

CHAPTER V

INTERNAL CONTROL SYSTEM

HEALTH AND FAMILY WELFARE DEPARTMENT (MEDICAL EDUCATION DEPARTMENT)

5.1 Evaluation of Internal Control System and Internal Audit

Highlights

Audit evaluation of internal control system in the Medical Education Department which was established with the basic responsibility of providing quality medical education at graduate, post-graduate and super-speciality levels besides para-medical courses disclosed that budgetary, administrative and inventory controls were either non-existent or inadequate to prevent irregularities/non-compliance with established procedures/practices. Besides, absence of internal audit rendered ineffective even the inadequate internal controls that were in place.

Budgetary controls in place were ineffective as there were instances of preparation of budget not in tune with the provisions of Budget Manual.

(Paragraph 5.1.5)

Inadequate internal controls led to embezzlements aggregating Rs.15.86 lakh in three institutions.

(Paragraph 5.1.7)

As a result of lack of compliance of orders/internal controls, there were instances of revenue loss, non-recovery of clinical charges and diversions, and non-receipt of utilisation certificates for grants released to private medical colleges, aggregating Rs.22.63 crore.

(Paragraphs 5.1.8 to 5.1.14)

Vacancies in faculty positions in medical colleges, inadequate sanctioned strength of nursing staff, admission of excess strength in nursing schools despite inadequacies and absence of service rules in an autonomous body were indicative of inadequate administrative controls.

(Paragraphs 5.1.15 to 5.1.17)

There was no Internal Audit Wing in the Medical Education Department.

(Paragraph 5.1.19)

Introduction

5.1.1 Internal control system in an organisation is designed in the form of policies and methods to promote operating efficiency, achieve compliance with established policies, uncover frauds and minimise errors. The standards fixed by the Medical Council of India, Dental Council of India and the Nursing Council of India form the basis for exercising internal controls in the Medical Education Department (MED), in the operational field. In the fields of finance and inventory, the various Codes and Manuals prescribed by the State Government serve as criteria for exercising internal controls.

The Secretary to Government in MED exercises overall administrative control^ϕ at the State level through the Commissioner of Health and Family Welfare Services. The Director of Medical Education (DME) heads the Department which has 29 Government institutions (two medical colleges, one dental college, 11 nursing schools and 15 teaching hospitals) under its control. Besides, eight autonomous medical education institutions received grants from the Government and were, therefore, accountable to DME.

Audit objectives

5.1.2 The main audit objectives were to examine whether:

- Adequate internal controls were in place and functioning.
- Adequate controls over the finances and inventory existed.
- Controls existed for economic and effective operations consistent with the mandate of MED.
- Compliance with the standards of Medical/Dental/Nursing Councils of India was achieved.

Audit criteria

5.1.3 The Audit criteria were:

- Financial Codes and Stores Manual of the State Government.
- Instructions issued by the Government from time to time in the fields of finance and inventory.
- The prescriptions of the Medical/Dental/Nursing Councils of India.

^ϕ Recruitment of staff, providing budget grant/grant-in-aid to medical colleges, teaching hospitals, autonomous medical institutions, etc.

Scope of audit and methodology

5.1.4 Audit conducted (February-June 2005) a review of the internal controls in place in the Secretariat, Directorate of MED, one medical college, one dental college, four teaching hospitals, three nursing schools and two autonomous institutions, by undertaking a test-check of records maintained, covering the years 2000-01 to 2004-05. The number of organisations covered in test-check was 11^ψ out of 37 (30 *per cent*) and their selection was made choosing units from each category and also on risk factors associated with them. The Audit also took into account the response (December 2005) of the Government to the initial observations.

