

CHAPTER-V

INTERNAL CONTROL SYSTEM

Horticulture Department

5.1 Internal Control System

Highlights

Internal control system is an integral process by which an organisation governs its activities to effectively achieve its objectives. Such a system consists of methods and policies designed to prevent fraud, minimise errors, promote operating efficiency and achieve compliance with established policies and helps to protect resources against loss due to waste, abuse and mismanagement. An evaluation of the internal control system in the Horticulture Department during the period 2001-2006 revealed significant weaknesses resulting in non-compliance with rules, manuals and codes in the areas of budget preparation, expenditure control and implementation of various schemes.

- *There were persistent excesses in expenditure during 2001-2006 which had not been regularised.*

(Paragraph 5.1.6.1)

- *Receipts of Rs 5.03 crore realised between 2001-2006 were remitted directly into the treasuries and were not simultaneously accounted for in the cash book, as required under the Financial Rules. Of these, receipts of Rs 2 crore had not been reconciled as of May 2006.*

(Paragraph 5.1.7.1)

- *The Director, Horticulture had furnished to the Government of India, utilisation certificates for Rs 30.10 crore, against the actual utilisation of only Rs 22.03 crore during 2003-2006.*

(Paragraph 5.1.7.2)

- *Grants of Rs 6.33 crore were irregularly released to two Universities after first March of the respective financial years.*

(Paragraph 5.1.7.5)

- *The Director and Deputy Director of Horticulture, Kangra had drawn Rs 79.65 lakh against the proforma bills of the suppliers on*

The abbreviations used in this review have been listed in the Glossary in Appendix-XXVII (Page 222-223).

30 and 31 March of the respective years during 2001-2006 and the payments were made to the concerned firms after periods ranging between 10 and 358 days. The advances drawn on Abstract Contingent bills were also not adjusted.

(Paragraph 5.1.7.6)

➤ *No steps had been taken either to fill up or abolish 215 posts of various categories lying vacant for five years or more.*

(Paragraph 5.1.8.1)

➤ *Reasons for shortfall in achieving the targets in respect of four State schemes, ranging between 16 and 100 per cent during 2001-2006 were not investigated.*

(Paragraph 5.1.9.2)

➤ *Stores accounts for the years 2001-2006 were not prepared.*

(Paragraph 5.1.10.1)

➤ *Internal audit had not been conducted since January 1996.*

(Paragraph 5.1.11.1)

5.1.1 Introduction

Internal controls provide reasonable assurance that an organisation's objectives are achieved, assets are safeguarded and operations are carried out in an effective manner in compliance with the applicable laws, rules and regulations.

The Horticulture Department of the State is mainly responsible for the implementation of horticulture development programmes to improve the quality and production of fruits in the State by adopting modern technology and through efficient utilisation of soil and water resources. Budgetary, financial, administrative and operational controls of the Horticulture Department have been examined in this review.

5.1.2 Organisational set up

At the State level, the Principal Secretary (Horticulture) is the administrative head. The Director of Horticulture (Director) is the head of the department and is assisted by an Additional Director at Dharamshala, a Joint Director, two Deputy Directors, a Fruit Technologist, a Senior Plant Protection Officer, a Senior Marketing Officer, a Horticulture Economist and an Assistant Controller (Finance and Accounts) at the Directorate level. The department carries out its activities through 41 Drawing and Disbursing Officers (DDOs) at the district and sub-divisional level.

5.1.3 *Audit objectives*

The review of internal controls of the Horticulture Department was conducted to assess whether the following general objectives were being achieved:

- fulfilling accountability obligations;
- ensuring orderly, ethical, economical, efficient and effective operations;
- identifying and minimising the risks faced by the organisation in achieving its objectives; and
- safeguarding resources against loss.

5.1.4 *Audit criteria*

The Audit objectives were achieved against the following criteria:

- provisions of the Himachal Pradesh Financial Rules;
- provisions of Subsidiary Treasury Rules;
- Departmental policies/rules and regulations;
- Government notifications issued from time to time;
- Procedure prescribed for monitoring and evaluation.

5.1.5 *Audit methodology*

Review of effectiveness of the internal control mechanism of the department for the period 2001-2006 was conducted during April-May 2006. Before commencing audit, an entry conference was held (April 2006) with the Director, Horticulture where audit objectives were discussed. Eleven units¹ /DDOs were selected out of 41 DDOs, by using the simple random sampling method. Records of the Directorate of Horticulture were examined with reference to the provisions of the Office Manual, Budget Manual, State Financial Rules, Orders and instructions issued by the State Government from time to time. The audit findings were discussed (September 2006) with the Director and the views of the department included suitably against the relevant paragraphs, where appropriate.

