CHAPTER V
INTERNAL CONTROL SYSTEM IN GOVERNMENT DEPARTMENTS

INDUSTRIES DEPARTMENT

5.1 Internal Control System

Highlights

Internal Control System is an integral process by which an organisation governs its activities to effectively achieve its objectives. A built-in Internal Control System and strict adherence to Statutes, Codes and Manuals minimise the risk of errors and irregularities and helps to protect resources against loss due to waste, abuse, mismanagement, etc. An evaluation of internal control system in the Industries Department revealed the weakness of the internal controls in vogue in the department, non-compliance with rules, manuals and codes in the areas of budget preparation, expenditure control, accounting of transactions, implementation of schemes for promotion of industries, etc.

- **Budget proposals were not submitted in time and the estimates were not assessed correctly resulting in substantial provision remaining unutilised.**

(Paragraphs 5.1.6 – 5.1.7)

- **Procedures in Kerala Budget Manual for control of expenditure and directives of Finance Department on monitoring of monthly ceiling of expenditure were not adhered to.**

(Paragraphs 5.1.8 – 5.1.10)

- **Contingent advances from 1992-93 amounting to Rs 3.39 crore were awaiting adjustment.**

(Paragraph 5.1.11)

- **Physical verification/surprise inspection of cash was not conducted by the officers.**

(Paragraph 5.1.12)

- **Administration of various loans was very poor. Terms and conditions of 82 loans amounting to Rs 125.87 crore sanctioned to Corporations/Statutory Bodies during 1997-2003 had not been fixed and no recovery made from the loanees so far.**

(Paragraph 5.1.20)

- **Apart from sending notices, no concrete steps had been taken to recover the dues even in period-over cases involving Rs 3.40 crore in two districts, indicating poor monitoring and follow up action.**

(Paragraph 5.1.23)

- **There was no system in District Industries Centres to watch utilisation of share participation in Co-operative societies, remittance of dividend, retirement of shares, etc.**

(Paragraphs 5.1.24 – 5.1.28)

- **Avoidable delay was noticed in processing and disposing of investment subsidy claims. No follow up action has been taken to recover subsidy amount from 42 non-functioning units which had availed subsidy of Rs 54.08 lakh.**

(Paragraphs 5.1.29 – 5.1.32)

- **Inspite of repeated directions from Finance Department, no independent Internal Audit Wing had been set up and the internal audit was being conducted by temporary diversion of staff. Directorate had not conducted internal audit of eight out of fourteen DICs. Eight DICs had not conducted the internal inspection of the Taluk Industries Offices under them.**

(Paragraphs 5.1.47 – 5.1.51)

- **There were 271 paragraphs outstanding in 82 Inspection Reports issued from 1999-2000 onwards which included 90 paragraphs involving over payments, undue benefits allowed, infructuous expenditure, misappropriation, etc., amounting to Rs 5.65 crore.**

(Paragraph 5.1.53)

Introduction

5.1.1 Internal Control is an integral process by which an organisation governs its activities to effectively achieve its objectives. A built-in Internal Control mechanism and strict adherence to Statutes, Codes and Manuals provide reasonable assurance to the department about compliance of applicable rules thus achieving reliability of financial reporting, effectiveness and efficiency in departmental operations.

5.1.2 The functions of the Industries Department include promotion of industries especially small scale industries, creating infrastructure required for the development of industries in the State, payment of assistance by way of loan and grant to Public Sector Undertakings (PSUs), etc.

Organisational set up

5.1.3 The Department of Industries is headed by a Principal Secretary at the Government level. The Director of Industries and Commerce is the Head of the Department assisted by two Additional Directors (General and Technical), six Joint Directors, four Deputy Directors, 11 Assistant Directors, one Administrative Officer, one Finance Officer at Headquarters and 14 General Managers (GMs) in 14 District Industries Centres.

Audit objectives

5.1.4 The evaluation of internal control system in the Directorate covered adherence to various control measures envisaged in the Codes, Manuals, Guidelines and instructions of the Government.

Audit coverage

5.1.5 A review of the Internal Control System in the Department was conducted by test check of the records of Industries Department, Finance Department, Directorate of Industries and Commerce, four (out of 14) District

Industries Centres[#] (DIC) and selected Taluk Industries Offices (TIOs) covering the period 1999-2004.

