

CHAPTER V INTERNAL CONTROL

CO-OPERATION DEPARTMENT

5.1 Internal control in Co-operation Department

Highlights

Internal Control is an integral component of an organization's management processes which are 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 complied with so as to achieve organizational objectives. Internationally the best practices in Internal Control have been given in the COSO framework which is a widely accepted model for internal controls. In India, the GOI has prescribed comprehensive instructions on maintenance of internal control in Government departments through Rule 64 of General Financial Rules, 2005. In the State, the accounting and other controls are laid down in the codes/manuals of the State. A review of internal control on selected areas of Co-operation Department has shown that:*

Budget estimates were not realistic resulting in persistent savings leading to surrender of savings on the last day of the financial year. Lack of regular monitoring of expenditure resulted in rush of expenditure in the last month of the financial year

(Paragraphs 5.1.5.1 and 5.1.5.2)

On account of lax controls/mechanism for watching utilisation of funds released to co-operatives, the Department could not ensure timely utilization of funds for the intended purposes. Funds totalling Rs 1.59 crore were retained without utilization in three out of five districts test-checked. Utilisation certificates from 416 institutions involving Rs 57.91 crore were not obtained.

(Paragraphs 5.1.7.2 and 5.1.7.3)

Administration of recovery of loans was poor. Due to inadequate monitoring mechanism dues and interest as furnished by the loanees were incorporated in the DCB. Against Rs 39.23 crore paid by Government to NCDC, the amount recovered from societies was only Rs 2.29 crore.

(Paragraphs 5.1.7.4 and 5.1.7.5)

* Committee of Sponsoring Organisations of the National Commission on Fraudulent Financial Reporting or the Treadway Commission.

Failure to identify eligible beneficiary Societies under Agricultural Debt Relief scheme led to payment of excess interest subsidy of Rs 6.91 crore in seven out of 14 districts.

(Paragraph 5.1.7.7)

Out of Rs 3.21 crore released to co-operatives in four districts for computerisation under NCDC scheme, Rs 2.61 crore remained unutilised causing unnecessary interest liability to Government due to lack of monitoring by the Department.

(Paragraph 5.1.7.8)

No Internal Audit Wing was functioning in the Department.

(Paragraph 5.1.8.2)

5.1.0 Introduction

Co-operative movement has been identified as an instrument for achieving socio-economic transformation with special focus on rural population and livelihood. Kerala has a wide network of co-operatives engaged in various promotional activities such as distribution of credit, marketing, agro-processing, consumer activities, public health, education, insurance and infrastructure development. There are 12,802 co-operative institutions under the control of the Registrar of Co-operative Societies (RCS).

The functions of the Co-operative Department include promotional activities viz., disbursement of assistance/loans sanctioned by Government/National Co-operative Development Corporation (NCDC) to Co-operative institutions for implementation of various schemes*, monitoring the utilisation of funds, effecting recovery of principal/interest on loans etc. Besides, statutory functions like audit of co-operatives, arbitration, execution and liquidation are also the responsibility of the Department. The affairs of certain categories of Co-operatives such as Handloom, Coir, Khadi and Village Industries, Fisheries, Milk marketing etc., are administered by the respective Heads of Department, but the audit of all Co-operatives is carried out by RCS.

5.0.1 Organisational set up

The Department of Co-operation is headed at Government level by the Principal Secretary to Government. The RCS is the head of the Department assisted at Headquarters by five Additional Registrars, two Joint Registrars, a Law Officer, a Finance Officer and other supporting staff. The districts have one Joint Registrar (General) and one Joint Registrar (Audit) for administrative and audit functions respectively; they are assisted by 36 Deputy Registrars. At taluk level one Assistant Registrar (General) and one Assistant Registrar (Audit) are functioning.

* Integrated Co-operative Development Project, Macro Management, Margin Money, Infrastructure development, revitalization, Development of consumer co-operatives, etc.

