CHAPTER V

INTERNAL CONTROL MECHANISM IN GOVERNMENT DEPARTMENT

FINANCE DEPARTMENT

5.1 Internal Control System in Finance Department

Highlights

Internal Control is an integral component of an organisation's management process which is established in order to provide reasonable assurance that the operations are carried out effectively and efficiently, financial reports and operational data are reliable and the applicable laws and regulations are compiled with so as to achieve organizational objectives. Internationally, the best practices in Internal Controls have been given in the COSO[1] frame work which is a widely accepted model for internal controls. An evaluation of the internal control system in the Finance Department disclosed the weakness of internal controls in place such as non-compliance with Rules, absence of manuals; lack of discipline in budget preparation; weak expenditure control; poor mobilization of resources; inadequate operational control particularly with respect to General Provident Fund, Contributory Pension Fund and working of treasuries; lack of monitoring and evaluation and ineffective internal audit.

No records were maintained to watch the submission of estimates by various departments. Even Finance Department delayed submission of its estimates by 125 to 151 days.

[Paragraph 5.1.5.1]

Estimation of requirements and receipts of various departments were unrealistic which resulted in savings ranging between 10 and 99 *per cent* and wide variations in collection of revenue up to 79 *per cent*.

[Paragraphs 5.1.5.2 and 5.1.5.5]

During 2003-08, there were persistent savings amounting to Rs 7047.34 crore in six departments and supplementary grants aggregating for Rs 1538.80 crore obtained during that period were unnecessary.

[Paragraph 5.1.5.3]

Excess expenditure of Rs 5880.66 crore, incurred during 2003-07, were not regularized by State Legislature.

[Paragraph 5.1.6.2]

In total disregard of the provisions, there were withdrawals of Rs 813.26 crore for routine expenditure from Jharkhand Contingency Fund.

[Paragraph 5.1.6.4]

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[1] Committee of Sponsoring Organisations of the National commission of Fraudulent Financial Reporting or the Tradeway Commission

Submission of utilization certificates in respect of grants-in-aid to various Government and private bodies for Rs 3291.33 crore were in arrears. Further, detailed bills for Rs 6009.87 crore, drawn on AC bills during 1999-2008 and being exhibited as expenditure were outstanding.

[Paragraphs 5.1.6.6 and 5.1.6.8]

Delayed enactment of FRBM Act resulted in denial of central assistance of Rs 221.36 crore to the State.

[Paragraph 5.1.7.7]

Final payment of GPF worth of Rs 198.33 crore was made on collateral evidence in test checked districts. Finance Department failed to execute Contributory Pension Scheme and attach it to Pension Fund Regularity and Development Authority.

[Paragraphs 5.1.7.9 and 5.1.7.10]

There were delays in submission of monthly accounts up to 60 days by treasuries to Accountant General (A&E). Mandatory periodical checks, as instruments of internal control, were never carried out during 2003-08 in the test checked treasuries.

[Paragraphs 5.1.7.11 and 5.1.7.13]

There was acute shortage of manpower in various wings of the Finance Department, adversely affecting the functioning of the Department.

[Paragraph 5.1.9]

5.1.1 Introduction

A built-in internal control system and adherence to codes and manuals minimise the risk of errors and irregularities and help to protect resources against loss due to waste, abuse and mismanagement in an organisation and to achieve its objectives. Internationally, the best practices in Internal Controls have been given in the COSO frame work, which is a widely accepted model for internal controls. In India, the Government of India (GOI) has prescribed comprehensive instructions on maintenance of internal control in the Government departments through Rule 64 of the General Financial Rules, 2005. Similar provisions are there in Jharkhand Financial Rules which enjoin Secretary, the Controlling Officer of the Finance Department, to ensure adherence to Internal Controls within the Department.

The overall responsibility of the Finance Department (FD) is to examine all matters which may affect the finances - expenditures and receipts - of the State and take decisions thereon according to rules and in the best financial interest of the State. FD is also mandated to render advice to the administrative departments for efficient and effective financial management. The duties of FD, *inter alia*, include preparation of annual financial statement and supplementary budget provision; monitoring of expenditure under plan and non-plan schemes; mobilising resources through State's own tax and non-tax revenues, transfers from the Union Government, loans and advances, management of debt and contingent liabilities; monitoring expenditure and receipt of the State and monthly accounts of treasuries; maintenance of General Provident Fund (GPF); to make rules/regulations to govern and regulate financial transactions–expenditure and receipt. Besides, FD is responsible for internal audit of other departments and response to CAG's Audit Reports.

5.1.2 Organisational set-up

The Secretary is the Head of the Finance Department. He is assisted by an Additional Finance Commissioner, a Joint Secretary, a Deputy Secretary and an Under Secretary. The Directorate of treasuries has not been set up as yet. An Officer on Special Duty (OSD) is in charge of the treasuries. He, assisted by a Chief Controller of Accounts, is looking after Internal Audit Wing also. The Directorate of Provident Fund, under the FD, is headed by Director, Provident Fund. He is assisted by an Assistant Director at State level and Provident Fund Officers at district level.