Financial Controls

Budgetary control

5.1.6 According to Kerala Budget Manual (KBM) budget estimates of the department are to be consolidated by the Director based on proposals received from subordinate offices. These estimates after thorough checking are to be sent to Government by 15 September (Non Plan) and 30 November (Plan and Revenue).

Budget estimates were not realistic and no proper documentation of Budget estimates proposed

5.1.7 It was seen that there were delays up to 60 days in sending budget proposals to the Government for the years 2002-05. Huge savings shown in the Appropriation Accounts for all the years indicated that budget estimates were not accurate and according to actual requirements. Surrender proposals of surplus funds for the year 2003-04 were sent to Government only on the last day of the financial year which was attributed by the department to treasury ban and other restrictions imposed by Government. In violation of provisions in KBM, Budget proposals were also sent by the Director for schemes not sanctioned. Proper documentation in support of Budget Estimates proposed did not exist in the Directorate.

Expenditure control

Register of expenditure was not maintained and monthly statement of expenditure not sent to Government

5.1.8 The Director as the Chief Controlling Officer is required to allot budget provision to various subordinate officers, receive monthly progress of expenditure from field offices, maintain a register of expenditure and liabilities, forward monthly statements of expenditure under all the heads of account to Government, reconcile expenditure, monitor expenditure against budget allotment, etc.

5.1.9 It was noticed that register of expenditure (Form KBM 12) and Report of liabilities (Form KBM 13) were not maintained in the Directorate or any of the four district offices test checked. Monthly statements of expenditure (Form KBM 15) were not received from the subordinate offices and monthly consolidated statements of expenditure (Form KBM 16) were never sent to Government. Thus the Director and District Officers were not aware of the actual expenditure incurred by the subordinate offices and hence they could not exercise effective control over expenditure. Government also did not get any feed back on the expenditure of the department.

Monitoring of monthly ceiling of expenditure

Submission of monthly ceiling delayed and statement of expenditure against ceiling fixed were not submitted

5.1.10 As per orders (May 2003) of the Finance Department every office is required to forecast its expenditure for each succeeding month and the Head of the Department is to forward the consolidated proposal to the Finance Department before the 10th of preceding month. Similarly, the Head of the Department is to redistribute the monthly allocation for the department among the subordinate offices. Details of distribution are to be furnished to Finance (W&M) Department before the 15th of each month. This was intended for centralised control of expenditure. It was seen that there was a delay of 20 to 22 days in submitting the monthly ceiling during the period November 2003 to

[#] Ernakulam, Kannur, Kasaragod and Kottayam

February 2004 and details of distribution of monthly ceiling was never sent to the Finance Department. In eight Taluk Industries Offices test checked there was no system of preparation and forwarding of forecast of expenditure. The Directorate neither maintained a check register to watch and ensure prompt receipt of statements from DICs nor monitored the expenditure with reference to monthly ceiling. The statements of expenditure against the ceiling fixed were not submitted to the Government.

Temporary advances

Contingent advances amounting to Rs 3.39 crore outstanding adjustment

5.1.11 According to Financial rules all advances are to be adjusted at the earliest by presenting final bills. Contingent advances from 1992-93 amounting to Rs 3.39 crore were outstanding in the Directorate as of April 2004. The contingent advance registers maintained in the Directorate from 1990-91 onwards have not been verified/reviewed by any officer. An advance of Rs 25 lakh from Prime Minister's Rozgar Yojana (PMRY) funds paid to Kerala Institute of Entrepreneur Development during 1999-2000 for imparting training to PMRY beneficiaries was not adjusted as of June 2004.

Accounting controls

Physical verification of cash not done by the Head of Office

5.1.12 At the end of each month the Head of office is required to physically verify the cash balance and record a signed and dated certificate indicating that the physical cash balance found on verification agreed with the cash book balance. But the Head of office did not conduct any physical verification of cash during 1999-2004 in the Directorate. Finance Officer of the Directorate did not conduct surprise inspection of cash and accounts and stores during 1999-2004 in the Directorate and in the DICs as required under orders of the Finance Department.

5.1.13 Kerala Treasury Code prescribes that keys of cash chest shall be kept by Government servant responsible for the custody of moneys and duplicate keys deposited in Treasury. But the Directorate and the four DICs test checked were unaware of the very existence and whereabouts of the duplicate keys.