5.0.1 Audit objectives

This review of internal control has been conducted to test compliance with the instructions in the Kerala Financial Code, Kerala Budget Manual, Kerala Treasury Code and related accounting instructions. In addition, the arrangements for information, communication, monitoring and evaluation including Internal Audit and Vigilance have been examined. Internal control activities designed and put into operation for ensuring achievement of programme objectives have also been examined for some selected areas.

5.0.1 Audit coverage

An evaluation of the internal control system in the Department of Co-operation covering the period 2001-02 to 2006-07 was conducted during January to June 2007. Records in the Administrative Secretariat, Office of the RCS, offices of the Joint Registrar (General) and Joint Registrar (Audit) in five (out of 14) selected districts (Thiruvananthapuram, Ernakulam, Palakkad, Wayanad and Kannur) and Assistant Registrar (General) and Assistant Registrar (Audit) in nine taluks in these districts were examined.

An entry conference was conducted in January 2007 with the RCS and his team. The audit objectives were discussed and explained to them. A meeting with the Principal Secretary (Co-operation) was also held. The audit team collected data from the RCS and field offices, issued audit enquiries to elicit information, scrutinized files/records, conducted discussions with officers and visited selected offices to assess the internal control system and vigilance mechanism in the Department. An exit meeting was conducted with Principal Secretary Co-operation in June 2007. The audit findings are discussed in the succeeding paragraphs.

5.1.5 Compliance with State Financial Rules and instructions in the Budget Manual

5.1.5.1 Inadequacies in surrender of savings

The position in respect of Budget provision and its utilization during 2002-07 by the Department is tabulated below.

(Rupees in crore)

Year	Budget provision			Actual expenditure	Surrender
	Original	Supplementary	Total		
2002-03	92.75	28.99	121.74	111.57	5.41
2003-04	82.50	-	82.50	73.32	9.01
2004-05	91.33	35.00	126.33	113.19	6.39
2005-06	97.75	140.00	237.75	218.72	20.93
2006-07	119.05	7.17	126.22	84.04	43.98

During 2002-07 period surrender of Rs 85.72 crore was made on the last day of the respective financial year

There was savings during all the years under review indicating that the budget estimates/proposal for supplementary funds were not realistic. During 2002-03 to 2004-05 out of total savings of Rs 32.49* crore an amount of Rs 20.81 crore only was surrendered. In all the above years, surrender of funds (Rs.85.72

* 2002-03: Rs 10.17 crore; 2003-04: Rs 9.18 crore; 2004-05: Rs 13.14 crore

crore aggregate) was made on the last day of the respective financial year indicating non-adherence to rules and procedures of financial control over expenditure. Finance Department was thus deprived of the opportunity to re-appropriate funds to other needy departments.

4.0.4.1 *Rush of expenditure*

Lack of monitoring mechanism to regulate flow of expenditure

According to Kerala Budget Manual the flow of expenditure should be so regulated that there should not be any rush of expenditure particularly during the closing months of the financial year. As per Article 40(c) 7 of Kerala Financial Code (KFC) Volume I, no attempt should be made to prevent the lapse of an appropriation by any undue rush of expenditure during March. These directions were not adhered to by the RCS for plan expenditure of every financial year under review.

(Rupees in crore)

Year	Total Plan expenditure	Expenditure during March	Percentage
2003-04	17.70	9.40	53
2004-05	18.03	6.68	37
2005-06	14.58	2.53	17
2006-07	7.38	4.91	67

The fact that Plan expenditure incurred in March during 2003-04 to 2006-07 reached up to 67 per cent indicated lack of effective monitoring mechanism in the department to regulate the flow of expenditure.

5.1.6 **Compliance with State Treasury Rules/Financial Rules**

5.1.6.1 *Physical verification of cash*

As per Rule 92 of KTC Volume I, the head of office is required to verify the cash balance physically and affix signed and dated certificate to that effect.

This is not being done in two of the offices test checked.

