

CHAPTER V

INTERNAL CONTROL SYSTEM IN GOVERNMENT DEPARTMENTS

FISHERIES AND PORTS DEPARTMENT

5.1 Internal Control System and Vigilance Mechanism in Fisheries Department

Highlights

An evaluation of the internal control system and vigilance mechanism in the Fisheries Department revealed that Internal Control System was weak and the inbuilt controls were inadequate. Non-compliance with rules, orders and provisions of the Manual in the areas of budget preparation, expenditure controls and failure to adhere to the guidelines on implementation of welfare schemes were also observed. Operational controls were ineffective as revealed from cases such as deficiencies in survey for identification of the vessels operative in the State, lapses in renewal of licence of registered boats and failure in obtaining of patrolling reports.

Budget estimates were submitted late besides being unrealistic resulting in huge savings during 2001-02 to 2004-05.

[Paragraphs 5.1.5.1 and 5.1.5.2]

Dues amounting to Rs 5.07 crore were pending recovery on account of cost of boats issued on hire purchase basis.

[Paragraph 5.1.7.3]

Interest accrued amounting to Rs 66 lakh though stipulated in the scheme was not disbursed to the beneficiary fishermen.

[Paragraph 5.1.8.7]

Internal Audit Wing except from July 2004 to April 2005 was not functioning despite instruction of the Government.

[Paragraph 5.1.9.1]

5.1.1 Introduction

Internal control is a dynamic integral process involving management and personnel at all levels to provide reasonable assurance for achievement of objectives. It safeguards against failure in compliance with laws and regulations through control environment, risk assessment, control procedure, information, communication and monitoring thereby ensuring effectiveness and efficiency in departmental operations and reliability in financial reporting.

An evaluation of the Internal Control System and Vigilance Mechanism in the Fisheries Department was carried out to see mainly whether the control system provides a reasonable assurance for proper financial control, proper

operational control over various activities of the Department and safeguarding resources against losses.

Kerala has a coastline of 590 km extending almost to its entire length on the western side. The Fisheries Sector contributes about two *per cent* of State's annual income. Three *per cent* of the State's population depends on this sector for their livelihood through various levels of employment in harvesting, selling, processing and distribution of fish and fish products.

Functions of Fisheries Department include:

- promoting fishery resources;
- improving socio-economic status of fisherfolk;
- providing infrastructure facilities to fishermen;
- imparting technical know-how in fisheries sector; and
- implementation of different welfare programmes including insurance coverage to fisher folk.

5.1.2 Organisational set up

Fisheries Department is headed at the Government level by the Principal Secretary to the Government. Director of Fisheries (Director) is the Head of the Department, assisted by an Additional Director, the Superintendent of Police, Marine Enforcement and Vigilance (ME&V) at Headquarters, three Joint Directors at regional level, (Thiruvananthapuram, Ernakulam and Kozhikode), 14 Deputy Directors, subordinate officers and other supporting staff. .

5.1.3 Audit objectives

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

- budgetary controls;
- cash controls;
- expenditure controls;
- operational controls; and
- mechanism for Internal Audit and Vigilance.

5.1.4 Audit coverage

Mention was made in paragraph 3.4 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Civil) about the shortcomings/deficiencies in the functioning of the Fisheries Department. The Public Accounts Committee (2001-04) in its eighteenth Report had observed (July 2002) that the functioning of the Fisheries Department in Kerala was so unsatisfactory that efforts to exploit the fisheries wealth of the State through

the projects implemented by the Department were negligible. A review of the internal control system and vigilance mechanism of the Fisheries Department covering the period 2001-06 was conducted during February –May 2006 by a test check of the records in the Secretariat, Directorate, office of the two Joint Directors* (JD), four Deputy Directors#, two Fisheries Stations@ (out of five) and the National Fish Seed Farm, Malampuzha. The audit findings are discussed in the following paragraphs.