Delay in delivering DDs drawn

5.1.14 Demand drafts (DD) drawn for payment are to be delivered to the parties within 24 hours. But, during 1999-2004, in four DICs, 670 DDs were retained for periods ranging from 14 days to 30 days, 320 DDs for 30 days to 60 days and 87 DDs for more than 60 days. Long delays in delivering the DDs cause avoidable hardship to the recipients and are suggestive of malpractices at the interface with the public.

Receipt books

5.1.15 The requirement of receipt books was not assessed and supply not restricted. It was noticed that in DIC, Kasaragod against the average requirement of one TR 5 receipt book a year, there were 63 books available, sufficient to meet the requirement for more than 60 years. Further, the receipt books were kept by the Cashier and not by the Head of Office as required under Rules. In violation of codal provisions, simultaneous use of two receipt books during the period February 1998 to December 2002 was also noticed in DIC, Kasaragod. Excess stocking and simultaneous use of two receipt books was fraught with the risk of fraud/misappropriation.

Demand Collection and Balance (DCB) statements

5.1.16 DCB Statements are an important control device to monitor the progress of collection of various revenues and other dues to Government. They are to be periodically sent to higher authorities for assessing the performance of the office in revenue/arrears collection.

DCB statements not prepared by DICs and the Directorate did not monitor the receipt of DCB statement

5.1.17 Test check revealed that monthly DCB Statements were not prepared by DICs of Kottayam, Wayanad and Alappuzha as required under Article 264 A of Kerala Financial Code (KFC) despite orders issued by the Director in October 2002 and February 2003. The DCB Statements received from DICs were not consolidated in the Directorate and not forwarded to Government as required under rules. The reason attributed by the Director was shortage of staff.

5.1.18 Though a register was maintained for watching the receipt of DCB statements from DICs, the entries therein were incomplete. As such, the Directorate did not have the periods upto which DCB statements were received from DICs. All loans were not included in the DCB statements. In the absence of year-wise break-up of the dues in the DCB statements it was not possible to ascertain the years to which the dues pertained. It was noticed that eight DICs did not include the element of penal interest in the DCB statement, despite the orders (October 2002) of the Director. In the computerised statements sent to the Directorate from DICs Kasaragod, Kottayam and Ernakulam, the closing balance of a month and the opening balance for the next month were found to vary. This would indicate the failure of the Directorate in monitoring the collection of dues to Government in the subordinate offices.

Operational controls

5.1.19 The department's function includes disbursement of loans to PSUs and watching their recovery, extending share assistance to co-operatives, implementation of schemes for industrial promotion and entrepreneurial development *viz.*, disbursement of State Investment Subsidy (SIS), PMRY, etc. The compliance of the internal controls in these areas were deficient as discussed below:

Poor monitoring of Loans to PSUs

Laxity in monitoring the recovery of loans

5.1.20 Loan recovery register maintained in the Directorate showed disbursement of Rs 194.52 crore during the period 1999-2004. But amount of total loans disbursed as on date was not available in the computerised loan registers maintained and there did not exist a system of preparing DCB statements. Scrutiny revealed the following:

- The proposals for sanction of loans by Government were not routed through the Director.
- The terms and conditions of 82 loans amounting to Rs 125.87 crore sanctioned between May 1997 and March 2003 had not been fixed as of November 2004 and hence no recovery could be made from any loanee so far.
- There was no system of issuing warning notices to loanee institutions as required under KFC.

- The Directorate was also not keeping a watch over the receipt of utilisation certificates of loans.
- The half yearly statement of loans as on 31 March and 30 September required to be forwarded to Finance Department in the prescribed proforma so as to reach the Government not later than 30 April/31 October each year had not been forwarded.
- Principal, interest and penal interest due on the loans were worked out and entered in the loan recovery register only in 22 out of 187 cases.

Consequently, the department was not aware of the amount of the actual outstanding loans and could not collect the dues to Government from loanees.

Poor monitoring of other loans

Loans

5.1.21 Owing to improper maintenance of the loan register and lack of effective action large amounts payable by the loanees towards repayment of principal and interest could not be collected.