5.1.6.2 *Failure to issue demand notices*

As per Article 234 [3(e)] of KFC Volume I, the officers responsible for maintenance of loan ledger and watching recovery of loan should issue warning notices in advance indicating the number of instalments due, principal, interest and penal interest.

This was not done in respect of State Government/NCDC loans (Share Capital, etc.) in one of the offices test checked.

5.1.7 **Internal Control Activities**

5.1.7.1 *Lack of monitoring of expenditure from TP Account*

Funds released under State Plan/Central assistance for implementation of various schemes were drawn by the department and credited to the Treasury Public (TP) Accounts maintained by District/State Co-operative Banks in various treasuries.

No mechanism to monitor the utilisation of funds released to the implementing agencies

Crores of Rupees were kept in TP Accounts of various co-operatives/Banks in District Treasury, Thiruvananthapuram. The Department did not have details of the number of TP Accounts maintained, details of expenditure and present balance in each account. There was no centralized system to streamline and monitor the flow of expenditure from these accounts. The departmental officers had to rely on State Co-operative Bank/District Co-operative Banks/Federations to ascertain the balance in the TP Account on a given date.

It was noticed in audit that funds released by RCS for various schemes were deposited in the TP Account No. 637 maintained in the name of Kerala State Co-operative Bank (KSCB) at District Treasury, Thiruvananthapuram. The accumulated balance in the account as on 31 March 2006 was Rs 226.62 crore. During 2006-07 KSCB withdrew Rs 195 crore. But these withdrawals were made without the knowledge of RCS. Thus, the RCS was not aware of the transactions in the account maintained to operate the funds released for various schemes.

This showed deficient financial management and lack of monitoring by RCS of the funds drawn by him and released to the implementing agencies.

5.1.7.2 Non utilization of funds withdrawn under plan schemes

Funds were retained without utilisation for the intended purpose

Similarly, Plan funds sanctioned to various Co-operative Societies by means of share capital contribution, working capital loan/subsidy, etc., were drawn by the Joint Registrars and deposited in the Special Savings Accounts maintained by the Co-operative Societies in District/State Co-operative Banks. These amounts are to be released to the Co-operative Societies with the prior permission of the Joint Registrar of Co-operative Societies.

It was noticed that an amount of Rs 1.59 crore was lying unutilized in three out of five selected districts.

<i>(Rupees in lakh)</i>	
Name of Bank	Amount
Dist. Co-operative Bank, Ernakulam	40.86
Dist. Co-operative Bank, Palakkad	86.68
Dist. Co-operative Bank, Kannur	31.29
Total	158.83

While the amount retained in respect of Ernakulam and Kannur related to the periods 1994-2006 there was no details to show the period to which the amount relates in respect of Palakkad. This indicated the lack of proper mechanism to ensure the timely utilisation of the amounts for the intended purpose.

5.1.7.3 Failure to obtain utilization certificates

Financial assistance from GOI, State Government and funding agencies of both the Governments are sanctioned to various co-operative institutions for various projects, schemes and programmes. A scrutiny of the records of the department showed that the implementing agencies were not submitting utilization certificates to the Department in time and the department did not

take action to obtain them. The position of pending utilization certificates for the period 2002-03 to 2006-07, was as follows:-

(Rupees in crore)

Year	Number of institutions from which UCs pending	Amount involved
2002-03	84	20.89
2003-04	68	8.77
2004-05	86	9.19
2005-06	117	15.63
2006-07	61 [#]	3.43
Total	416	57.91

The fact that the department was not aware of the position of utilization of an amount as large as Rs 57.91 crore allotted to 416 institutions from 2002-03 to 2006-07 indicated lack of any monitoring and absence of a centralized system at the RCS to ensure the timely utilization of funds released and to obtain utilization certificates from the implementing agencies.