Audit findings

5.1.5 Budgetary Control

5.1.5.1 Belated submission of Budget proposals

According to the provisions contained in the Kerala Budget Manual (KBM) budget estimates are to be consolidated by the Head of the Department based on the proposals received from subordinate offices and submitted to the Government by 15 September (Non-Plan) and 30 November (Plan) every year. There was delay of 28 days in sending budget estimates to the Government for the year 2005-06. Details of the budget estimates sent by the Directorate to Government for the years 2001-02 to 2003-04 were not produced. Administrative Department also did not have the details prior to 2003-04 and they did not take any action for the belated submission of the estimate for 2005-06 by the Director. Delay in submission of budget estimates and absence of control over timely submission of the estimates hamper the process of proper vetting of the estimates resulting in unrealistic estimates.

Contrary to KBM provisions Budget proposals were submitted after a delay of 28 days

5.1.5.2 Defective Budget proposals

According to provisions of the KBM, proposal for surrender of funds should reach the Finance Department by 25 February. Para 64 (3) of the KBM stipulates that every Controlling Officer should keep a constant watch on the current and anticipated expenditure. Supplementary grants can be obtained if the anticipated expenditure exceeds the appropriation.

There were huge savings in all the years from 2001-05 indicating defective budgeting

Contrary to these provisions there were huge savings during the period 2001-05 which is indicative of inaccurate budgeting which was not according to the actual requirement. Proposals for surrender of funds for the period were sent to the Government only on the last day of the financial year. Supplementary grants obtained during these years were not limited to requirement. Supplementary grants of Rupees three crore and Rs 10.08 crore obtained during 2003-04 and 2005-06 respectively were wholly unnecessary in view of the final savings of Rs 7.25 crore and Rs 11.24 crore.

When huge savings were available, only a portion thereof was surrendered during 2001-06 as detailed below:

* JD at Kozhikode and Ernakulam

DD at Kollam, Ernakulam, Kannur and Kasaragod

@ FS at Vizhinjam and Beypore

(Rupees in crore)

Year	Grants		Expenditure	Savings	Surrender	Date of surrender
	Original	Supple-mentary				
2001-02	53.94	---	37.21	16.73	13.35	30 March 2002
2002-03	45.51	19.77	52.26	13.02	9.21	31 March 2003
2003-04	42.21	3.01	37.97	7.25	0.06	31 March 2004
2004-05	41.92	15.03	46.89	10.06	3.14	31 March 2005
2005-06	44.83	10.08	43.67	11.24	6.53	31 March 2006

The significant variations between the final grant and actual expenditure in all these years were indicative of defective budgeting. It would also be seen that surrender of savings of Rs 32.29 crore at the fag end of respective financial years indicated lack of budgetary control. Finance Department was thus deprived of the opportunity to reappropriate the funds to other departments which needed funds.

Monthly statement of expenditure was not sent to the Directorate and monitoring of expenditure was not effective

Director of Fisheries as the Chief Controlling Officer is required to allot budget provision to various subordinate offices, receive monthly progress of expenditure and liabilities, forward consolidated monthly statement of expenditure to the Government, reconcile expenditure and monitor expenditure against budget allotment. Register of Expenditure (Form 12 KBM) and Register of Liabilities (Form 13 KBM) were not maintained in the two district offices (Kasaragod and Kannur) test checked and monthly expenditure statement was never sent to the Directorate. Director also did not insist on furnishing the statements by field offices. Hence, the Director could not monitor expenditure leading to savings and surrender of funds on the last day of the financial year. In addition, it could also not be ensured that the expenditure incurred by field offices was authorised by legislature.

Para 74 of the KBM prescribes reconciliation of departmental figures of expenditure with those appearing in the books of Accountant General (A&E) in order to enable the departmental officers to exercise proper control over expenditure and to detect frauds and defalcations if any, at an early stage. The reconciliation was done only up to December 2004 as of August 2006.

5.1.6 Cash controls

5.1.6.1 Physical verification of cash

Physical verification of cash was not conducted by Head of Office

According to Rule 92 (iv) of Kerala Treasury Code, at the end of each month the Head of Office is required to verify the cash balance physically and record signed and dated certificate to that effect. The Director, however, did not conduct any physical verification of cash balance during 2001-06. Failure to conduct physical verification of cash is fraught with the risk of misappropriation/embezzlement of cash remaining undetected.