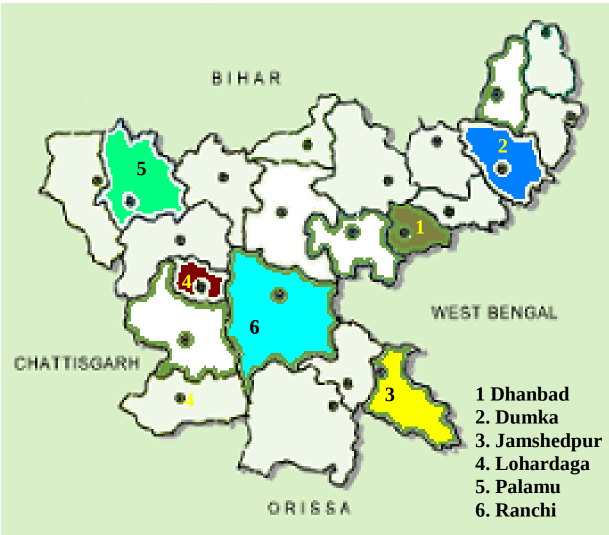
5.1.3 Audit Objectives

Audit objectives were to ascertain adequacy and effectiveness of:

- the budgetary and expenditure controls;
- initiative taken for mobilising State resources;
- the administrative and operational controls ;
- monitoring mechanism;
- administrative control including man power management; and
- internal audit and vigilance mechanism.

5.1.4 Audit coverage and Methodology

A review to assess the adequacy and effectiveness of the Internal Controls in FD for 2003-08 was conducted between May and August 2008 by test check of records of the Secretariat of FD, Directorate of Provident Fund, Internal Audit wing and six[2] out of 24 treasuries along with six Provident Fund Cells, selected by Simple Random Sampling without Replacement method.



Audit was conducted with reference to the provisions of the Bihar Budget Manual, Bihar Financial Rules, Bihar Treasury Code, Rules of Executive Business, Compendium of orders of FD (as adopted by Government of

[2] Dhanbad, Dumka, Jamshedpur, Lohardaga, Palamu and Ranchi.

Jharkhand) and Hand Book of Finance Department.

An entry conference was held (April 2008) with Secretary, FD where the audit objectives, scope and methodology were discussed. Exit conference was held (December 2008) with Secretary, FD where audit findings, conclusions and recommendations were discussed. The audit findings are brought out in the succeeding paragraphs.

Audit Findings

5.1.5 Budgetary Control

5.1.5.1 Delayed submission of Budget Estimates

According to Chapter III of Bihar Budget Manual, as adopted by the Government of Jharkhand, the responsibility for preparation of estimates - expenditure and receipts - vests in FD. Further, the administrative departments are responsible for submission of correct detailed estimates to the FD by 30 September of the preceding year for finalisation of budget estimates (BEs). The FD also issued instructions every year indicating the stipulated date of the submission of the estimates by the departments

Finance Department did not maintain any records/registers to watch the submission of estimates by various departments. Five departments including FD submitted estimates after delays up to 244 days

Scrutiny revealed that there was no record/register in FD to watch the receipt of estimates from the various departments for finalisation of the State budget. In the absence of any record in FD, Audit could not ascertain whether the estimates were submitted by all the departments and also whether the submission was made within the stipulated date.

Audit pointed out the delays ranging between 14 and 244 days in submission of estimates by four departments[3] to FD in Audit Reports for the years 2003-04 to 2006-07

Further, FD also persistently delayed (125 to 151 days) submission of its own estimates as per **Table -1.**

Table -1

Year	Due date of submission as notified by FD	Actual date of submission	Delay (in days)
2003-04	Records not made available	--	--
2004-05	9.9.2003	2.2.2004	146
2005-06	6.10.2004	1.3.2005	145
2006-07	12.9.2005	11.2.2006	151
2007-08	13.9.2006	17.1.2007	125

On this being pointed out, FD accepted (July 2008) delays in submission of estimates by the departments and stated that a “Receipt Register” in respect of estimates would be maintained to watch receipt of BEs from various departments.

[3] **Home** (Police) (over four months during 2004-05), **Rural Development** (31 to 99 days during 2002-03 to 2004-05), **Fisheries** (14 to 244 days during 2001-02 to 2005-06) and **Urban Development** (129 to 137 days during 2002-03 to 2006-07).

5.1.5.2 Inaccurate estimation of Expenditure

Budget Manual prescribes that the estimates should be as accurate as possible. Further, according to Rule 57 of Budget Manual read with comments below it, "over estimating is a fault" and should be overcome. "The officer responsible for preparing estimate should be sure that there is no provision for a greater sum than that which can be spent".

Budget provisions were over estimated resulting in savings up to 99 *per cent*. FD also over estimated its own provisions up to 83 *per cent*. Savings occurred persistently in 18 grants

Analysis of Appropriation Accounts revealed that estimation was on the excess side which resulted in large savings of Rs 2964.24 crore, Rs 2370.29 crore, Rs 3580.30 crore and Rs 2545.47 crore in 2004-05 (31 cases), 2005-06 (31 cases), 2006-07 (31 cases) and 2007-08 (24 cases) respectively (having savings exceeding Rs two crore and ten *per cent* of provision in each case). The savings ranged between 10 and 99 *per cent* of the budget provision in these cases. Further, in 18 grants (Revenue: 12 and Capital: 6) there were persistent savings of Rs 10 crore or more during the years 2003-04 to 2007-08 and ranged upto 75 *per cent* of the budget provision under these grants ***(Appendix-5.1)***. Further, estimation of FD during 2003-07 was also inaccurate resulting in saving of 10 to 83 *per cent* of the budget provision. However, the position has improved during 2007-08 when the savings were only one *per cent* of BE (***Appendix-5.2)***.