4.0.6.3 Omission to demand dues/interest in time

Interest dues as worked out by the loanees were incorporated in the DCB without any verification

Interest on NCDC loan due from RUBCO* for the period from April 2003 was not demanded by the RCS up to July 2006. The reason attributed was non availability of relevant details in the offices of Joint Registrar (General)/Assistant Registrar (General), Kannur since proposals for financial assistance were neither routed through nor intimated to the district/circle office. The interest amount of Rs 8.31 crore from April 2003 to September 2006 as worked out and furnished by the loanee was incorporated in the Demand Collection Balance (DCB) statement without any verification.

The Joint Registrar of Co-operative Societies, Ernakulam had also included figures relating to four apex institutions in the DCB statement for the period from 01 July 2006 to 30 September 2006 for the first time based on the directions from the RCS. Prior to this, the dues from these apex institutions were not demanded through the district offices. The total dues as collected from the records worked out to Rs 56.71 crore. The correctness of the figures was not seen subjected to any check by the Joint Registrar. This showed that the district level officers had no mechanism to monitor the transactions within their jurisdiction.

4.0.6.3 Short realization of dues

Recovery of principal and interest on loans was very poor

Government sanctioned (October 2006) payment of Rs 92.34 crore to NCDC being the amount of principal and interest on various loans availed from them. Out of this, Rs 39.23 crore was due from Co-operative Societies under the Department. As per the DCB statement prepared by the RCS figures relating to NCDC were shown separately only in respect of Apex societies and in the case of Primary Agricultural Credit Societies (PACS) figures for NCDC and Government loans were not shown separately. The position of the demand

[#] Only part figures

* The Kerala State Rubber Co-operative Limited.

raised by the RCS and collection realized for the period 1 April 2005 to 31 March 2006 was as follows:

(Rupees in crore)

	Apex Societies			Primary Agricultural Co-operative Societies		
	Demand	Collection	Percentage	Demand	Collection	Percentage
Loan	3.38	0.12	3.55	1.55	0.73	47.09
Interest on loan	5.68	-	-	0.72	0.23	31.94
Share-capital	2.43	0.05	2.06	1.50	1.16	77.33
Total	11.49	0.17	1.48	3.47	2.12	56.23

The huge difference between the amount repaid by the Government to NCDC, the amount demanded by the RCS and that collected indicated lack of adequate controls for realising the dues to Government.

4.0.6.3 Short recovery due to incomplete instructions

As per Government Decision (ii) below Rule 156 of Kerala Service Rules (KSR) leave salary and pension contribution (LS and PC) in respect of a post will be worked out at one fourth of the total of the average cost* plus Dearness pay, Special pay/Personal pay and Bonus/Special Festival Allowance admissible on the average cost. The element of Bonus/Special Festival Allowance was included in 1993. Government sanctions Rs 1,000 as Festival Allowance annually for its employees who are not eligible for bonus.

There were 1,322 personnel working in various Co-operative institutions as on 31 March 2007 covered under these provisions. As per instructions issued by the RCS from time to time, LS and PC are to be worked out at one fourth of the average cost. The RCS omitted to intimate the field offices the revised instructions to include the Bonus/Special Festival Allowance element also for reckoning LS and PC. For the period from 1993-2006, the short recovery worked out to Rs 35* lakh (approximately) taking the minimum number of personnel so employed as 1,000. This indicated that the instructions/orders issued by Government were not scrupulously followed by the department.

5.1.7.7 Agricultural Debt Relief Scheme

Excess payment of Rs 6.91 crore under Agricultural Debt Relief scheme

Government enacted (2001) the Kerala Agricultural Debtor's (Temporary Relief) Act, 2001 to grant temporary relief to the farmers for the payment of interest on agricultural loan. As per para 7 of the Act the Co-operatives should apply to the Joint Registrar of concerned district for reimbursement of interest waived by them under the Debt Relief Scheme. Government sanctioned (March 2006) Rs 140 crore for reimbursement of interest waived by co-operative societies to farmers on agricultural loans and instructed that the amount should be utilized only for the payment of interest relief on the schemes under the above Government Orders. The amount was drawn (March 2006) and credited to TSB Account of RCS in District Treasury,

* Minimum of the scale plus maximum of the scale divided by two.