5.1.7 Expenditure controls

5.1.7.1 Submission of defective Utilisation Certificates

Director allotted Rupees seven crore during 2001-05 to two agencies viz., Brackish water Fish Farmers' Development Agency (BFFDA) - Rs 3.60 crore

Utilisation certificates furnished to GOI were not reliable

and Fish Farmers' Development Agency (FFDA) - Rs 3.40 crore, Central share being 50 per cent and 75 per cent respectively.

For those amounts Utilisation Certificates (UCs) were furnished (October 2005) to the GOI for Rs 3.60 crore (BFFDA) and Rs 2.95 crore (FFDA).

A test check of the accounts of four BFFDAs and four FFDA's revealed that substantial amounts released during 2001-05 were remaining unutilised in the accounts of the implementing agencies. It was noticed that the agencies did not furnish the UCs to the Director even though the UCs were furnished by the Director to the GOI in October 2005 as indicated below:

(Rs in lakh)

District	BFFDA				FFDA			
	Amount released	Expenditure	Balance	Remarks	Amount released	Expenditure	Balance	Remarks
Kasaragod	--	--	--		15.58	11.19	4.39	UCs for 2001-05 not furnished
Kannur	46.00	31.67	14.33		--	--	--	
Ernakulam	56.63	54.00	2.63	UC for 2002-03 not submitted	30.50	10.86	19.64	UC for 2001-05 not furnished
Kollam	82.00	70.69	11.31		60.00	37.18	22.82	UC for 2001-02 and 2004-05 not submitted
Total	184.63	156.36	28.27		106.08	59.23	46.85	

It was also observed that the GOI had intimated (July 2004) the State Government that the UCs furnished for the last three-four years could not be counterchecked in the absence of details of actual expenditure on developmental activities, audited statement of accounts, annual/quarterly progress reports, etc.

For the year 2005-06, UCs for Rs 1.35 crore released to 14 FFDA's were furnished to the GOI in May 2006 but none of test checked FFDA's submitted the UCs to the Director. In the absence of proper controls to watch the receipt of expenditure details and UCs from the lower units, the Department could not ensure whether the funds had been utilised for the purpose and thus also could not exercise control over expenditure. Resultantly, the UCs furnished to the GOI by the Department were improper and did not reflect the actual utilisation of funds.

5.1.7.2 Failure to monitor utilisation of funds released to local bodies**Substantial amounts released to local bodies remained unutilised**

It was noticed that UCs were not received in respect of funds released to local bodies for the implementation of various schemes. A test check of the accounts of the four District offices revealed that funds released to the local bodies during the period 1996-2002 for implementation of various schemes, had not been fully utilised as detailed below.

(Rupees in crore)

Sl. No.	Name of Office	Funds allotted	Funds utilised	Funds remaining unutilised
1.	DDF, Ernakulam	1.95	0.28	1.67
2.	DDF, Kollam	9.25	0.43	8.82
3.	DDF, Kannur	1.04	0.37	0.67
4.	DDF, Kasaragod	3.13	0.02	3.11
Total		15.37	1.10	14.27

Out of the total release of Rs 15.37 crore, an amount of Rs 14.27 crore could not be utilised for the benefit of fishermen. Department did not monitor the progress of implementation of schemes by the local bodies for which funds were released to them and in the absence of UCs it could not ensure whether the funds had been utilised for the intended purpose.

5.1.7.3 Failure to realise dues to the Government

Dues to Government totalling Rs 5.07 crore were pending recovery

Government had introduced the Mechanisation Scheme during the late sixties and early seventies. The scheme provided for issue of fishing boats on hire purchase basis to fishermen and recovery of principal and interest on instalment of hire purchase amount and insurance premium on the boats from the fishermen. It was, however, noticed that the Department had not recovered any amount on this account in the last five years. As of October 2003, the amount pending realisation towards cost of 1332 boats issued under the Scheme, worked out to Rs 5.07 crore as reported (September 2004) to Government by the Director. Amount due thereafter had not been worked out. The following control lapses were noticed in audit.