5.1.22 Loan recovery registers were not posted up-to-date and there was no system in the DICs for communicating balance of outstanding loans to the loanees at the end of each year for getting confirmation from them. Warning notices were not issued to loanees in advance of due dates. Reconciliation of loan remittance figures with treasury figures was not being conducted. Utilisation Certificates of loans paid during the period 1999-2003 amounting to Rs 5.06 crore in three DICs (Kannur, Ernakulam and Malappuram) were not received. The department could not also ensure that the loans disbursed had been utilised for the intended purpose.

Progress of recovery of loan was very poor and no effective action taken to recover dues

5.1.23 Test check of other loan records (mainly Margin Money Loan) in the four DICs revealed that progress of recovery of loans was very poor. The quantum of recovery was only 1.7 *per cent* to 40.47 *per cent* of the over due loans for the period April 2000 to March 2004. In DIC, Kannur there were 445 cases where period of recovery was over (February 2000 to March 2004) and the amount involved was Rs 2.50 crore and in DIC, Kasaragod such cases were 109 (April 1999 to March 2004) involving Rs 90 lakh. Apart from sending notices at random to defaulters, no further action including revenue recovery was initiated in three DICs (Kannur, Kasaragod and Kottayam).

Deficiencies in systems of monitoring of share participation release to societies

No system to watch the utilisation of Government share participation and to monitor remittances of dividend, retirement of shares, etc.

5.1.24 Government issued (March 1994) revised rules[♠] for share participation by Government in Industrial Co-operative Societies engaged in small scale industries. Test check revealed non compliance of the prescribed rules as shown below.

5.1.25 The amount of share participation was to be utilised for specified purposes and utilisation certificates were to be furnished by the societies within one year as per Rule 22. But there was no system in DICs, Kannur,

[♠] Share participation by Government in Industrial Co-operative Societies engaged in Small Scale Industries (other than Coir, Handloom and Handicrafts) Rules, 1994

Kasaragod and Kottayam to watch the receipt of utilisation certificates. The details of expenditure as well as the annual accounts were not obtained from the societies as required under Rules and it was not ensured that the societies retire the share amount in instalments after the prescribed period.

5.1.26 As per clause 11 of Agreement executed, in case of breach of agreement conditions by the societies, the amount of share participation shall be recoverable under the provisions of Revenue Recovery (RR) Act. But there was no monitoring system in the DICs at Kasaragod, Kannur and Kottayam to ensure that there was no breach of agreement by the societies.

5.1.27 DICs Kannur and Kasaragod did not maintain any records to ensure that the societies issued share certificates within 15 days of share participation and remitted dividends on the share capital to the treasury.

5.1.28 DICs did not send monthly/quarterly/annual returns regarding the dues to Government by way of retirement of shares, dividend and statements regarding receipt of share certificates and annual accounts to the Directorate. Due to non-compliance with the prescribed rules and also lack of effective monitoring of the scheme it could not be ensured that Government funds were properly utilised and dues to Government were regularly remitted by the societies.

Deficiencies in system of monitoring of State Investment Subsidy (SIS)

5.1.29 This scheme was intended to provide subsidy to new as well as existing industrial units undertaking expansion/modernisation/diversification etc. A test check of records relating to SIS revealed the following failure of control measures.

Inordinate delay in processing and disposing subsidy claims

5.1.30 As per the Subsidy Manual, subsidy claims were to be disposed of within three months from the date of receipt of claim. But delay ranging from 3 to 48 months in disposing of 215 subsidy claims during the period 1999-2004 in the DICs testchecked was noticed. The reasons attributed to the undue delay was in moving files from one point to another within the DIC, delay in conducting inspection, failure to detect defects in the application in the initial stages, etc. As the designation of the officials handling the files was not indicated in the note portion of files, the persons responsible for the delay could not be identified. In DIC, Kasaragod 14 SIS files were kept without action from 10 to 42 months between September 1999 and June 2003 as the dealing clerk was on long leave. No alternative arrangement was made to process the claim of the entrepreneurs. Due to abnormal delays in settling of subsidy claims Government's intention of providing timely assistance to the entrepreneurs was defeated. Possibility of corruption in such cases also cannot be ruled out.

Failure to recover subsidy amount of Rs 54.08 lakh from defunct units

5.1.31 Industrial units which received subsidy were to remain working for five years from the date of receipt of subsidy. In the event of default, the unit was liable to refund the subsidy with interest failing which the amount was to be recovered under RR Act. As per details furnished to Audit, 42 units in eight DICs which availed subsidy of Rs 54.08 lakh had failed to function for five years. The subsidy amounts had not been recovered in any of the cases. Apart from issuing notices to the units no action was taken except in two cases in DIC, Kannur.