Audit findings

Budgetary controls

There were substantial savings of plan grants during 2000-05

5.1.5 Financial rules framed by Government, instructions issued by Government/ Directorate from time to time, provisions of the Budget Manual, *etc.*, stipulate various control measures to ensure proper budgetary and other financial operations. The budget and expenditure of the Department during 2000-05 were as detailed below:

Table 1: Position of budget and allotment

(Rupees in crore)

Years	Plan			Non-plan		
	Budget	Expenditure	Savings	Budget	Expenditure	Savings
2000-01	26.76	23.21	3.55 (13)	193.09	192.70	0.39
2001-02	29.60	27.78	1.82 (6)	211.27	190.56	20.71 (10)
2002-03	22.80	23.62	-	226.52	195.86	30.66 (14)
2003-04	25.00	17.27	7.73 (31)	217.07	195.83	21.24 (10)
2004-05	28.31	24.05	4.26 (15)	210.19	190.15	20.04 (10)

(Figures in brackets indicate percentage of savings)

It was noticed that the Directorate made budget proposals for all vacant posts without reference to the likelihood of these posts getting filled up, contrary to the provisions* of the Budget Manual. This was the main reason for the savings under non-plan. The Government justified (December 2005) the action of the DME stating that there was likelihood of vacant posts getting filled up according to the norm prescribed by the Medical Council of India

^ψ Medical College (1): Bangalore Medical College, Bangalore,
Dental College (1): Government Dental College, Bangalore,
Teaching hospitals (4): Bowring & Lady Curzon hospital, Bangalore, Vanivilas hospital, Bangalore, Victoria hospital, Bangalore and K.R. hospital, Mysore
Nursing schools (3): Bowring & Lady Curzon hospital, Bangalore, Victoria hospital, Bangalore and K.R. hospital, Mysore
Autonomous Institutions (2): Karnataka Institute of Medical Sciences, Hubli and Kidwai Memorial Institute of Oncology, Bangalore

* Paragraph 114

(MCI) during the respective years. The Government, however, did not fill up these vacant posts during the past five years (2000-05).

According to various instructions issued by the Government from time to time, funds for plan schemes/works were to be utilised in full in the respective year itself for timely and effective implementation of schemes. Substantial savings under plan grants during 2000-05 were due to under-utilisation of scheme grants by the DME and other unit offices. This indicated that the progress of expenditure under plan grants was not monitored at the Government/DME level, by having the prescribed internal controls like obtaining and reviewing monthly expenditure statements from the implementing agencies, as required. This rendered the schemes incomplete and the target groups were deprived of the benefits of the schemes. Test-check in units disclosed:

➤ In Bangalore Medical College, Bangalore (BMC), provision for re-orientation of medical education was not utilised to the extent of 38 *per cent* to 60 *per cent* due to shortage of teaching staff which were not filled up by the Government, which stated (December 2005) that teaching staff were being recruited to avoid such non-utilisation in coming years.

➤ Karnataka Institute of Medical Sciences, Hubli (KIMS), did not utilise funds of Rs. two crore allotted for the execution of second phase building works of Karnataka Institute of Mental Health, Dharwad. The Government replied (December 2005) that the tenders for the work had since been processed (November 2005).

Test-check for the period 2000-05 also disclosed persistent savings ranging from 7 *per cent* to 95 *per cent* of budget allotments in the expenditure under different minor heads (drugs and chemicals-7 *per cent* to 24 *per cent*, equipment and accessories-30 *per cent* to 95 *per cent*, library books and journals-15 *per cent* to 86 *per cent*). Audit observed that these were not watched by having suitable control registers and by periodical review both at the levels of unit and the DME.

The savings under "drugs and chemicals" and "equipment and accessories" during 2000-05 were due to the budget proposals for these heads being made on adhoc basis by the Directorate due to delayed receipt of annual estimates based on actual requirements from subordinate officers. This was in contravention of the provisions[■] of the Budget Manual. Test-check disclosed that the Principal, BMC submitted the estimates for purchase of equipment for 2004-05 belatedly in October 2004 as against the due date in November 2003. The Directorate sought (January 2005) approval of Government and obtained it only at the fag end of the year in March 2005, resulting in non-purchase and consequent savings.