- There was no progress in realisation of the dues amounting to Rs 5.07 crore.
- Though the scheme for coverage of insurance was supposed to be in force for eight years only, provisional insurance premium was paid by the Department to the State Insurance Department till 2006-07 (Rs 8 lakh per annum from 1997-98 to 1999-2000 and Rs 5 lakh per annum thereafter upto 2006-07).
- Though the number of boats varied every year (2004-05: 46; 2005-06: 20) amount of premium continued to be the same.
- Department was not maintaining any record to watch the details of boats or cost thereof, based on which quantum of premium has to be worked out. Lack of proper financial control evidently led to excess payment of insurance premium.
- Director sought (March 2006) the Government's direction for renewal of insurance policy of the boats distributed under the scheme. Government directed (April 2006) the Department to discontinue the renewal of insurance policy forthwith. However, the Department renewed (March 2006) the policy without waiting for the directions from the Government resulting in avoidable payment of premium (Rs 5 lakh) for the year 2006-07.

5.1.8 Operational Controls

5.1.8.1 Incomplete Survey

Government had ordered (August 2002) a craft and gear survey and to give unique numbers to all registered/unregistered vessels. But the survey did not yield any result as the number of vessels identified in the State was only 20,800 as against 55,000 as per the records maintained by the Superintendent of Police (MEV) of the department.

As the number of vessels identified in the survey was very low, the

Department proposed to conduct a 'Quick Survey' to assess the number of craft owners who were not covered in the first survey. The 'Quick Survey' proposed in February 2004 could not be conducted. Director reported, in reply to an audit enquiry, that this could not be conducted due to shortage of staff. The objective of bringing all types of vessels under the control of the Department could not therefore be achieved.

5.1.8.2 Non-maintenance of registers

According to the Kerala Financial Code, maintenance of control registers is mandatory in every office. But the registers of inspection report, objection slips, recurring charges, schedule of recoveries of advances, immovable properties, etc., were not being maintained in seven offices[#]. Due to the failure to maintain these registers, regulating recurring items of expenditure, effecting prompt recovery of advances, safeguarding Government property against encroachment etc., would not be possible.

5.1.8.3 Deficiency in system of Licensing

Control lapse in renewal of licence of the registered boats was evident from the fact that out of 3340 boats registered in four stations*, number of boats that had renewed licence ranged from 31 to 67 during 2001-06. There was no mechanism to ensure that licences of boats were renewed in time or unregistered boats were not plying. Failure to ensure the timely renewal of licences entailed a loss of Rs 41.10 lakh computed at lowest rate of Rs 250 per boat for the period 2001-06.

5.1.8.4 Patrolling

A special squad of Fishery Guards headed by the Superintendent of Police (MEV) had been constituted in January 1984 to enforce the provisions of the Kerala Marine Fishing Regulation (KMFR) Act, 1980, to render police aid to the Impounding Officers in organising marine patrolling and impounding and taking into custody mechanised boats violating the provisions of the Act.

Monthly roster of Impounding Officers for daily patrolling were prepared by the Superintendent of Police (MEV). They were to give daily reports to the Superintendent indicating results of patrolling. Scrutiny of the records revealed that the daily reports of patrolling were not received regularly. Superintendent stated (May 2006) that the non-submission of daily report was brought to the notice of the Director for giving appropriate orders to the Impounding Officers and District Officers. This indicated the absence of proper operational control mechanism in enforcing the provisions of the KMFR Act.

5.1.8.5 Unauthorised nets not removed in time

Management and Control of Fisheries in the Government Waters Rules, 1974 prohibits fishing by erecting fixed devices like China nets or other nets without valid licence.

Out of 3340 boats licence was renewed only in respect of 31 to 67 boats during 2001-06

Daily reports of patrolling were not obtained regularly

[#] Directorate, Joint Director of Fisheries, Ernakulam, Kozhikode, Deputy Director of Fisheries, Ernakulam, Kasaragod, Kollam and Kannur

* Kannur, Beypore, Vypeen and Neendakara

Marine Enforcement Wing failed to detect unauthorised nets for fishing

According to the Government order (July 2004) there were several unauthorised nets in Kerala waters and these have to be removed in a phased manner. Despite the existence of the Marine Enforcement Wing, the presence of unauthorised nets came to light only when a complaint was received from an affected licensee. A complaint about the existence of nine unauthorised nets received (March 2005) by the DDF, Ernakulam was not acted upon even after Court direction and were removed only in April 2006 when contempt of court procedure was posted for hearing. This indicated serious lapses in the enforcement of Rules. Failure to detect and remove unauthorised nets leads to over exploitation of fisheries wealth. According to the DDF, Ernakulam the Department did not have the manpower and funds for the removal of the nets.