Committee to evaluate the functioning of assisted units not set up or where committees were set up reports were not sent regularly

5.1.32 The Director had ordered (March 1999) the GMs to constitute a committee at District level to evaluate at least once in three months the working of the units which received subsidy and send quarterly progress reports to the Directorate every year. In DIC Kannur and Kottayam no such committee was constituted. In DIC Ernakulam though a committee was constituted, only one report (July 1999) was sent to the Directorate so far. In Kasaragod a committee constituted after 20 months (November 2000) had not met even once, though a report on failed units was sent in August 2002. As per the agreement executed by the units, they were to produce audited annual accounts statements to the DICs. But no such accounts statements were obtained in any of the DICs test checked. As a result, the department failed to ensure the compliance of the provisions in the manual and the continued functioning of the assisted units.

Deficiencies in implementation of Prime Minister's Rozgar Yojana (PMRY)

5.1.33 PMRY is a 100 *per cent* Centrally Sponsored self employment scheme launched in 1993 to provide employment opportunities to educated unemployed youth with a minimum qualification of eighth standard (passed) by setting up micro enterprises.

Committee to monitor the implementation of scheme had met only once in 11 years

5.1.34 A committee with Chief Secretary as Chairman and Director as Secretary was constituted (November 1993) for effective monitoring of the scheme. The committee met only once in October 2002.

Expenditure incurred out of advances not routed through cash book

5.1.35 In four DICs of Kannur, Kasaragod, Kottayam and Ernakulam during the period 2000-04, Rs 28.81 lakh were drawn as advance for seminars, training, workshop and for meeting contingent expenditure under the scheme. The expenditure incurred out of the advances were not being routed through the office cash book or watched through a subsidiary cash book and hence fraud/misappropriation could not be ruled out.

5.1.36 Honorarium/fee/remuneration to staff of the department deputed as faculty for imparting training to PMRY beneficiaries were paid by the GMs of DICs without obtaining Government sanction as required under Rule 49 of Kerala Service Rules. Store Purchase Rules relating to inviting of quotations were not observed while purchasing stationery articles for PMRY training/workshops.

Non-revision of rates of Industrial Development Plots/Areas

5.1.37 The scheme envisaged acquisition of land and its development by providing necessary infrastructure such as power, water supply, approach road etc. and its allotment to private entrepreneurs on hire purchase, outright purchase, lease etc. for establishment of industries. Audit scrutiny revealed non compliance of rules as indicated below.

Timely revision of rates of development plots/areas not made

5.1.38 As per rules, Director was to compute the cost of land from time to time and to intimate the GMs of DICs for recovering it from the allottees. But the Director did not intimate the rates to GMs after April 1993 which resulted in recovering the cost of land/plot at the same rates prevalent in April 1993 for allotments made from April 1993 to October 2003. The revised rates intimated in January 2003 were also not implemented by the GMs of the four DICs test checked. This resulted in short recovery of cost of land and in the absence of proper records in the DICs the amount could not be quantified.

Recovery of the cost of development plots/areas not properly monitored

5.1.39 As per rules, in the event of allottees defaulting payments of over two instalments consecutively, the Director shall resume the land and recover the defaulted instalments. But in 64 defaulted cases in the four DICs, the GMs did not take any action.

5.1.40 The register for watching repayment of the cost by the allottees of Development Plots was not properly maintained in DICs. In DIC, Kottayam, out of 492 allottees, details of repayment in 22 cases only have been noted in the register and in the other 470 cases details from April 1999 onwards had not been posted. As a result, the department did not have the details of amounts due from the allottees and could not take effective action for collecting the outstanding amounts due to Government.

5.1.41 GM, DIC, Kottayam did not take any action for 19 years to obtain the ownership rights of 41.25 acres of land acquired (1984) for Development Plot in Poovanthuruthu and allotted to entrepreneurs from 1990 onwards resulting in non-transfer of ownership of the land to them.