■ Paragraph 88

The DME under the orders of Government (March 2002 and March 2003) drew funds allotted in the budget for purchase of drugs, chemicals, equipment, fees payable to Scheduled Caste/Tribe students aggregating Rs.6.11 crore during 2000-04 and deposited them irregularly in a Personal Deposit (PD) account meant for accommodating Earnest Money and Security Deposits of contractors, just to avoid lapsing of budget grants. Such drawals and deposit into a PD account did not reflect the correct position of savings.

The substantial savings under library books and journals resulted in denial of the latest books and journals to the students in violation of norms prescribed by the MCI. Test-check disclosed that in one autonomous body^ψ, no budget was provided at all for 2003-05. In BMC, despite availability of funds of Rs.21 lakh, no books/journals were procured during 2003-04. KIDWAI and BMC were responsible for these lapses and the DME did not point out to them for remedial action.

The Government admitted (December 2005) the lapses and stated that the provisions of the Budget Manual would be complied with strictly in future.

Other financial controls

5.1.6 Test-check disclosed occurrence of other financial irregularities such as embezzlements, revenue losses, diversion of plan scheme provisions/ funds for other purposes, splitting-up purchases, *etc.*, due to lapses in internal controls including non-monitoring at Government and Directorate levels as detailed below:

Embezzlements of user charges

**User charges
were embezzled
in three
institutions**

5.1.7 Mention was made in paragraph 4.1.2 of the Report of the Comptroller and Auditor General of India (Civil) for the year ended 31 March 2004 about defalcation of user charges and others in Bowring and Lady Curzon Hospital, Bangalore. Similar embezzlements involving Rs.15.86 lakh were noticed in three other institutions^ϕ. This was mainly due to lapses in internal controls like non-maintenance of separate cash book and bank account exclusively for the user charges by the hospitals in contravention of instructions of Government coupled with non-reconciliation of bank balance, non-remittance of collections to bank account periodically and non-exercise of checks by supervisory officers/committee for user charges. The Government admitted (December 2005) the lapses and stated that remedial action would be taken.

^ψ Kidwai Memorial Institute of Oncology, Bangalore (KIDWAI)

^ϕ Vanivilas Hospital, Bangalore (2004-05) - Rs.9.06 lakh,
Government Dental College, Bangalore (1998-2000)- Rs.3.80 lakh
Government Medical College, Bangalore (2002-03) - Rs.3.00 lakh

Revenue loss

5.1.8 Instances of loss of revenue to Government/Fund accounts are narrated below:

Delay in commencing collection of user charges resulted in revenue loss of Rs.1.72 crore

The DME issued (July 2000) instructions to recover user charges from patients towards medical services rendered by hospitals. Test-check disclosed that the instructions were not complied with immediately and the hospitals commenced collection of user charges after a delay of two/three years. The user charges that were not collected in radiology department alone, where details were available, worked out to Rs.1.72 crore⁰ in the test-checked hospitals. The hospitals concerned attributed the delay to political pressures and protest from the public. The Government stated (December 2005) that the initial resistance to the payment of user charges had subsided and the hospitals had commenced collecting user charges. Audit, however, noticed that the Directorate did not monitor recovery of user charges by the teaching hospitals.

Bye-laws of the KIDWAI required prompt transfer of its contribution to pension fund every month, as delayed transfer would entail loss of interest and defeat the very purpose of the fund. Audit scrutiny disclosed that KIDWAI transferred its contribution (Rs.2.42 crore) to pension fund after a delay ranging from 10 to 24 months during 2000-04. Though, the Government stated (December 2005) that the funds diverted had been recouped to the fund account, the initial delay in transfer led to loss of interest of Rs.21.73 lakh at eight *per cent* per annum.

Non-recovery of arrears of revenue and advances

5.1.9 Instances of non-recovery of dues are detailed below:

Clinical charges of Rs.3.08 crore were not recovered from three private medical colleges

➤ According to instructions issued by the Government, Government hospitals associated with medical colleges were required to collect prescribed clinical charges from private medical colleges that were utilising clinical facilities available with them, in advance each year. A sum of Rs.3.08 crore was pending recovery as of March 2005 from three⁰ private medical colleges, even though these charges were to be recovered in advance each year. There was, thus, a need to maintain a Demand, Collection and Balance (DCB) register to have an effective watch over the outstanding dues of clinical charges and their recovery. The DME, however, did not maintain DCB register to watch the recovery of clinical charges.

