of test-checked units except DC, FCS&CA, Solan, who intimated that the members of the VCs took very less interest in this regard. Thus the purpose for which the committees were constituted was not served.

Annapurna programme

5.1.15 Under Centrally sponsored programme called “*Annapurna*”, destitutes aged 65 years or above drawing old age pensions, were not eligible for distribution of free ration.

In two test-checked units of Kinnaur and Solan districts, 626.40 quintals of foodgrains valued at Rs 3.19 lakh were distributed to 288 ineligible beneficiaries during 2001-2003 (upto September 2002) which deprived 327 eligible beneficiaries in the same districts of the benefits of the programme.

Unutilised foodgrains not transferred

5.1.16 Though the “*Annapurna*” scheme had become defunct in Solan and Kinnaur districts from September and July 2002 respectively, stock of 813.30 quintals of wheat valued Rs 4.59 lakh (Kinnaur: 118.80 quintals: Rs 0.67 lakh and Solan: 694.50 quintals: Rs 3.92 lakh) had not been transferred to other schemes as of March 2005 for utilisation by the beneficiaries. This was indicative of weak management by the District Controllers, FCS&CA.

Delay in submission of returns

5.1.17 According to the guidelines of “*Annapurna*” scheme, the department was required to obtain information from each district and the Food Corporation of India in regard to identification of beneficiaries, receipt of foodgrains and distribution thereof and consolidated information was accordingly to be forwarded to the Government of India, Ministry of Rural Development for each quarter ending July, October, December and March every year.

There were inordinate delays ranging from one to 32 months in sending such returns, which adversely affected the implementation of the scheme.

Non-reconciliation of ration card population

5.1.18 According to prescribed procedure, ration cards in urban areas are issued by the District Controller, FCS&CA of the respective district and by the *Pradhans* of *Gram Panchayat* in rural areas. The ration card population should not exceed the total population of the State. Comparison of ration card

population with actual population of the State revealed that there was wide gap between the two as shown below:

Table: 5.2

(Figures in lakh)

Sr. No.	Year	Population as per statistical outline	Ration card population	Ration card population shown excess
1.	2000-2001	61.30	63.25	1.95
2.	2001-2002	61.96	64.90	2.94
3.	2002-2003	62.65	65.03	2.38
4.	2003-2004	63.32	65.28	1.96
5.	2004-2005	63.98	65.33	1.35

Source: Statistical outline Himachal Pradesh 2002-2003

The variation is indicative of lack of control over issue of ration cards and possibility of issue of bogus/duplicate ration cards can not be ruled out. No action had been taken to reconcile the discrepancy.

Quality control

5.1.19 To ensure that fair average quality of foodgrains and other essential commodities is distributed under the Targeted Public Distribution System, the Director, FCS&CA had fixed norms for taking random samples at wholesale and FPS level by the field and technical staff. It was noticed in audit that shortfall in taking samples of wheat, wheat *atta*, rice and sugar ranged between 25 and 95 during 2000-2005. Year-wise position of samples required to be taken and actually taken from FPS is shown in **Appendix-XXIX**.

The Director stated (April 2005) that the shortfall was due to shortage of staff in the department. This indicated that quality of food supplied to the people was not ensured.

Evaluation of internal control

Internal audit arrangements

5.1.20 An Internal Audit (IA) wing was constituted in the department in 1973 under the overall control of the Director. The department had a total number of 23 auditable units (including Directorate) for which one Deputy Controller (Finance and Accounts) and three Section Officers had been posted by the State Finance Department. Besides, 19 Auditors/Sr. Auditors were provided by the department.

IA staff was deployed for conducting internal audit of wheat trade till March 2001. Thereafter the staff was deployed for conducting audit of non-tax revenue receipts. Position of internal audit conducted during the last four years was as under:

Table: 5.3

Year	Total number of auditable units	Units actually audited	Units not audited	Shortfall in conducting audit (per cent)
2001-2002	23	1	22	96
2002-2003	23	2	21	91
2003-2004	23	--	23	100
2004-2005	23	--	23	100

It was noticed that audit of expenditure was not conducted by the IA at all during 2000-2005.

No time schedule for issue of Internal Audit Reports (IARs) to the auditee units was prescribed by the department. Scrutiny of records revealed that out of 28 IARs relating to internal audit of food trade issued between 2000-2003, replies in 15 cases were furnished by the auditee units after delays ranging between 33 and 587 days.