¹ Assistant Post Harvest Physiologist (DDO of Directorate), Shimla. 2. Assistant Floriculturist, Shimla 3. Beekeeping Development Officer, Shimla 4. Deputy Director of Horticulture, Kangra at Dharamshala 5. Deputy Director of Horticulture, Kinnaur 6. Fruit Technologist, Shamshi 7. Manager-cum-Chemist, Rajgarh 8. Subject Matter Specialist (Mushroom), Palampur 9. Subject Matter Specialist, Rajgarh 10. Subject Matter Specialist, Dharamshala 11. Senior Marketing Officer, Shimla.

5.1.6 Budgetary control

5.1.6.1 Unrealistic budget estimates

Budget provisions of the Department and expenditure thereagainst during 2001-2006 was as under:

Table: 5.1.1

(Rupees in crore)

Year	Budget provision	Actual expenditure	Excess	Percentage
2001-2002	69.44	85.87	(+) 16.43	24
2002-2003	73.48	74.27	(+) 0.79	01
2003-2004	62.15	72.44	(+) 10.29	17
2004-2005	83.00	84.43	(+) 1.43	02
2005-2006	86.49	89.77	(+) 3.28	04

Source: Departmental figures.

The Director attributed (September 2006) the excess expenditure during 2001-2006 to the grant of advance to Agro-Industrial Packaging India Limited, purchase of more pesticides and plant protection equipment, payments on account of Market Intervention Scheme and extra expenditure on salary.

The reply is not tenable, as persistent excesses were indicative of preparation of unrealistic budget proposals at lower formations and inadequate scrutiny at the Directorate level. The excesses over budget allotments had also not been got regularised as of September 2006.

5.1.7 Financial control

5.1.7.1 Non-accountal of Government receipt in the cash book

The State Financial Rules provide that if a government servant, who is not in charge of a cash book, receives money on behalf of the Government at exceptional times, he should pay or remit it at the earliest opportunity to the nearest government servant having a cash book or directly to the treasury. Further, the acknowledgement of the treasury should be forwarded immediately to the next superior officer having a cash book to enable him to make entry therein.

It was noticed that in the Directorate and DDOs of three test-checked units, receipts amounting to Rs 5.03 crore realised between 2001-2006 were remitted directly into the treasuries before entering the same in the cash book and the concerned person in charge of maintenance of cash book was not informed about the remittance. Of these, receipts of Rs 2 crore remitted into the

treasuries by these three units² between 2001-2006, had not been reconciled as of May 2006, although reconciliation was required to be done on a monthly basis.

The DDOs stated (May 2006) that the reconciliation with the treasury would be done regularly now.

The Director stated (September 2006) that instructions for proper account of receipts in the cash books were being issued to all the DDOs.

5.1.7.2 Issue of utilisation certificates

A Centrally sponsored scheme namely “Technology Mission for Integrated Development of Horticulture,” was launched in the State during 2003-2004. Horticulture Technology Mission Cell was constituted at the Directorate in October 2004.

The year-wise position of funds received during 2003-2006 from the Government of India and expenditure incurred thereagainst was as under:

Table: 5.1.2

(Rupees in crore)

Year	Amount received	Amount actually utilised	Balance as on 31 March 2006
2003-2004	6.50	6.34	0.16
2004-2005	13.00	11.09	1.91
2005-2006	11.00	4.60	6.40
Total:	30.50	22.03	8.47

The Director, Horticulture had reported to the Government of India, utilisation of Rs 30.10 crore³ against the actual utilisation of only Rs 22.03 crore, (Rs 8.47 crore had been lying unspent as of March 2006). The Director stated (September 2006) that the UCs were issued on the basis of allocation of funds to the field units as the actual completion of work was a time consuming process and funds allotted for the purpose amounted to committed liability. **The UCs for Rs 8.07 crore were, thus, issued to show utilisation of funds.**

The Director also issued (February 2002) utilisation certificate for the whole amount of Rs 1.40 crore received under Calamity Relief to the State Government, for onward submission to the Government of India, although only Rs 26.63 lakh was spent out of this for importing plants between March 2002 and March 2004. The position of actual utilisation of the funds of Rs 1.12 crore released to 13 DDOs between July 2001 and March 2002 was also not ascertained.