⁰ Vanivilas Hospital, Bangalore - August 2000 to September 2002 – Rs.6.76 lakh
Bowring and Lady Curzon Hospital, Bangalore –August 2000 to July 2003 – Rs.32.40 lakh
Victoria Hospital, Bangalore– August 2000 to March 2003 – Rs.83.20 lakh
KR Hospital, Mysore – August 2000 to June 2004 – Rs.49.92 lakh

⁰ (1) J.J.M. Medical College, Davanagere (availed clinical facilities at C.G. Hospital, Davanagere), – 2001-05 and prior - Rs.2.13 crore
(2) K.M.C, Mangalore (availed clinical facilities at Wenlock Hospital, Mangalore)– 2004-05 - Rs.0.50 crore
(3) M.R. Medical College, Gulbarga (availed clinical facilities at District Hospital, Gulbarga) - 2004-05 - Rs.0.45 crore

➤ An amount of Rs.14.69 lakh relating to 2001-02 to 2004-05 was outstanding against Karnataka State Road Transport Corporation and Employees State Insurance Corporation towards bed reservation charges for the benefit of their employees, in four test-checked hospitals^Φ. Contrary to the directions issued by the DME, no demand was raised and the DCB register was not maintained.

➤ In Bowring and Lady Curzon Hospital, Bangalore water bills were paid to the Bangalore Water Supply and Sewerage Board, without verifying the bills with the relevant control registers leading to excess/avoidable payment of Rs.24.16 lakh between January 2002 and December 2004 as detailed below:

January 2002	Rs.2.31 lakh paid without ascertaining details.
May 2003	Rs.13 lakh paid additionally even though the water bill of Rs.21.03 lakh for the month was paid earlier.
August 2003	Rs.7.55 lakh was paid as arrears from June 2003 even though the water bills from June 2003 were regularly paid.
August/December 2004	Rs.1.30 lakh was paid as interest on account of not making payment on time.

For providing additional facilities to the Karnataka Institute of Mental Health, Dharwad, the KIMS, Hubli paid (August 2001) an advance of Rs.15 lakh to a construction enterprise of Government of India, even before signing the contract agreement. The contract did not materialise as the Governing Council of KIMS did not concede the demand of the contractor for an increase in the rates. In the absence of control in the form of agreement, the advance of Rs.15 lakh remained un-recovered as of March 2005.

The Government admitted (December 2005) the lapses/omissions in all these cases and stated that remedial action had since been initiated.

Diversions and non-utilisation of funds

Programme funds of Rs.6.58 crore were diverted for establishment expenditure

5.1.10 The KIDWAI diverted amounts meant for specific programmes (Chief Minister's Medical Relief Fund, Pension Fund, Children Welfare Fund, etc.) aggregating Rs.6.58 crore during May 2000 to April 2005 for establishment expenditure of the Institute, contrary to the rules of these funds and the instructions of the Government issued from time to time. The DME who administered the Medical Relief Fund and the Secretary to Government in MED who controlled utilisation of grant-in-aid released to autonomous medical institutions were to have taken preventive measures against such

^Φ Victoria Hospital, Bangalore - Rs.9.13 lakh - 2001-02 to 2004-05
 Vanivilas Hospital, Bangalore - Rs.1.46 lakh - 2001-02 to 2004-05
 K.R. Hospital, Mysore - Rs.0.82 lakh - 2002-03 to 2004-05
 Bowring and Lady Curzon Hospital, Bangalore - Rs.3.28 lakh - 2002-03 to 2004-05

diversions, which was not done. The Government without furnishing details of remedial action to avoid such lapses, stated (December 2005) that the diverted amounts had since been re-credited to the respective funds.