5.1.8.6 Lack of control over selection of beneficiaries

Kerala Fishermen Welfare Fund Board maintains list of fishermen which is renewed in September every year. There were 2,21,000 fishermen in the State as per the list (September 2001). However, the Department was of the view that about 40 *per cent* of the persons included in the list were not fishermen. The Legislators also raised the issue in the Subject Committee meeting during 2001.

Selection of beneficiaries was made from list, which contained ineligible persons

In order to limit the benefit of various welfare schemes to eligible fishermen, the Director ordered (August 2002) a verification of existing village level list and removal of ineligible persons after giving opportunity of being heard and issue photo identity cards to the eligible fishermen.

Director stated (May 2006) that the Census could not be completed due to technical reasons and the proposal for issue of identity card was dropped. The beneficiaries continued to be selected on the basis of the list maintained by the Board, which included large number of ineligible persons. Thus, there was no control system to ensure that the benefit of various welfare schemes intended for fishermen reached the genuine beneficiaries. Government stated (June 2006) that a new scheme for identification of eligible fishermen and issue of new multi-purpose identity cards was under consideration.

5.1.8.7 Savings-cum-Relief Scheme

Savings-cum-Relief Scheme (SRS) for marine fishermen was launched in the State in the year 1991-92. Government of India approved (May 2001) the continuance of the scheme and extended it to the inland fishermen also with slight modifications. As per the scheme, monthly contribution @ Rs 75 was to be collected for eight months from each marine fisherman (Rs 50 collected for nine months from inland fisherman) and deposited in separate account in nationalised banks operated by the Deputy Directors. The total amount thus collected together with equal amount of the Government share (Central and State) was to be disbursed to the beneficiaries during the four lean months.

Violation of guidelines resulted in denial of benefits to the targeted beneficiaries

As per the Government of India directions, the interest accrued in the bank account was to be disbursed to the beneficiaries alongwith the fourth instalment. But the interest totalling Rs 66 lakh accrued up to March 2005 was not disbursed to the beneficiaries. The Department had not worked out the interest for the period 2005-06. The denial of intended benefit to the targeted group was attributed to the practical difficulty in calculating the interest due to each beneficiary.

Rupees 1.34 lakh were unauthorisedly spent on stationery and miscellaneous office expenses by the DDF, Kollam during the period April 2004 to March 2006 and Rs 0.25 lakh by the DDF, Kasaragod from these funds.

The Department had failed to formulate a uniform procedure for implementing the scheme. No passbooks had been obtained and bank reconciliation was also not done. As per the books of the DDF Kannur, interest earned upto 2004-05 was Rs 3.62 lakh only, whereas interest credited by bank was Rs 4.90 lakh (February 2005). Though separate account was to be maintained for the scheme the DDF, Kollam operated it for miscellaneous purposes and interest earned was being transfer credited to a separate account. Similarly, the DDF, Ernakulam also operated the account for miscellaneous purposes. Further three bank accounts previously operated for the scheme and which had a balance of Rs 2.81 lakh were being maintained without transactions for the last several years.

Out of the 16 disciplinary cases pending in the Department, 10 cases related to SRS involving an amount of Rs 11.37 lakh.

Owing to the failure to put proper controls in place to ensure the implementation of the scheme as per the guidelines, the intended objectives could not be fully achieved.

5.1.8.8 Physical control over assets

Kerala Financial Code stipulates that all stores should be verified periodically and at least once a year. Annual physical verification of stores and stock was not conducted in the Directorate till date and District office, Ernakulam since March 2004. In the absence of physical verification of stores and stock loss/shortage of stores due to misappropriation/pilferage, if any, remains undetected.