² Deputy Director of Horticulture, Kangra at Dharamshala: Rs 91.18 lakh; Deputy Director of Horticulture, Kinnaur: Rs 77.60 lakh and Subject Matter Specialist, Rajgarh: Rs 31.68 lakh.

³ March 2005: Rs 19.50 crore and February 2006: Rs 10.60 crore.

While admitting the facts, the Director stated (April 2006) that the Revenue Department was pressing hard to submit the utilisation certificates for onward transmission to the Government of India. **The utilisation certificates were, thus, issued only to show utilisation of funds.**

5.1.7.3 Non-recovery of loan and interest

The department does not give loans to other organisations. However, the State Government sanctioned (March 2002) a term loan of Rs 15.81 crore to M/s Agro-Industrial Packaging India Limited, repayable in half yearly instalments in 20 years alongwith interest at the rate of 12.2 *per cent* per annum. The repayment should have commenced from 30 September 2002.

It was noticed that although Rs 10.88 crore (comprising Rs 3.16 crore as principal amount and Rs 7.72 crore as interest) was recoverable upto March 2006 as per the terms of the loan agreement, no amount had been recovered by the Director (September 2006).

The Director stated (September 2006) that the matter for recovery of principal and interest accrued was being taken up shortly. This is indicative of the fact that the department did not have a proper system to keep a watch over recovery of loans.

5.1.7.4 Irregular expenditure on decretal payments

Article 202 (3) of the Constitution of India provides that any sum required to satisfy any judgement, decree or award of any court of arbitral tribunal, should be charged to the Consolidated Fund of the State.

Test-check of records revealed (May 2006) that payments on account of Court decrees/awards amounting to Rs 3.87 lakh were made by the Senior Plant Protection Officer, Shimla (Rs 1.01 lakh) and Subject Matter Specialist, Rajgarh (Rs 2.86 lakh) out of voted grants instead of charged appropriation during 2002-2006.

The Director stated (September 2006) that all the officers would be directed to book the expenditure against charged appropriation in future.

5.1.7.5 Irregular release of grant-in-aid

The State Budget Manual provides that the order/sanction for a grant-in-aid should not be issued after 1st March in any financial year. The State Government released grants of Rs 6.33 crore⁴ to Dr. Y S Parmar University of Horticulture, Nauni (Solan) and Agro-Economic Research Centre of Himachal

⁴

2002-2003: Rs 0.43 crore; 2004-2005: Rs 0.03 crore and 2005-2006: Rs 5.87 crore.

Pradesh University, Shimla after 1st March of the respective financial years, which was irregular.

The Director stated (September 2006) that the release of grants-in-aid depended upon the availability of funds with the Government and the same were released after approval of the Government.

This indicates that the release of grants-in-aid are guided to a large extent, by the availability of funds rather than the need for such funds.

5.1.7.6 Irregular drawals against *proforma* bills of suppliers

As per rules, the Treasury Officer should not allow drawal of funds on *proforma* bills in anticipation of receipt of goods unless the approval of the Finance Department has been obtained.

Test-check of records in the Directorate and Deputy Director, Horticulture (DDH), Kangra revealed that during 2001-2006, Rs 79.65 lakh were drawn against *proforma* bills of the suppliers on 30 and 31 March of the respective financial years and charged as expenditure to the final head of account. The amount was converted into bank drafts in the names of the respective firms and the drafts were paid to the concerned firms after delays ranging between 10 and 358 days on receipt of the material. Also, the advances drawn on Abstract Contingent bills were not adjusted on receipt of the material.

The Director stated (September 2006) that instructions with regard to fulfilment of all codal formalities and drawal of payments on regular bills were being issued to all the DDOs.

This indicated that the department as well as the Treasury Officers failed to exercise prescribed financial checks for drawals and disbursements.

5.1.8 Administrative control

5.1.8.1 Manpower management

Against 2,331 sanctioned posts of different categories of staff in the department as of March 2006, there were 1,823 men-in-position leaving 508 posts vacant. Of these vacant posts, 215 posts (200 functional and 15 non-functional) were lying vacant for five years or more.

The Director stated (September 2006) that the Government did not accord approval for filling up these posts nor did it have any policy for abolition of the vacant posts.

5.1.8.2 Office inspections not conducted

The Director was required to inspect his office and subordinate units annually to ensure the correct maintenance of essential records and to take remedial measures.