5.1.5.3 Unnecessary supplementary grants

FD provided unnecessary supplementary grants under non-plan without proper assessment of requirements of concerned departments

According to Rule 117 to 120 of Budget Manual, if an administrative department considers that a supplementary grant is necessary, whether to meet a new specific item of expenditure or to cover a probable excess in the voted grants due to unforeseen causes, FD, after due examination of the proposal of a department, may send such proposal to legislature. Scrutiny of savings, surrenders and supplementary grants under revenue and capital expenditure during 2003-08 showed that FD proposed supplementary grants without proper assessment of the requirements. In six departments, including FD, the actual savings (aggregating to Rs 7047.34 crore) were more than the supplementary grants (aggregating to Rs 1538.80 crore) as per **Table-2,** indicating that entire supplementary grants were unnecessary.

Table-2

(Rupees in crore)

Sl. No.	Name of the department	2003-04		2004-05		2005-06		2006-07		2007-08	
		S.G*	Saving	S.G	Saving	S.G	Saving	S.G	Saving	S.G	Saving
1	Finance	0.52	5.82	0.72	1.86	0.88	169.37	0.15	3.14	3.74	3.23
2	Agriculture	7.68	40.57	14.49	49.26	12.00	35.51	5.11	47.02	57.54	165.37
3	Health	5.84	128.10	5.66	10.95	1.73	5.48	15.61	544.08	10.86	301.92
4	Rural Dev.	30.26	643.56	205.42	980.34	169.85	666.07	150.53	894.70	255.35	343.70
5	Education	2.97	272.90	110.42	230.84	49.65	148.00	64.99	419.60	206.30	185.11
6	Welfare	42.86	159.99	46.71	145.16	19.82	103.08	37.49	229.98	3.65	112.62

Source- Appropriation Accounts ****SG: Supplementary Grant***

5.1.5.4 Surrender/Lapse of Savings

According to Rule 112 of Budget Manual, all anticipated savings should be surrendered immediately after they are foreseen. In 2007-08, out of total savings of Rs 4453.38 crore, Rs 3352.80 crore was surrendered by various departments of which Rs 2868.81 crore (86 *per cent)* was surrendered on 31 March 2008. Further, in FD, out of the savings of Rs 6.51 crore in 2003-04, only Rs 3.20 crore was surrendered and Rs 3.31 crore was allowed to lapse. Like-wise during 2006-08, out of the savings of Rs 13.84 crore, Rs 10.07 crore was surrendered and Rs 3.77 crore was allowed to lapse.

5.1.5.5 Inaccurate estimation of Receipts

Revenue receipts were also overestimated as such actual collection was short up to 79 *per cent*

Scrutiny of estimates for revenue and actual revenue receipts during 2003-08 disclosed wide variations. The cases where annual collections were more than Rs 50 crore and variations were in excess of 10 *per cent* are as per **Table-3**.

Table-3

(Rupees in crore)

Major heads of revenue	2003-04			2004-05			2005-06			2006-07			2007-08		
	BE	A	V	BE	A	V	BE	A	V	BE	A	V	BE	A	V
State Excise	252	96	-156 (62)	125	146	+21 (17)	-	-	-	186	130	-56 (30)	211	157	-54 (26)
Stamp Duty & Registration	108	82	-26 (24)	125	87	-38 (31)	125	92	-33 (26)	95	122	+27 (28)	108	156	+48 (44)
Taxes on vehicle	208	99	-109 (53)	225	130	-95 (42)	270	138	-132 (49)	163	218	+55 (34)	185	136	-49 (26)
Electricity Duty	84	31	-53 (63)	-	-	-	73	34	-39 (54)	60	45	-15 (25)	68	76	+8 (12)
Mining	-	-	-	-	-	-	1151	1013	-138 (12)	1200	1022	-178 (15)	1362	1178	-184 (14)
Interest Receipt	56	47	-9 (17)	89	19	-70 (79)	89	71	-18 (20)	59	38	-21 (36)	61	87	+26 (43)

BE-Budget estimates, A-Actual and V-Variations (Figures in bracket indicate percentage)

Thus, FD failed to exercise effective budgetary control during 2003-08 resulting in large savings due to unnecessary supplementary grants, continued shortfall in mobilization/collection of revenues and surrender of the savings on the last day of the year. These adversely affected the financial management of the State. Further, FD failed not only to estimate correctly the requirements of funds and the receipts of other departments but also its own requirements of fund which was indicative of weak and ineffective budgetary control.

5.1.6 Expenditure Control

5.1.6.1 Rush of Expenditure in March

Rule 113 of Budget Manual provides that rush of expenditure particularly in the closing months of the financial year will ordinarily be "regarded as a breach of financial regularity". FD also instructed (April 1998) to limit expenditure to 33, 32 and 35 *per cent* of allocation during first, second and third four month- period respectively. Scrutiny of records (2004-08), however, showed that under several major heads of account, the expenditure during the last quarter was 50 to 100 *per cent* of the total expenditure and during March, it was 41 to 100 *per cent* ***(Appendix-5.3).***

5.1.6.2 Non regularisation of excess over grant/appropriation

Excess expenditure of Rs 5880.66 crore over grant/ appropriation could not be regularised even after lapse of more than one to four years

As per Article 205 of the Constitution of India, the excess over a grant/appropriation is required to be regularised by the State Legislature. However, excess expenditure amounting to Rs 5880.66 crore for 2003-07 was not regularised as per **Table-4**. In addition, there was excess expenditure of Rs 334.44 crore during 2007-08, which would require regularization.