Pendency of inspection reports of Accountant General

5.1.21 Audit observations of the Accountant General are required to be attended to by the department within one month of receipt of Inspection Reports (IRs). It was, however, noticed that 29 IRs and 55 Paras were pending for settlement as of March 2005 as detailed below:

Table: 5.4

Year	Opening balance		Additions		Settlement		Closing balance	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
2000-2001	43	87	14	59	14	40	43	106
2001-2002	43	106	06	35	15	67	34	74
2002-2003	34	74	09	42	11	44	32	72
2003-2004	32	72	12	48	10	37	34	83
2004-2005	34	83	05	17	10	45	29	55

The outstanding IRs and Paras pertained to the period from 1976-77 to 2004-2005.

5.1.22 No specific mechanism for monitoring/evaluating the internal control system had been evolved by the department to gauge its effectiveness and adequacy. The Director stated (April 2005) that periodic review meetings and inspections were conducted but the fact was not supported by any documentary evidence.

These points were referred to the Government in June 2005; their reply had not been received (July 2005).

Education Department

5.2 Grants to Government aided non-Government institutions

Introduction

5.2.1 There were 144 non-Government schools in the State. All these 144 schools had filed a writ petition in Himachal Pradesh High Court in 1989 demanding enhancement in the Grants-in-aid (GIA) from the State Government for paying salary to the teachers which was being paid to their counterparts in the Government schools. The High Court directed (September 1992) the Himachal Pradesh Government (Government) to pay 95 per cent GIA to these non-Government schools from February 1988. The Government filed an appeal in the Supreme Court. The Supreme Court

modified (May 1995) the judgement of the High Court to the extent that the enhanced GIA be paid to the aided schools from April 1993. The Government, however, decided to pay GIA to 54 schools only as the remaining 90 schools had either been closed or were not eligible for GIA.

GIA Rules to govern payment of grants to non-government institutions (colleges) were notified by the Government in May 1994. Rules governing the payment of grants to the non-government institutions (schools) effective from January 1997 were notified by the Government in October 1998. GIA in the shape of maintenance grant limited to 95 per cent of the deficit of the income and the expenditure on payment of salary of the approved teaching and non-teaching staff was to be provided to these colleges and schools in accordance with the provisions of the GIA Rules.

There were eight non-Government colleges fulfilling the conditions for GIA in accordance with the GIA Rules. The Education Department was providing grants to these eight non-Government colleges. Besides, 54 schools had also been getting 95 per cent GIA in accordance with the decision of the Supreme Court.

Audit coverage

5.2.2 Records of the Director of Secondary Education (DE), eight¹ colleges and six² non-Government schools for the period 2000-2005 were test-checked during January-April 2005. Important points noticed in audit are discussed in the succeeding paragraphs.

Financial outlay and its management

5.2.3 Against the total requirement of Rs 63.95 crore intimated by the institutions during 2000-2005, grants totaling Rs 61.11 crore were released. During the year 2003-2005 the institutions were paid less grants amounting to Rs 2.84 crore. DE stated (May 2005) that Government had to restrict the grants to the budget provisions. The reply is not tenable as the institutions had to pay salary to their staff by raising loan from their Amalgamated Fund.

Release of ad hoc grants

5.2.4 The GIA rules do not provide for payment of *ad hoc* grants. *Ad hoc* grants totaling Rs 48 lakh were, however, released during 2000-2002 to eight³ ineligible non-government colleges. DE stated (January 2005) that *ad hoc* grants were released as per Government's instructions (September 1992). The reply is not tenable as these instructions stood superseded on framing of GIA Rules in 1994.

1 GGSD Baijnath, SVSD Bhotoli, DAV Daulatpur Chowk, Kangra, Kotkhai, MLSM Sundernagar, St. Bede's Shimla, and MSCM Thural.

2 DAVSSS Daulatpur Chowk, GAVSSS Kangra, VNMSSS Raja ka Talab, SD School Shimla, Public SSS Sug Bhotoli, and DAVSSS, Una.

3 DAV Banikhet, CD Haripur, GGSD, Nerwa, KLB, Palampur, GGSD Rajpur, GGSD College, Subathu, DAV, Sujanpur Tira and MDDM, Sug Bhatoli.