Out of Rs.60.31 lakh released by Government of India during 1992-93 for the establishment of a School of Nursing in Chitradurga, Rs.27.73 lakh were held (June 2005) in fixed deposits without being utilised for the purpose for which it was sanctioned. The DME/Government did not take action to avoid such non-utilisation by having suitable controls through periodical monitoring of utilisation. The Government replied (December 2005) that this lapse had been viewed seriously and explanations of DME/officer concerned had since been sought.

Reconciliation of bank balances

Bank balances were not reconciled and Caution Money Deposit Register was not maintained

5.1.11 One of the important internal controls to prevent fraudulent drawals and financial irregularities is reconciliation of bank balances with the balances reflected in cash books. Test-check, however, disclosed that:

➤ The DME did not reconcile the differences ranging from Rs.0.25 lakh to Rs.2.56 crore noticed at the end of each year during the period 2000-05 between the cash book balance and treasury balance of a PD account. The Government replied (December 2005) that the reconciliation work had since been taken up by the DME, resulting in considerable reduction in differences.

➤ In BMC, fee paid by the students was taken to cash book on production of counterfoil of the challan for remittance without ensuring that the fee paid was actually transferred by the Bank to the college account. As a result of this faulty procedure, there was a progressive difference of Rs.1.81 lakh between cash book and bank balances as of February 2005, which had not been reconciled by the BMC (November 2005). Further, the BMC did not reconcile the cash book and treasury balances of a PD account, from May 2003. The treasury schedules disclosed a difference of Rs.5.22 lakh as of October 2004. The Government stated (December 2005) that necessary instructions to conduct reconciliation had since been issued to the BMC.

➤ No Caution Money Deposit Register was maintained in BMC to watch collection and refund of caution money deposits from/to students admitted to the college, though the college held a balance of Rs.22.47 lakh as of March 2005 towards caution money deposit, as reflected in the cash book. The Government stated (December 2005) that necessary direction had been issued to BMC for remedial action.

Split purchases

5.1.12 With a view to having adequate control over procurements, Government had approved monetary limits up to which procurements could be made at various levels. Scrutiny of records of teaching hospitals, however, disclosed that in all the cases test-checked, the purchase orders were split up to bring them within the monetary powers delegated (Rs.15,000 for drugs and chemicals and Rs.20,000 for equipment and accessories) avoiding sanction

from higher authorities and calling of open tenders. The Government stated (December 2005) that the institutions had been instructed not to split up the purchases.

Management of Karnataka Chief Minister's Medical Relief Society Fund

Management of Chief Minister's Medical Relief Society Fund by the DME was inadequate

5.1.13 The DME, being the administering authority for the Fund was responsible for the custody and the allocation of funds to different teaching hospitals and autonomous institutions from the Fund set up with Government grants, donations, *etc.* The following deficiencies in controls were noticed in the management of the Fund.

- Registers of Donations and Grants were not maintained.
- Returns from investments made from the Fund were not watched through an investment register.
- All transactions were not recorded in cash book and authenticated.
- Utilisation certificates from hospitals were not obtained for Rs.20.08 crore released during 2000-05. Test-check disclosed that in Bowring and Lady Curzon Hospital, Bangalore, details of utilisation of Rs.32.75 lakh released from the Fund were not maintained and vouchers for Rs.11.42 lakh drawn on self-cheques were not on record, which indicated failure in keeping of proper accounts.

The Government agreed (December 2005) to inform Audit of the details of remedial action taken.

Sanction of grants and utilisation of funds/grants

5.1.14 Instances of inadequate controls in sanction of grants and monitoring utilisation of funds, as disclosed in test-check are as below:

The internal controls in sanction of grants and monitoring fund utilisation were inadequate