* $\frac{1000 \times 1000 \times 14}{4} = 3500000$

Thiruvananthapuram. It was noticed that an amount of Rs 107.37 crore only had been released to the Co-operative societies up to December 2006. The balance amount of Rs 32.63 crore was refunded to Government in March 2007.

The sanction of Rs 140 crore was made based on claims of the Co-operative societies subjected to pre-audit by departmental officers during March 2006. Later, on receipt of complaints that all the conditions stipulated in the above Government orders were not complied with by the Societies, the RCS ordered (January 2007) to conduct a post audit of these claims. The post audit is in progress and according to data available in respect of seven districts, an amount of Rs 6.91 crore* was paid in excess of eligibility.

The irregularity was detected only on receipt of complaints from the public. This meant that the reports received by the RCS from lower level offices were not reliable indicating that there was no foolproof system to identify the eligible loanees. Though the RCS had directed the JRs to complete post audit and submit the report by 28 February 2007 the excess payments relating to other seven districts had not been finally assessed.

5.1.7.8 Non-utilization of NCDC funds for computerization of Co-operative Societies

Funds for computerisation were not utilised by Co-operative societies creating unnecessary interest liability to Government

NCDC sanctioned (September 2000) Rs 3.32 crore as loan assistance for computerization of 66 primary co-operative societies/farmers service co-operative banks in the State. Further, an amount of Rs 1.43 crore was sanctioned in January 2004 for benefiting 30 Co-operative societies.

As per Rules of NCDC scheme, application for assistance under the scheme shall be submitted in duplicate to the RCS through the Joint Registrar of the district concerned supported by resolution of the Managing Committee of the Society specifying the amount of assistance required.

On scrutiny of the accounts of five districts it was noticed that in four districts major portion of the amount remained unutilized as detailed below:

(Rupees in lakh)

Sl. No.	District	Number of beneficiary societies	Amount sanctioned	Amount utilised	Amount unutilized
1	Thiruvananthapuram	09	31.25	5.50	25.75
2	Ernakulam	2	08.00	0.00	08.00
3	Palakkad	11	57.00	5.50	51.50
4	Kannur	45	224.67	48.50	176.17
	Total	67	320.92	59.50	261.42

As the Government was committed by agreement to repay the loan with interest to NCDC from the date on which loan was credited to Government

* Kottayam: Rs 0.04 crore; Idukki: Rs 0.10 crore; Thrissur: Rs 0.15 crore; Palakkad: Rs 4.23 crore; Malappuram: Rs 0.33 crore; Wayanad: Rs 2.05 crore and Kasaragod: Rs 0.01 crore

account non-utilisation of the funds had created unnecessary liability to Government without serving any purpose.

The reasons attributed to the non-utilization of funds were (i) amount could not be withdrawn from TP Account in time for want of Ways and Means clearance from Government (ii) the rate of interest of NCDC was found higher and the societies were reluctant to avail the loan.

As the loans were sanctioned by NCDC on the basis of application by the Co-operative Societies supported by resolutions passed by the Board of Directors and recommended by RCS, timely utilization of the sanctioned loan amount and the refund of unutilized fund by the societies should have been ensured. Lack of monitoring by the department caused loss to Government by way of interest. In the absence of details the liability could not be assessed.

4.0.6.8 Annual audit plan

As per the direction of RCS (November 1981) audit programme should be drawn up for the work proposed to be conducted during a year.

However, scrutiny revealed that no detailed plan was being prepared by Assistant Registrar (Audit) who is vested with powers to audit societies and under whose immediate control most of the Auditors are working.

5.1.7.10 Shortfall in audit

As per Section 63(4) of Co-operative Societies Act, 1969 as amended in 2000, it shall be the duty of the Director of Co-operative Audit to audit or to cause to be audited through persons authorized by him, the accounts of every society at least once in a year. As the Director of Co-operative Audit had not been appointed, this statutory function was being done by the RCS, which is beyond his power under the Act.