Table-4

(Rupees in crore)

Year	No. of Grants/ Appropriations	Grants/ Appropriation Number	Amount excess for regularization
2003-04	5	10,13,14,39,46	937.25
2004-05	5	13,14,23,39,40	576.07
2005-06	3	10,13,29	3121.47
2006-07	3	13,14,38	1245.87
Total			**5880.66**

Source- Appropriation Accounts

5.1.6.3 Non reconciliation of Accounts

Large number of units did not reconcile their figures with that of AG

According to Rule 471 of Bihar Financial Rules (Vol-I), departmental figures of expenditure and receipts were to be reconciled every month and at the year-end with figures appearing in the accounts of Accountant General (A&E), Jharkhand (AG). The position of reconciliation was shown in **Table-5**.

Table-5

(Rupees in crore)

Year	Number of Controlling Officers who failed to reconcile	Number of units	Amounts not reconciled
2003-04	95	1,120	4067.89
2004-05	95	1,615	5544.76
2005-06	96	1,636	5307.52
2006-07	85	1,984	6258.97
2007-08	75	1,894	9017.10
Total			**30196.24**

Further, expenditure of Rs 4415.90 crore relating to 355 units of accounts under Finance Department also remained un-reconciled during the period 2003-08 as per **Table-6.**

Table-6

(Rupees in crore)

Year	Number of units	Amount
2003-04	74	180.85
2004-05	67	1765.70
2005-06	87	891.83
2006-07	71	746.53
2007-08	56	830.99
Total	**355**	**4415.90**

5.1.6.4 Irregular drawals from Jharkhand Contingency Fund

As per Budget Manual and Jharkhand Contingency Fund (JCF) Act, 2000, JCF is in the nature of imprest placed at the disposal of the Governor of Jharkhand to enable him to make advances for meeting unforeseen expenditure that can not be postponed till its authorisation by the Legislature.

Rupees 813.26 crore was withdrawn from JCF to meet regular and routine nature of expenditure in total disregard of spirit of the Contingency Fund

Scrutiny of records showed that Rs 813.26 crore were drawn from JCF during 2003-08 for payment of pay and allowances, Leave Travel Concession, Travelling Allowances, Electricity Bills, purchase of vehicles etc. These instances were indicative of failure on the part of various departments, particularly FD, to make a reasonable assessment of requirement of fund for expenditure during a year. The timing and frequency of drawals from JCF was in violation of the constitutional provision of Legislative authorisation for regular and routine nature of expenditure. Besides, the withdrawals were in disregard of the spirit of the provisions of JCF Act.

5.1.6.5 Non submission of Statement of expenditure

SOEs were not being prepared and consolidated regularly which led to weak monitoring of expenditure and preparation of realistic estimates

According to Rule 121 of Budget Manual, all Drawing and Disbursing Officers (DDOs) are required to furnish the Statement of Expenditure (SOE), duly reconciled with treasuries, to the Controlling Officer (CO) by the first week of succeeding month. Further, under Rule 475 of Jharkhand Financial Rules Vol.-I, CO was to prepare consolidated and progressive SOE for monitoring expenditure within a grant and to utilise it for preparation of budget estimate.

Scrutiny of records revealed that SOEs were not being sent to COs. Similar was the position with its consolidation. This adversely affected monitoring of expenditure and preparation of actual BEs, resulting in huge savings as discussed in ***paragraph 5.1.5.2.***

5.1.6.6 Delay in furnishing utilisation certificates

The executing agencies, getting grants from the State, either did not submit UCs or submitted with abnormal delay. Further, the State was also deprived of grants from GOI due to non/ delayed submission of UCs

The departments of the State Government give grants-in-aid to various sub-ordinate offices and agencies – government and private- for implementation of various schemes. These executing agencies were required to submit utilisation certificates (UCs) as proof of expenditure on the schemes being implemented. This is an important control measure to ensure that the expenditure was incurred for the purpose for which the grants were received. It was, however, noticed that there were abnormal delays in submission of UCs. Of 2,717 UCs, due in respect of grants aggregating Rs 4070.46 crore given upto 2007-08, 2,460 UCs for an aggregate amount of Rs 3291.33 crore were in arrears. Delayed/non-submission of UCs also deprived the State of release of subsequent installments under various schemes by GOI.

5.1.6.7 Non- preparation of Proforma Accounts

Activities of quasi-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annually, *proforma* accounts showing the results of financial operations so that Government can assess the results of their working.

There were 34 such units of various departments *viz*. Agriculture (21), Forest (9), Animal husbandry (2), Health (1), and Finance (1), in the State which were required to prepare *proforma* accounts annually. But, no information regarding preparation of *proforma* accounts by these units were made available as of September 2008. Audit of 11 concerned units conducted during 2001-08 also revealed that they had not prepared any *proforma* accounts since their inception.

5.1.6.8 Non -submission of Detailed Contingent Bills

Submission of DC bills of Rs 6009.87 crore was outstanding as on 31 March 2008 indicating ineffective control over expenditure

According to Rules 316 and 318 of Jharkhand Treasury Code, contingent charges without "sub-voucher" can be drawn on Abstract Contingent Bills (AC Bills) in Form TC-37A and TC-38. Rule 316A and 319 *ibid* provide that Detailed Contingency Bills (DC Bills) in Form TC-39 along with vouchers should be sent duly signed by the Controlling Officer to AG on or before 10th of the succeeding month of drawal. In case the DC Bills are not submitted in time, no further AC Bills should be passed by Treasury Officers (TOs) in favour of a DDO. The amount being drawn on AC Bills are booked under final major heads of account as expenditure. In view of this, prompt submission of DC Bills becomes important for monitoring of utilization of advances by DDOs. Audit, however, noticed that there were abnormal delays in submission of DC Bills indicating ineffective control and monitoring. Of AC bills of Rs 7237.46 crore, booked as expenditure during 1999-2000 to 2007-08, DC bills for only Rs 1227.59 crore were submitted. Thus, Rs 6009.87 crore, exhibited as expenditure, was booked so without the mandatory vouchers etc. in support of that expenditure.