During 2001-2006, neither were any targets to inspect the units fixed nor were any inspections conducted. The Director stated (September 2006) that the inspections of the Directorate as well as field units had been conducted from time to time but chronological record of the same could not be maintained.

5.1.9 Operational controls

5.1.9.1 Shortfall in the achievement of targets under the Centrally sponsored scheme “Technology Mission for Integrated Development of Horticulture”

Audit scrutiny revealed shortfall in achievement against the targets fixed in respect of four components of the Mission as detailed below:

Table: 5.1.3

Particulars of Component	Sub-component	Year	Target	Achievement	Percentage of shortfall
Area Expansion	Vegetables (In hectares)	2003-2004	347	279	20
		2004-2005	918	420	54
		2005-2006	265	1	100
Farm Water Management	Drip irrigation (In hectares)	2003-2004	169	105	38
		2004-2005	200	11	95
		2005-2006	108	2	98
	Establishment of green/poly houses (In Sq. Mtrs)	2003-2004	45,263	23,324	48
		2004-2005	23,625	2,348	90
		2005-2006	28,950	7,155	75
Transfer of Technology	Training of farmers (In numbers)	2003-2004	500	418	16
		2004-2005	3,600	1,550	57
		2005-2006	3,000	62	98
Agriculture equipments	Manually operated (In numbers)	2003-2004	1,143	887	22
		2004-2005	500	Nil	100
		2005-2006	1000	287	71

The Project Director stated (September 2006) that remedial measures would be taken after investigating the reasons for the shortfall.

This was indicative of poor project monitoring at the Directorate level.

5.1.9.2 Deficient implementation of schemes under State Plan/Special Component Plan/Tribal Area Sub-Plan

The Horticulture Department had been implementing 15 State Sector Schemes for development of horticulture in the State. While fixing the annual targets for the period 2001-2006, the Director had instructed the various field functionaries to send monthly progress reports to the Directorate on the fifth day of the following month.

It was noticed that the achievements against the targets fixed in respect of four schemes were poor and the shortfall ranged between 16 and 100 *per cent* as shown in the table below:

Table: 5.1.4

Sl. No.	Particulars of the scheme	Year	Target	Achievement	Percentage of shortfall
1.	Development of Hops - Additional area brought under hops under Tribal Area sub-plan (In hectares)	2001-2002	40	3	92
		2002-2003	30	--	100
		2003-2004	5	3.5	30
		2004-2005	4	--	100
		2005-2006	4	3.2	20
2.	Establishment/maintenance of Government orchards and Nurseries - Fruit plants produced in Government Nurseries under Special Component plan and Tribal Area sub-plan (Numbers in lakh)	2001-2002	3.40	2.05	40
		2002-2003	3.40	2.21	35
		2003-2004	3.00	1.93	36
		2004-2005	1.00	0.50	50
		2005-2006	1.00	0.25	75
3.	Development of Mushroom - Production of pasteurised compost under Annual Plan (In Metric tonnes)	2001-2002	1000	470	53
		2002-2003	1500	436	71
		2003-2004	1000	494	51
		2004-2005	1000	590	41
		2005-2006	1000	467	53
4.	Fruit Processing scheme Fruit products processed in Government units under Annual Plan and Tribal Area sub-plan (In Metric tonnes)	2001-2002	211	177	16
		2002-2003	310	224	28
		2003-2004	310	247	20
		2004-2005	310	201	35
		2005-2006	310	175	44

The Director stated (September 2006) that monthly progress reports were received regularly from the field units and the reasons for shortfall were being investigated.

Failure of the Director to use the monthly progress reports to take timely remedial measures indicates the absence of effective operational control.

5.1.9.3 Lack of control over relief measures provided under the scheme “Natural Calamities Relief”

The Commissioner (Revenue) to the State Government, released Rs 1.40 crore (Rs one crore in April 2001 and Rs 0.40 crore in May 2001) for providing horticultural inputs and fruit plants to the farmers affected by natural calamities. It was stipulated that the fortnightly reports should be sent to the Government.

Test-check of records revealed that the Director remitted Rs 1.12 crore to 13 DDOs between July 2001 and March 2002 for providing horticultural inputs and spent Rs 26.63 lakh between March 2002 and March 2004 for importing improved plants and plant protection material.

It was, however, noticed that fortnightly reports were not sent to the State Government as these were not obtained from the DDOs concerned, to know the position of assistance actually provided to the affected farmers. Also, records of accountal and distribution of the plants/plant protection material to the affected farmers were not maintained.