Irregular payment of grant

5.2.5 According to the GIA Rules, grant to non-Government colleges was to be paid in the shape of maintenance grant for paying salary. Grant of Rs 30 lakh was irregularly paid in March 2004 to St. Bede's College, Shimla for additions and alterations to the library building although there is no provision in the GIA Rules for payment of such grant. DE admitted (January 2005) the facts.

Release of grant for surplus staff

5.2.6 After rationalisation of staff, the DE declared (August 2001) 22 posts (Teaching: 12 and Non-teaching: 10) as surplus in GGSD college, Baijnath. The surplus staff was continuing in the college and grant of Rs 1.53 crore for their salary amounting to Rs 1.61 crore had been released during 2001-2005. The DE stated (March 2005) that the matter had been taken up with the Government. The reply is not acceptable in audit as payment of grant for the salary of surplus staff was irregular and deprived other needy institutions of the financial assistance to that extent, in view of Directors' reply to para-5.2.3 supra.

Overpayment of pay and allowances

5.2.7 As per clarification issued (December 2001) by the State Government, the next date of increment would fall after qualifying period of 12 months in case of fixation of pay at the minimum of Senior/Selection Grade in respect of Principals and lecturers of college cadre.

In respect of 38 teachers of five⁴ colleges, the increment was allowed before completion of twelve months. This resulted in overpayment of Rs 8.89 lakh to these teachers and excess release of grants amounting to Rs 8.45 lakh to these colleges during 1998-2005. The pay of seven teachers was refixed by MLSM College, Sundernagar in June 2002. No action was taken to refix the pay of teachers by other colleges as of April 2005 and the overpayment was still (May 2005) continuing. Of the total recoverable amount of Rs 1.84 lakh, an amount of Rs 0.56 lakh only had been recovered from seven teachers by MLSM College. The balance amount of Rs 8.33 lakh (including Rs 1.28 lakh relating to Sundernagar College) had not been recovered as of April 2005. DE stated (May 2005) that the recoveries of overpayment had been stayed in April 2003 by the Government. However, no final decision had been taken as of May 2005.

Non-furnishing of utilisation certificates

5.2.8 State Financial Rules require that the departmental officer on whose signature/countersignature a bill is drawn should furnish Utilisation Certificates (UCs) in the prescribed form after exercising necessary checks to the Accountant General. It was noticed that UCs for the grants amounting to Rs 2.94 crore released during 2002-2004 to 13 non-government institutions had not been furnished to the Accountant General as of April 2005. The GIA

was released to five⁵ institutions during 2003-2004 without receipt of UCs from these institutions for 2002-2003. DE stated (January 2005) that concerned institutions had been directed to furnish the required UCs.

The matter was referred to the Government in June 2005; their reply had not been received (July 2005).

Panchayati Raj Department

5.3 Deficiencies in monitoring of grants given by the department

The *Panchayati Raj* Department released grants of Rs 141.07 crore during 2000-2005 to the *Panchayati Raj* Institutions (PRIs) for implementation of various programmes.

Test-check of records of the sanctioning authority revealed (April 2005) the following deficiencies:

Financial Rules require that the departmental officer on whose signature or countersignature a bill is drawn should furnish utilisation certificate (UC) in the prescribed form. UCs for the grant amounting to Rs 11.69 crore released during 2000-2003 to the PRIs had not been received as of March 2005. The Director, PRIs stated (April 2005) that the UCs could not be obtained as the grants were mostly being distributed to 2,889 *panchayats* of non-tribal area and the department was experiencing difficulty in collecting the UCs due to shortage of staff at *panchayat/block/district* level. Government further stated (July 2005) that UCs amounting to Rs 10.16 crore had been received and efforts were being made to collect the remaining UCs.

Before a grant is paid to any public body or institution, the sanctioning authority should as far as possible insist on obtaining an audited statement of the accounts of the body or institution concerned to see that the grant is justified by the financial position of the grantee and to ensure that the previous grant was spent for the intended purpose. During 2000-2005 grants amounting to Rs 141.07 crore were sanctioned to the PRIs without obtaining the audited statements of accounts. The Director, PRIs stated (April 2005) that grants were sanctioned for carrying out various developmental works and audit of these PRIs was being conducted by the departmental auditors and reports kept with District *Panchayat* Officers (DPOs). He further stated that in future audited statements would be collected from DPOs.

The matter was referred to the Government in May 2005; final reply had not been received (July 2005).