5.1.7 Operational Control

FD failed to develop a suitable mechanism to keep close watch over periodical progress of receipts and expenditures of the State

FD is mandated to exercise effective budgetary and expenditure controls and also to mobilise resources required for expenditures of the State. To this end, it was required to develop adequate monitoring and reporting systems to keep a close watch over progress of expenditure on various schemes and also on receipts due to the State. Failure of FD to evolve a suitable mechanism resulted in deficiencies in financial management as discussed in succeeding paragraphs.

5.1.7.1 Failure to review receipts & expenditure and get Grants-in-aid from GOI

As per the Hand Book of FD, primary responsibility of the Department was to review all matters which may affect the finances of the State and to arrange funds for implementation of various plan and non-plan schemes by different administrative departments. Towards this end, FD should have periodically reviewed the expenditure and receipts of the departments and the status of various incomplete schemes/projects in the State. No records of any such reviews were produced to audit.

Test check of four schemes disclosed that the State Government failed to obtain Grants-in-aid of Rs 845.43 crore from GOI under different schemes during 2003-08 as per **Table-7**.

Table-7

(Rupees in crore)

Name of the Scheme[4]	Period	Allocation	Release	Short release
ARWSP	2003-07	184.49	137.22	47.27
SSA	2003-06	978.42	538.18	440.24
JNNURM	2005-07	333.13	---	333.13
APDRP	2002-07	111.21	86.42	24.79
Total		**1607.25**	**761.82**	**845.43**

FD failed to exercise necessary monitoring and control over the administrative departments which resulted in denial of grant of Rs 1382.05 crore from GOI

Failure to obtain Rs 845.43 crore from GOI as Grants-in-aid was attributed mainly to non-submission of UCs and proposals in time by the concerned administrative departments.

Further, the State was also deprived of grant of Rs 536.62 crore, which would have devolved to the local bodies as per the recommendations of 11th and 12th

[4] ARWSP- Accelerated Rural Water Supply Programme (CAG's Civil Report 2006-07).
SSA- Sarva Siksha Abiyan (CAG's Civil Report 2005-06).
JNNURM- Jawahar Lal Nehru Urban Renewal Mission (CAG's Civil Report 2005-07).
APDRP- Accelerated Power Development and Reforms Programme (CAG's Civil Report 2007-08). Paragraph 6.2 of this report.

Finance Commissions, had the State Government taken the steps enunciated in the said recommendations (holding of elections to local bodies etc.).

Thus, FD failed to exercise the necessary monitoring and control over the concerned administrative departments to undertake the required actions to merit release of grant by GOI. This adversely affected the implementation of various schemes, resulting in denial of benefits of the schemes to the people of the State.

5.1.7.2 Absence of monitoring of proposals having financial implications

According to Rule 12 of Rule of Business, without concurrence from Finance Department, none of the departments of the State can authorise any order (other than delegation/authorizations made by Finance Department) which may affect the finance of the State directly or indirectly.

FD had no mechanism to monitor the proposals received from other departments for financial concurrence. There were no records like registers for receipts and dispatch, shadow files etc. to record the receipt of proposals from other departments and opinion given. Similarly, no records were available in respect of the proposals received and its recommendations in FD before their submission to Cabinet for approval. Due to non-maintenance of records of concurrence given on proposals/concurrence sent to Cabinet, FD failed to exercise an important tool of internal control.

5.1.7.3 Failure to augment State's own resources

Twelfth Finance Commission (TFC) made normative assessment of the revenue receipts of each State. During 2005-08, the BEs were less than those assessed by TFC. Further, the actual collection was lesser than BEs during 2005-06 and 2007-08 as per **Table-8**.

Table-8

(Rupees in crore)

Year	Assessment of Finance commission	Budget Estimates	Actual Collection
2005-06	2994	2889	2758
2006-07	3389	3128	3189
2007-08	3837	3551	3474

Audit also observed that:

FD, responsible for mobilising resources to meet expenditure on developmental schemes, failed to check the declining revenue buoyancy and advising revenue augmenting steps to Revenue Departments

- The ratio of State's own resources to total revenue receipts steadily declined from 49 *per cent* in 2005-06 to 42 *per cent* in 2007-08.
- While revenue buoyancy decreased from 3.66 in 2005-06 to 1.05 in 2007-08, the State's own taxes buoyancy decreased from 2.12 to 0.47 during the period.

The FD is mandated to mobilise resources for meeting expenditure on various developmental schemes. It, however, failed to check the declining buoyancy by exercising necessary controls and advising revenue augmenting steps by departments like excise, transport, mining etc. The State Government also failed to achieve the targets set by TFC.

5.1.7.4 Weak financial control due to absence of IFA

As per the Government instruction (October 2003), an officer of the rank of Joint/Additional/Special/Deputy Secretary was to be nominated as Internal Financial Adviser (IFA) in each department by the FD. The IFA was to advise the Secretary of the concerned department on all financial matters relating to plan, budget, expenditure etc. He was to exercise financial control and discipline in the department. No IFA was nominated during 2003-08. The absence of required nominations denied FD of the advantages of an important internal control.