The Director stated (September 2006) that fortnightly progress reports would be called now from the field offices. He also stated that data regarding plants/plant protection material imported under drought relief was being compiled. The Director thus failed to exercise proper control over utilisation of relief funds.

5.1.10 Inventory control

5.1.10.1 Non-preparation of stores accounts

Mention was made in paragraph 3.2.33 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 regarding non-preparation of store accounts as per the instructions issued by the Finance Department in July 1973 and submission thereof to the Accountant General by the end of June every year.

It was noticed that the department procured horticulture equipment and plant protection material valued at Rs 48.38 crore⁵ during 2001-2006 but requisite store accounts had not been prepared (May 2006) for the above years, as required.

The Director stated (September 2006) that stores accounts would now be prepared.

5.1.10.2 Physical verification of stores

Financial Rules provide that physical verification of stores should be done at least once every year.

It was noticed that the physical verification of stores was not done in three test-checked units⁶.

The Director stated (September 2006) that necessary orders for conducting physical verification of stores had already been issued.

Non-conducting of physical verification of stores at regular intervals not only reflects poor inventory management, but also facilitates pilferage.

5.1.11 Internal Audit

5.1.11.1 Non-conducting of Internal Audit and pendency in settlement of internal audit observations

In order to strengthen the mechanism of internal financial control, an Internal Audit (IA) wing was constituted in the department in September 1986 under the overall control of the Director. The department had 41 auditable units (including Directorate) for which one Assistant Controller and two Section Officers (SAS) were posted by the Finance Department. Besides, three Senior Auditors and one Clerk were provided by the department.

Internal Audit staff was deployed for conducting audit of the department till December 1995. Thereafter, the staff was deployed for conducting reconciliation of various receipts and recoveries. It was also noticed that 16 Internal Audit reports containing 94 audit paras for the period from 1983-84 to 1995-96, involving recovery of Rs 5.02 lakh were lying unsettled as of April 2006. The Director stated (September 2006) that the officials of the audit cell were directed to conduct internal audit as and when the necessity for the same arose.

⁵ 2001-2002: Rs 13.43 crore; 2002-2003: Rs 11.63 crore; 2003-2004: Rs 9.83 crore; 2004-2005: Rs 6.40 crore and 2005-2006: Rs 7.09 crore.

⁶ Deputy Director of Horticulture, Kangra at Dharamshala: 2001-2006; Director of Horticulture, Shimla: 2001-2006 and Subject Matter Specialist, Rajgarh: 2003-2006.

5.1.11.2 Pendency of Inspection Reports

Audit observations by 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 113 IRs and 270 paras were pending for settlement as of March 2006 as detailed below:

Table: 5.1.5

(Rupees in crore)

Year	Opening balance		Additions		Settlement		Balance	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
2001-2002	136	351	11	77	12	86	135	342
2002-2003	135	342	13	79	12	77	136	344
2003-2004	136	344	21	130	18	87	139	387
2004-2005	139	387	25	136	33	161	131	362
2005-2006	131	362	6	33	24	125	113	270

The outstanding IRs and Paras pertained to the period 1973-74 to 2005-2006 and involved financial irregularities/implications of Rs 57.57 crore.

5.1.12 Monitoring/evaluation

The department had not evolved any mechanism for monitoring/evaluating the internal control system in general and operating controls in particular (as brought out in para 5.1.9) to gauge its effectiveness and adequacy and take appropriate measures for strengthening the controls where necessary.

The Director stated (September 2006) that internal control was being exercised by conducting inspections, holding monthly meetings, carrying out surprise inspection and monitoring and evaluating the scheme by various departmental officers as and when required.

5.1.13 Conclusion

As brought out in the foregoing paragraphs, enforcement of internal controls in the department was weak. Due to poor budgetary control, there were persistent excesses during 2001-2006 which have not been got regularised. There was no control to ensure timely utilisation of funds and supervision, monitoring and internal audit arrangements were inadequate.

5.1.14 Recommendations

- *The internal control system should be strengthened to make the working of the department more effective and efficient.*
- *The codal requirements may be observed strictly to eliminate financial irregularities.*
- *Internal audit staff should be deployed adequately so as to cover all the units at prescribed intervals. Timely corrective action on the internal audit reports and Inspection Reports should also be ensured.*
- *A system should be evolved and enforced to monitor various operational activities of the department.*

These observations were referred to the Government in June 2006; their reply had not been received (August 2006).

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