Scrutiny of records maintained by departmental officers revealed heavy shortfall in audit. The extent of shortfall in four of the selected districts as on 31 March 2006 was as follows:

District	Up to 2001-02	2002-03	2003-04	2004-05	2005-06
Thiruvananthapuram	180	200	316	636	1,316
Ernakulam	114	215	503	956	1,188
Palakkad	79	49	106	243	515
Kannur	-	3,661	3,782	3,523	3,402

Audit of 77,404 units was pending as of March 2006

The shortfall in audit as of March 2006 for the whole State was 77,404.

One of the reasons attributed by the department for the huge pendency in audit is shortage of manpower. It was stated that the staff pattern was fixed as back as in 1981 and there was no revision in the strength of staff corresponding to the increase (78 per cent) in the number of societies.

5.1.7.11 Continuity of top management

The post of RCS, the head of the Department, was lying vacant from June 2002 till date (June 2007).

It was noticed that eight Additional Registrars held charge of the RCS for the last five years. During the period, 12 to 21 persons held charge of JRs at district level and 9-12 persons held charge at the taluk level offices. Frequent changes of top management are against the principle of continuity and would adversely affect the efficiency of the Department.

4.0.6.11 Departmental Manual not prepared

A departmental Manual is essential for any department for regulating and streamlining its functions and activities. But no departmental manual was prepared in the Co-operative Department. In the absence of a manual, effective internal control cannot be enforced.

4.0.6.11 Independence of Audit personnel from Co-operative Department not ensured

As per Rule 156 of K.S.R Vol-I an addition is made to regular establishment on the condition that cost or a definite portion of its cost shall be recovered from where the additional establishment is created. There are 1,165 personnel working in various Co-operative institutions as on 31 October 2006 under the provisions of KSR 156. This would be around 33 *per cent* of the total number of posts in the department. One of the conditions for the creation/continuation of the post is that the respective Co-operative institution should pass a resolution seeking for the creation/continuance of post. When the audited institution is at liberty for creation/continuance of the post of their Auditor at the departmental level regardless of the magnitude of the business of the society the independence and efficiency of audit cannot be ensured.

4.0.6.11 Defective maintenance of Demand, Collection, Balance Statement

The Demand-Collection-Balance (DCB) Statements are intended to indicate the exact position of the receipts due, collected and outstanding during a particular period and serve as an instrument of internal control system.

Items of receipts incorporated by the department in DCB are audit fees, arbitration fees, liquidation charges, application fees, etc. In addition, repayment of financial assistance sanctioned by State/Central Governments, NCDC, etc., were also being monitored by the department through the DCB. But it was observed during audit that the basic records from which DCB statements are prepared were not properly maintained by the field offices. A difference of Rs 4.17 lakh was noticed in the DCB prepared and basic records of two Taluk level offices. This was also observed by Financial Wing of the RCS. Again, the Principal Secretary (Finance) reported in July 2006 that the basic records were not properly maintained by the Joint Registrar (General)

Recommendations of PAC on prompt maintenance of basic records were not acted upon

and Joint Registrar (Audit) and Taluk level offices in Thiruvananthapuram District.

The Public Accounts Committee (PAC) in its 47th Report (2001-2004) had recommended prompt maintenance of basic records such as loan register, DCB register, etc., showing the details like sanctioning order, date of loan, amount, rate of interest, particulars of repayment, etc., relating to the various levels of officers of the Department of Co-operation. This was communicated to the field offices by the RCS in August 2003. On a review of the registers maintained in the department it was observed that the instructions had not been followed till date (March 2007). Thus the DCB prepared by the RCS from the returns furnished by the field offices cannot be relied upon.

4.0.6 Monitoring including Internal Audit and Vigilance arrangements

4.0.7.0 Annual Administration Report

As per directions, all Heads of Departments are required to submit annually their Administration Reports to Government on or before 15 April of the succeeding financial year and the Government Secretaries should review these reports before 15 May and make them available for presentation when the budget demands are taken up for consideration by the Subject Committee.