5.1.7.5 Loss of Plan Grants from GOI

The State Government entered into a tripartite agreement with Reserve Bank of India and GOI for payment of dues to Central Public Sector Undertakings (CPSUs) on account of energy purchased by Jharkhand State Electricity Board (JSEB). As per the agreement, payments remaining outstanding after 90 days from the date of billing were to be recovered, on behalf of CPSUs, by Ministry of Finance, GOI through adjustment against releases due to the State Government on account of Plan assistance, State's share of Central Taxes and any other grant or loan. Due to failure of JSEB to pay the dues to CPSUs in time, GOI deducted Rs 814.08 crore from central assistance due to the State.

Rupees 3944.26 crore, treated as loans to Power Projects, was spent on payment of power dues, a revenue expenditure

Further, the State Government issued Power Bonds of Rs 2115.32 crore to CPSUs during 2004-06 on account of power dues of JSEB payable to CPSUs and paid Rs 1014.86 crore as interest up to 2007-08. The State Government treated the entire amount of Rs 3944.26 crore as loan to power projects, though the entire amount was used by JSEB to meet its revenue expenditure.

Thus, FD failed to impress upon the JSEB for timely payment of dues to CPSUs which led to financial burden of Rs 3944.26 crore to the State.

5.1.7.6 Poor returns on Investment and Loans & Advances

TFC recommended returns of seven *per cent* on Loans & Advances and five *per cent* on equity to be achieved in graded manner by 2009-10.

Audit observed that:

Against TFC's recommendation of seven and five *per cent* return on loans & advances and equity respectively, the return was negligible

- Against TFC's recommendation of seven *per cent* return on loans and advances, Rs 81.30 crore (1.49 *per cent)* was repayment of principal on Rs 5465.64 crore disbursed during 2003-08. Further, against the cost of borrowing of 6.15 to 8.20 *per cent* per annum, the interest earned on loans and advances during 2007-08 was merely 1.52 *per cent*.
- Against 6.15 to 8.20 *per cent* per annum as cost of borrowings by the State Government during 2003-08, there was no return on investments in three years. There was return of Rs one crore (6 *per cent*) only in 2004-05.

5.1.7.7 Delayed enactment of Fiscal Responsibility and Budgetary Management Act

To improve the financial position of the State Governments, TFC recommended restructuring of State's debts. To be eligible to derive the benefits (longer terms and lower interest rates) of debt re-schedulement, Fiscal

Responsibility and Budgetary Management (FRBM) Act was to be enacted by each State to set out for itself a road map for fiscal corrections.

The State Government enacted FRBM Act in May 2007. Delayed enactment denied the State of benefit of debt re-schedulement and interest relief of Rs 221.36 crore upto 2007-08.

General Provident Fund

As per Bihar GPF Rules 1948, as adopted by Government of Jharkhand, Directorate of General Provident Fund (GPF), Jharkhand is responsible for maintenance of GPF and Contributory Pension Scheme (CPS– since 1 January 2004) accounts of the Government servants in Jharkhand. Test check of records of the Directorate and District Provident Fund Cells in the districts revealed several critical deficiencies as discussed in succeeding paragraphs.

5.1.7.8 Non-observance of prescribed accounting procedure

Maintenance of GPF accounts was deficient. The final payments were being made on collateral evidences

Maintenance of GPF accounts entailed:

- maintenance of individual ledger cards for each subscriber and monthly posting of debits and credits therein;
- maintenance of Broad Sheets of subscribers for each Department/Unit/ District with details of monthly subscriptions, withdrawals/advances, recoveries etc. and tallying them with the treasury receipts and payment schedules of GPF every month;
- watching credits and debits not posted in the individual ledger cards and clearance of unposted items;
- adjustment of missing credits and debits with intimation to the individual subscriber;
- annual closing of individual subscriber's account and issue of annual statement to the subscriber;
- processing and authorisation of advances, withdrawals and final payments.

Scrutiny revealed that maintenance of GPF accounts was deficient on several counts. None of the prescribed records, such as, individual ledger cards, broad sheets, Unposted registers, Pink sheet etc. was maintained. Sanction Register of Advance, clearance of missing debits/credits were also not being maintained. Even the annual financial statements were being issued when demanded by the subscribers. Further, the statements were being issued on the basis of details provided by the DDOs/TOs and not on the basis of details available with the Directorate.

5.1.7.9 Payment of GPF on collateral evidence

As per the procedure prescribed for final payment of GPF, recourse to collateral evidence was to be taken only in exceptional circumstances, as a last resort, in case where missing credits or debits were not traceable in GPF schedules, ledger cards, broadsheet etc.

But as the mandatory records were not being maintained, the cases of final payment of GPF were being authorised on collateral evidence. During 2003-08, in the test checked districts, all final payments amounting to Rs 198.33 crore were made on collateral evidence.

FD failed to put in place internal controls to protect the interest of both the subscribers and the State.

5.1.7.10 Non-Implementation of Contributory Pension Scheme

Director, GPF, responsible for implementing CPS, did not initiate any action even after lapse of more than four years of GOI's order

Pursuant to GOI's order of December 2003, Director, GPF was made responsible for implementing CPS *w.e.f.* 1 December 2004. Scrutiny of records of the Directorate revealed: (i) the equivalent amount to be contributed by the State was not being contributed; (ii) annual statements to the employees had never been issued; and (iii) although the subscriptions together with the State's equivalent contributions were to be "attached" to "Pension Fund Regularity and Development Authority" (PFRDA) of GOI for investments, no such attachment had been made.