- The Government has been releasing substantial grants-in-aid to autonomous and other bodies functioning in the field of imparting medical education. During the period 2001-05, grant-in-aid of Rs.289.14 crore was released to these bodies. The Department did not maintain the Register of Grants in the format prescribed in the Karnataka Financial Code[◇] for exercising control over proper utilisation, receipt of utilisation certificates and audited statement of accounts, *etc.* The Department also did not maintain block accounts of permanent and semi-permanent assets acquired wholly or mainly out of Government grants, as required in the Karnataka Financial Code[◇]. Non-maintenance of the Register of Grants and block accounts of assets indicated inadequate internal controls at the Government level over release of grants-in-aid to autonomous bodies. The Government agreed (December 2005) to maintain the grant register.
- The DME did not obtain details of disbursement of Rs.2.46 crore released during 2000-05 to 17 disbursing officers of his Department towards reimbursement of tuition fee of students belonging to Scheduled Castes/

[◇] Article 161

[◇] Article 161(c)

Tribes studying in private medical/dental colleges. The Government stated (December 2005) that the necessary instructions on the matter had since been issued to the DME.

- Utilisation certificates countersigned by District Surgeons for disbursement of Rs.11.25 crore released to six¹ private medical colleges during 2000-05 towards stipends to interns and post-graduate students admitted to those colleges under Government quota were not received by the DME, who did not also watch their receipt through an appropriate control register. The Government stated (December 2005) that utilisation certificates for Rs.6.60 crore had since been received by the DME. The position relating to the remaining amount was not stated (December 2005).

Administrative controls

Teaching faculty

There was acute shortage of teaching faculty and nursing staff

5.1.15 Test-check of records in two Government medical colleges disclosed that a large number of posts of teaching faculty remained vacant since 2000-01 (March 2005) as shown below:

Table 2: Strength of teaching faculty

Post	Bangalore Medical College, Bangalore			Government Dental College, Bangalore		
	Sanctioned	Working	Vacant	Sanctioned	Working	Vacant
Professor	120	83*	37	9	7	2
Assistant Professor	116	57	59	22	12	10
Lecturers	186	129 [@]	57	27	8 [#]	19

* including six posts filled on contract basis

@ including 38 posts on 'on official duties' basis from other offices and three posts on contract basis

including six posts on 'on official duties' basis from other offices

The MCI had also urged (August 2000) for filling up of vacant posts on urgent basis as the existing manpower was below the prescribed minimum standards.

Test-check in four[◆] Government Hospitals disclosed that there was acute shortage of nursing staff when compared with the norm prescribed by the MCI as follows.

¹ Ambedkar Medical College, Bangalore – 2000-01 to 2004-05 – Rs.1.65 crore
 Al-Ameen Medical College, Bijapur – 2000-01 to 2004-05 – Rs.1.03 crore
 Siddhartha Medical College, Tumkur – 2000-01 to 2004-05 – Rs.2.07 crore
 J.J. Medical College, Davanagere – 2004-05 – Rs.1.37 crore
 Devaraja Urs Medical College, Kolar – 2000-01 to 2004-05 – Rs.2.36 crore
 M.R. Medical College, Gulbarga – 2000-01 to 2004-05 – Rs.2.77 crore

◆ Vanivilas Hospital-Bangalore, Victoria Hospital-Bangalore, Bowring and Lady Curzon Hospital-Bangalore and K.R.Hospital-Mysore

Table 3: Strength of nursing staff

Nursing staff	Prescribed strength	Sanctioned and working strength	Percentage of shortage
Nursing Superintendent	23	11	48
Deputy Nursing Superintendent	23	48	--
Assistant Nursing Superintendent	85	Nil	100
Staff Nurse	1,457	686	47

Though the hospitals concerned had been addressing the Directorate/ Government since May 2002 in the matter, the vacancy position continued, affecting nursing care in hospitals.

The Government stated (December 2005) that action had been initiated to fill vacancies by fresh appointments and deputation.

Admission in Government nursing schools

Government admitted 200 students in excess of the intake capacity in nursing schools

5.1.16 Test-check of records disclosed that during 2001-05, about 50 per cent of the sanctioned posts of 10 Principals and 53 Nursing Tutors remained vacant in the Government Nursing Schools. While the post of Vice-Principal was not at all sanctioned in any of the Nursing Schools, the post of Principal was also not sanctioned to the Nursing School at Chitradurga. The Principals of Nursing Schools were not functioning as independent drawing and disbursing officers. All the staff of the Nursing Schools were not provided with residential quarters. Despite these inadequacies during 2001-02, Government admitted 590 students as against the intake capacity of 390 students in 11 Nursing Schools. This was, however, contrary to the norms prescribed by the MCI. The Government replied (December 2005) that the excess intake was resorted to only in one year (2001-02) as many Scheduled Caste/Tribe applicants opted for the course in that year. The reply, however, was silent on inadequacy of staff/facilities.