Administration Reports up to 1999-2000 only had been published by the Department. The Reports for five years from 2000-01 to 2004-05 though prepared by the RCS were pending with the administrative department and the Report for 2005-06 had not been finalized.

4.0.7.0 Internal Audit Wing

According to the instructions (December 2003/2005) 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 of Co-operation.

No Internal Audit Wing was functioning in the Department

The reason attributed by the Department for the non-formation of Internal Audit Wing was that though the number of co-operative societies increased annually the number of employees remained stagnant and there was no staff available to form the Internal Audit Wing.

4.0.7.0 Response to audit

Principal Accountant General (Audit) conducts audit of the RCS and subordinate offices of the Department and major irregularities are reported through Inspection Reports (IR). As of March 2007, 125 Paragraphs in 53 IRs issued up to 31 March 2007 were outstanding which included objections from 2001 onwards as detailed below:

Year	Number of Inspection Reports	Number of paragraphs
2001-02	4	8
2002-03	8	14
2003-04	9	14
2004-05	6	16
2005-06	19	55
2006-07	7	18
Total	53	125

As per the Kerala Financial Code, the head of office is to take action to rectify the irregularities pointed out during audit even without waiting for receipt of the IR. But even after several years of the issuance of IRs, irregularities pointed out were not rectified.

Out of these even first reply was not furnished in respect of 11[#] Inspection Reports containing 38 paragraphs.

4.0.7.0 Vigilance Mechanism

Government ordered (June 1997) the setting up of Vigilance Cell in all the Government departments. The senior most officer second to the rank of Head of Department was to be designated as the Vigilance Officer and supporting staff provided as necessary. It was aimed at strengthening the administrative vigilance set up in each organization against corruption and malpractices, if any, from within the organization. The organisational set-up of vigilance mechanism in the Department of Co-operation consists of a Joint Registrar (Vigilance) at RCS assisted by six Deputy Registrars (Vigilance)* in charge of the districts.

Disciplinary proceedings from 2002 onwards against 108 officials for various malpractices including eight cases of financial irregularity were initiated. Out of this, 50 cases were still pending settlement as detailed below:

Year	Total Number of cases	Number of cases settled	Number of cases pending	Number of cases involving financial irregularities
2002	22	18	4	3
2003	21	14	7	4
2004	22	12	10	1
2005	25	11	14	-
2006	18	03	15	-
Total	108	58	50	8

It was noticed that 40 of the officials involved in the 108 cases were of the rank of Assistant Registrars and above. Two departmental officers were reported to be involved in major financial irregularities viz. fabrication of vouchers in payment of legal fees, printing expenses, payment of wages, election expenses, etc., as per the Inspection report for the years 2001-02 and 2002-03 of Nedyanga Service Co-operative Bank (Kannur District). The amount involved was Rs 2.69 lakh. Though the irregularities and involvement

[#] 2005-06: IRs-9; Paras-31. 2006-07: IRs-2; Paras-7

* Deputy Registrar (Vigilance) at Thiruvananthapuram, Kottayam, Ernakulam, Palakkad, Kozhikode and Kannur

by the departmental officers was brought to notice in March 2004, disciplinary action was initiated against them only in January 2007, i.e., after a delay of three years.

5.1.9 Recommendations

- Pre-budget scrutiny of funds should be done with great care so as to avoid savings and surrender of funds at the end of the financial year.
- Budgetary control should be strengthened so that rush of expenditure in the last month of the year is avoided.
- Effective monitoring mechanism should be put in place to watch utilisation of funds released to co-operatives.
- The department should take urgent steps to recover overdue principal and interest from loanees and evolve suitable mechanism for regular recovery of dues to Government.
- The department should ensure proper maintenance of basic records as required under the existing instructions.
- Audit of co-operatives should be organized according to the statutory provisions and internal audit of the department according to Government instructions.

These points were referred to Government in July 2007; reply has not been received (September 2007).

Thiruvananthapuram,
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