FD failed to exercise necessary supervisory controls to ensure maintenance of CPS accounts, equivalent contribution of State Government and attachment to PFRDA.

Functioning of Treasuries

Treasuries and sub-treasuries were responsible for handling the day to day transactions of receipt and payment of money on behalf of the Government and also for maintenance of records thereon as per Treasury Codes and Financial Rules.

5.1.7.11 Submission of monthly accounts to AG

According to Rule 70 of Jharkhand Treasury Code, monthly cash accounts, list of payments, supporting schedules, vouchers, challans and "Plus and Minus Memorandums" in respect of four classes of deposit accounts should be submitted by the Treasury Officers to AG by 5th of the following month (April to February) and by 12th April in case of March.

Scrutiny of records of all the six test checked treasuries showed that time schedule was never adhered to. During 2003-08, delays in submission of accounts ranged between 2 and 60 days which delayed the finalisation of Accounts.

5.1.7.12 Accumulation of Stamps

FD failed to keep administrative control over Treasuries regarding stock accounting of judicial and non-judicial stamps. Huge stock of stamps, including damaged/ obsolete, was fraught with the risk of misuse/ fraud

Proper account of receipt and issue of judicial and non-judicial stamps is to be maintained by the treasury and their requisition is to be made after proper assessment of requirement.

While the sale of judicial and non-judicial stamps was Rs 86.62 crore in 2007-08 by 22 treasuries and 9 sub-treasuries, judicial and non-judicial stamps worth Rs 230.48 crore were found to be stocked as of March 2008 in the six test checked treasuries. Further, stamps worth Rs 8.34 crore in these six treasuries had been declared damaged/obsolete.

Retention of huge stock of stamps, disproportionate to the likely requirement, was fraught with risk of stamps being misused. Similarly, retention of damaged/obsolete stamps was fraught with the risk of misuse/fraud. This reflected absence of administrative control of FD over treasuries with regards to procurement, retention and destruction of stamps.

5.1.7.13 Non-maintenance of important records required under JTC

Scrutiny revealed that internal controls in place for working of the treasuries were not being exercised as discussed below:

Internal controls in place of working of treasuries were not being exercised. Important records like calendar of returns, LOC register and receipts books were not maintained besides non-verification of local fund, *Zamindari* compensation bonds and duplicate keys of chests

- As contained in Rule 579 of JTC, verification of the balance at the credit of each local fund was required to be done by the Treasury Officer (TO) at the end of the year and communicate the results thereof to AG and the authority administering those funds. However, no such verification and communication were on record.
- As per Rule 70 (ii) of JTC, Calendar of Returns was required to be maintained by the TOs to keep a watch for submission of accounts and other returns to the respective authorities on due dates. No Calendar of Returns was maintained in any of the test checked treasuries during 2003-08.
- Under Rule 461-Annexure-I of JTC, Vol-I, Letter of Credit Register was to be maintained by each TO in Form I, II and III but no such register was maintained in any of the test checked treasuries.
- As per Rule 32 (i) of Land Reforms Rule, 1951, half yearly verification of *Zamindari* Compensation Bonds, kept in treasury, was to be carried out by the Revenue Officer but no such verification was conducted during 2003-08 in any of the test checked treasuries.
- According to Rule 118 of JTC, Vol-I the duplicate keys of the departmental chest placed in the custody of the TOs must be obtained examined and returned with fresh seal by the departmental officers once in a year. During 2003-08, no such inspection was carried out in any of the test checked treasuries.
- According to Rule 80 (c) of JTC, Vol-I, sealed packets containing valuables received in the treasuries for safe custody in the strong room should be recorded in a bound register of printed forms with machine numbered pages. The receipt book should also be kept in same manner. It was observed that the above provisions were disregarded.

5.1.8 Computerisation of Treasuries

Computerisation of treasuries was initiated in few treasuries in undivided Bihar. Computerisation of all the 31 treasuries was completed in October 2006. The major objectives of the project were to monitor the expenditure and receipts in real-time to ensure better financial management and eliminate delay in submission of monthly accounts to AG and the State Government by establishment of Wide Area Network (WAN) for connecting the treasuries with State headquarters, connectivity with Banks and upgradation of the existing software. After having spent Rs 4.37 crore on computerisation since creation of Jharkhand, the system in place had many deficiencies as there were no mechanisms in place for change management, documentation, testing of software before using it, training the personnel, ensure controls like physical access, logical access, application, input, processing, output etc. The department could not derive full benefits from the application, as it did not utilize all the available features in the application and continued with parallel manual operations. Consequently, the deficiencies noticed in the manual system persisted. The Results of IT Audit of Treasury Information System are discussed in **Chapter-III** of this report.

5.1.9 Man Power Management

There was acute shortage, nearly 45 *per cent*, of manpower in the department

Scrutiny of sanctioned strength and men-in-position at Secretariat and field level revealed that there was acute shortage of manpower. Only 45 and 44 *per cent* staff of sanctioned strength were in position at Secretariat and field level respectively. In respect of test checked treasuries, the shortage was 64 *per cent* (***Appendix-5.4)***). Acute shortage of manpower would affect the efficient working of the Department. As per prescribed norms, one assistant/clerk was required for every 1,200 subscribers for maintaining GPF A/cs. However, in six test checked District Provident Fund Cells, there was shortage of 34 *per cent* posts of assistant/clerk as per **Table-9**.