Service Rules

KIMS did not frame cadre and recruitment rules

5.1.17 The Government Medical College, Hubli became an autonomous body in November 1994 and renamed as Karnataka Institute of Medical Sciences. Even though the bye-laws of the Institute provided for framing of Cadre and Recruitment Rules (C&R Rules), these were not framed. Test-check disclosed the following consequences of absence of C&R Rules.

- The Institute during the period between January 1997 and February 2000, recruited 27 persons for the post of Lecturers, even though they did not possess post-graduate degree, as stipulated by the MCI.
- During 2000-05, eight lecturers who had not completed five years of service in the Institute, as required in Karnataka Civil Services Rules were deputed for Post-graduate studies. This adversely affected manpower in teaching faculty of the Institute.
- In another case, a Professor appointed in December 1996 with five advance increments reported on 10 January 1997. He remained absent

from 14 January 1997 to 15 August 1999, excepting for five days in April 1997. He was re-appointed from 16 August 1999. Audit noticed that the professor was engaged in some other Institute from 10 January 1997 to 15 August 1999. Despite his unauthorised absence, the service for the above period was regularised as leave without pay.

The Government replied (December 2005) that separate C&R rules for KIMS would be framed shortly and that necessary action would be taken to correct the service period of the Professor and recover excess salary paid.

Inventory control

Physical verification of stock

Physical verification of stock was not conducted

5.1.18 One of the controls designed to safeguard assets and their proper accounting is annual physical verification of stock^Φ. Records disclosed that such a verification of stock articles and drugs and chemicals was not, however, conducted for the last three to four years in the test-checked teaching hospitals. Further, the hospitals accepted the supplies of drugs and chemicals without insisting upon analytical reports from the suppliers. The acceptance of supplies without analytical reports was 100 *per cent* in the test-checked cases. The Government stated (December 2005) that the DME/ Hospitals concerned have been instructed to conduct physical verification of stock and to adhere to the procurement norms strictly in future.

Internal audit

Internal Audit Wing was not in existence

5.1.19 Internal audit is an independent appraisal of operations to assess the internal financial, administrative and other controls and help implementation of adopted policies. The Finance Department issued (December 1992) guidelines to improve the quality of functioning of Internal Audit Wing of Government Departments to enhance fiscal discipline. No Internal Audit Wing was, however, constituted in the MED, even 27 years after its formation (March 2005). The Government replied (December 2005) that the Internal Audit Wing had since been constituted with the available staff and commenced functioning from November 2005.

Conclusion

5.1.20 Budget control mechanism in place was not effective, inadequate financial controls led to embezzlements, loss of revenue, delayed realisation of revenue, diversion of funds, splitting up of purchases, *etc.* There were noticeable shortages in faculty positions and nursing staff affecting the performance. Inventory control was insufficient due to non-conduct of physical verification of stock and non-receipt of analytical reports from the suppliers for ensuring quality of drugs and chemicals.

^Φ Article 169 of the Karnataka Financial Code

5.1.21 Recommendations

- The controls stipulated in the instructions of Government/provisions of Budget Manual should be complied with strictly to ensure realistic estimation and optimum utilisation of resources.
- Existing financial controls such as proper maintenance of cash book and Demand, Collection and Balance register, monitoring of recovery for user charges/clinical charges, proper verification of bills before making payments, *etc.*, should be tightened up to avoid embezzlements/revenue losses.
- Vacancy position of teaching faculty and nursing staff affecting the performance of the Department should be reviewed urgently to optimise staff deployment and utilisation.

The Government agreed (December 2005) to initiate action to comply with the recommendations.

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