5.1.9 Mechanism for internal Audit and Vigilance

5.1.9.1 Internal Audit

Internal Audit was ineffective

Functions of internal audit wing include examining, evaluating and monitoring the adequacy of the internal control system. It also helps in assessing the organisation's systems and procedures to prevent fraud, errors, omissions, commissions, etc.

According to the instructions (December 2003/June 2005) of Government all departments should constitute Internal Audit Wing to conduct the audit of accounts of offices under their control. But no Internal Audit Wing was functioning in the Department except for the period from July 2004 to April 2005 despite the fact that an Internal Audit Cell had been constituted (September 1986) by Government in the Finance Department to monitor and supervise the functioning of Internal Audit Wings in various Departments. During this period, only four subordinate offices had been audited. Secretary to Government stated (June 2006) that Internal Audit Wing had since started functioning from May 2006.

Directorate was not maintaining a checklist or register to watch the list of offices covered in inspections, period of audit, receipt and issue of inspection report or receipt of rectification reports from the auditee institutions.

5.1.9.2 Vigilance Cell

Government ordered (June 1997) setting up of Vigilance Cells in all departments. The senior most officer second to the rank of the Head of the Department was to be designated as the Vigilance Officer, who is to report to the Head of Department/Chief Executive only. Formation of the Cell was aimed at strengthening the administrative vigilance set up in each organisation against corruption and irregular practices. These directions had not been complied with by the Director till November 2005 on the plea that a Vigilance Wing headed by the Superintendent of Police (MEV) was already in existence in the Department. Vigilance Wing under the Superintendent of Police (MEV) was to co-ordinate and enforce the provisions of the Kerala Marine Fishing Regulation Act and to supervise the functions of the Fishery Guards. Thus, there was no administrative vigilance mechanism in vogue in the Fisheries Department. As of March 2006, 16 disciplinary cases involving financial irregularities (Rs 19 lakh) relating to the period from 1993-94 were pending as detailed below.

Pending with	Number of cases	Amount (Rs in lakh)
Government	7	11.95
Court	7	3.78
Vigilance Department	2	3.45
Total	16	19.18

Secretary to the Government stated (June 2006) that a Vigilance Cell was formed (July 2005) which had started functioning from November 2005.

5.1.10 Conclusion

The control system in the Fisheries and Ports Department was weak and the in-built controls were inadequate. There were cases like belated submission of Budget proposals, preparation of unrealistic budget estimates as evidenced by huge savings, lack of feed back from unit offices for monitoring of expenditure, failure in realisation of dues to Government etc. There were inadequacies in operation controls like failure in completing the survey of vessels. Further, exercise for identifying fishermen was not completed. The saving-cum-relief scheme meant for fishermen was not implemented properly as a result of which the intended benefit was denied to the targeted group. The controls prescribed for implementation of the scheme were ineffective as unauthorised expenditure was met from this welfare fund, interest accrued in the fund was not disbursed to the beneficiaries and there was no uniformity in system for opening and operation of bank accounts meant for disbursement of moneys to the fishermen beneficiaries. Regular bank reconciliation of these accounts had not been done. The Internal Audit Wing, for a large period under review, was practically non-existent and despite instructions a separate Vigilance Wing was not established in the department until November 2005.

5.1.11 Recommendations

- Department should ensure timely submission of budgetary estimates to the Government to facilitate proper vetting and ensure they are realistic and thus avoid huge savings.

- The system of obtaining recovery of principal and interest from the fishermen who have been provided with fishing boats on hire purchase basis needs complete review in the light of total absence of any efforts made in realisation of dues. Similarly, the need for providing insurance cover for these boats should be reassessed.
- Government should evolve a practical and comprehensive plan for preparation and regular updating of the list of fishermen.
- The instructions pertaining to implementation of savings-cum- relief scheme needs to be reiterated to the field formation and uniform procedure for opening, operation and reconciliation of bank accounts should be prescribed and its implementation monitored by the department.

The above points were referred to Government in July 2006; reply has not been received (August 2006).

Thiruvananthapuram,
The

(JAYANTA CHATTERJEE)
Principal Accountant General (Audit), Kerala

Countersigned

New Delhi,
The

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India