Table-9

Sl No	Name of district	Total number of subscribers	Requirement	Men in position	Shortage
1	Dhanbad	12269	10	05	05
2	Dumka	9055	08	05	03
3	Jamsedpur	12000	10	09	01
4	Lohardaga	3049	03	02	01
5	Palamau	9848	08	05	03
6	Ranchi	19989	17	11	06
Total			**56**	**37**	**19**

5.1.10 Internal Audit Wing

Deficient working of Internal Audit Wing denied FD the benefits of a very important tool for financial management

Internal audit is generally defined as control of all controls as it is a means of an organisation to assure itself that the prescribed systems were functioning reasonably well. Jharkhand adopted the Internal Audit System as established by Bihar in 1953. The internal audit wing, headed by the Chief Controller of Accounts and assisted by the Deputy Controller of Accounts, functioned under the administrative control of Secretary, FD. Internal audit of all the departments including field units (except Public Works and Co-operative Departments) was to be conducted by Sr. Auditors under the supervision of Deputy Controllers.

Scrutiny of records revealed that Internal Audit Wing was not aware of the total number of auditee units under its jurisdiction. Frequency and duration of audit for a unit were also not on record. It never prepared Annual Audit Plans. Audit of various units was conducted on request by the concerned units/departments. Further, the wing had no codes, manuals etc. There was absence of any mechanism for development of professional skills through periodical in-house training and deployment of external experts. There was acute shortage of staff (153 out of 319) in the wing, 48 *per cent* of the sanctioned strength.

Against 5,624[5] auditable units in a year, 1,070 units had been audited in last seven years and only 497 inspection reports were issued. There were no records of any follow up action on these inspection reports.

Deficient working of Internal Audit wing denied FD the benefits of a very important tool for financial management.

5.1.11 Monitoring and Evaluation

5.1.11.1 Periodical inspection of subordinate offices

Periodical inspection of sub-ordinate offices was not carried out by the responsible authorities during 2003-08

As per Rule 43 and 46 of JTC, Vol.-I, the Collector is responsible for proper control, general administration and working of treasuries. He is to satisfy himself of its proper functioning by periodical examination, at least once in every quarter for deposits and once in a year for stamps, security, draft and cheques. His responsibility also extends to the correctness of prescribed accounts and returns and the punctuality of their submission to the Accountant General. However, no record of such inspection, if any, conducted by the Collectors during 2003-08 was made available to Audit.

As per Rule 306 of JTC, Vol. I, the Director of Provident Fund was required to inspect his own office as well as that of District Provident Fund Officers (DPFOs) to identify accounting deficiencies and other failures for taking remedial actions but no such inspection was carried out by the Director during 2003-08.

5.1.11.2 Response to Inspection Reports

FD failed to ensure response to Audit Inspection Reports

AG (A&E) arranges to conduct periodical inspection of the treasuries to test check the transactions and verify the maintenance of records as per prescribed rules and procedures of treasury code.

The irregularities noticed during inspection of treasuries are communicated to the Heads of the Departments through Inspection Reports (IRs). Out of 28 IRs and 320 paragraphs issued during 2001-08 to the test checked treasuries 28 IRs and 214 paragraphs were pending for settlement (as of July 2008) as given in **Table-10**. This showed poor response to IRs by the treasuries as well as by the departments.

Table-10

Name of treasuries	Issue		Outstanding	
	IRs	Paras	IRs	Paras
Dhanbad	6	67	6	55
Dumka	5	56	5	32
Jamshedpur	5	40	5	26
Lohardaga	5	68	5	38
Palamu	3	48	3	40
Ranchi	4	41	4	23
Total	**28**	**320**	**28**	**214**

5 As per the Permanent Programme Register of the Office of the Accountant General (Audit), Jharkhand, Ranchi (except works and co-operative units).

5.1.12 Vigilance Wing

There was no vigilance wing in the department

There was no vigilance wing in the department. In the absence of mechanism, the department could not ensure that all the transactions were transparent and in public interest. Cases of fraud and embezzlement could go unnoticed and the guilty unpunished which would be against the interest of the Government.

5.1.13 Conclusion

The provisions of the Budget Manual were not adhered to. As a result, there were huge and persistent savings under different heads of accounts/grants. Savings were not re-appropriated/surrendered in time and allocated funds lapsed. Unnecessary supplementary grants were made. Rush of expenditure during fag end of financial year was noticed. Monitoring of expenditure was weak. Deficient operational controls were noticed in respect of expenditure from JCF, returns on investment/loans/advances and enactment of FRBM Act. Observance of prescribed accounting procedure in respect of implementation of GPF Rules was not adhered to. In absence of details of credit/debits, the final payments of GPF were made on collateral evidence as first and final resort. State Government failed to implement Contributory Pension Scheme. Records of treasuries were not maintained properly. Internal Audit Wing was ineffective. There was acute shortage of man power. The Department failed to monitor the working of treasuries and GPF offices effectively. Response to Inspection Reports of treasuries was poor and Vigilance Mechanism was absent.

5.1.14 Recommendations

- The provisions of the Budget manual should be strictly adhered to;
- The prescribed procedure in respect of GPF should be strictly adhered to and practice of making payments on collateral evidences should be stopped;
- The Contributory Pension Scheme should be properly implemented;
- The provisions of the JTC should be strictly adhered to;
- Internal audit wing should be strengthened and a Vigilance Mechanism should be developed.

The matter was referred (September 2008) to the Government; their reply had not been received (December 2008).