Deficiencies noticed in One Time Settlement Scheme

5.1.42 Government sanctioned (September 2002) One Time Settlement Scheme for repayment of margin money loan. Under the scheme 50 *per cent* interest can be waived where the case was more than 10 years old and 25 *per cent* can be waived in cases more than 5 years old but less than 10 years. A loanee who does not own Industrial or other assets (other than a residential house) can be allowed 100 *per cent* exemption of interest. On a test check of records in DIC, Kasaragod it was seen that in six cases 100 *per cent* exemption of interest amounting to Rs 1.47 lakh was allowed in June, July and December 2003 without any supporting document to prove that the loanees did not own industrial or other assets. In five cases (one case sanctioned by Government) GM had granted full exemption of interest without any verification report and recommendation from field officers. In one case though the Assistant District Industries Officer, Kasaragod had recommended exemption of only 50 *per cent*, GM had granted (December 2003) 100 *per cent* exemption amounting to Rs 0.77 lakh without any justification whatsoever. In four cases, (above five years old but less than 10 years) 50 *per cent* interest exemption was irregularly granted in November 2002, June and November 2003 against actual eligibility of 25 *per cent* resulting in excess exemption of Rs 0.68 lakh.

Administrative controls

Government directives on recovery of interest and orders on HRA not complied with

5.1.43 Government directives of March 2002 to recover liability of Rs 14.07 lakh from the Director towards interest (from 1 April 2001 to 24 October 2002) for keeping Government money of Rs 50 lakh outside Government account in connection with establishing a mini industrial estate in Thiruvaly Panchayat in Malappuram District was not complied with so far (June 2004).

5.1.44 Disregarding the rule that officers deputed to local bodies are eligible for HRA at the rates applicable to the area where the local bodies are situated, eight Industrial Extension Officers (IEOs) deputed to local bodies (from TIO, Koyilandy, Kottayam and Kasaragod) were paid House Rent Allowance at the rates applicable to the locality of their parent office by the

Taluk Industries Officers concerned.

5.1.45 Register of pension cases was not maintained in DIC Malappuram, Wayanad, Kozhikode, Kottayam and Kasaragod. These DICs did not send quarterly statement of pension cases to the Accountant General. Delay ranging from one year to more than eight years was noticed in settling lifetime arrears payable in five die-in-harness cases in DICs, Kollam, Kannur, Kottayam and Ernakulam.

5.1.46 Annual certificate regarding advances repayable was not sent by the Directorate to the Accountant General as required under Article 266 of KFC.

Internal Audit

No independent internal inspection wing set up

5.1.47 Internal auditing is an appraisal activity established in an organisation as a service to the organisation. Its functions include examining, evaluating and maintaining the adequacy of the accounting and internal control systems. It also helps in assessing the organisation's systems and procedures in order to prevent fraud, errors etc. Internal audit must be independent within the organisation and report directly to top management.

5.1.48 Finance Department directed (September 1986, August 1993 and December 2003) all Heads of Departments to establish independent Internal Inspection Wings. It was found that there was no independent Internal Inspection Wing in the Directorate. Internal audit was done by temporary diversion of staff from Budget Wing.

5.1.49 Though the Directorate has been conducting internal audit of DICs, there was no record in the Directorate showing the actual dates and period of coverage of internal audit of DICs.

Heavy shortfall in internal inspection

5.1.50 Directorate was not maintaining a checklist or register to watch the receipt and issue of internal inspection reports or rectification reports from the auditee institutions to know the pendency of inspection reports/paragraphs.

5.1.51 There were 14 DICs and two CFSCs under the audit control of the Directorate. The internal inspection of eight* DICs and two CFSCs has not been conducted. Eight DICs (of which details were furnished to Audit) had not conducted the internal audit of TIOs under them.

Response to Audit

5.1.52 Accountant General (Audit) conducts audit of offices of the departments and major irregularities are reported through Inspection Reports (IRs). KFC provides that first replies to IRs are to be sent within four weeks from the date of their receipt. But first replies were sent with delay ranging from four months to 29 months. First replies to six IRs of five DICs issued from January 2002 had not been furnished even as of March 2004.

5.1.53 There were 271 paragraphs outstanding from 82 IRs issued upto March 2004 which included paragraphs from 1999-2000 onwards. Out of this, overpayments, undue benefits allowed, infructuous expenditure and

* Ernakulam, Kannur, Kottayam, Malappuram, Palakkad, Pathanamthitta, Thiruvananthapuram and Wayanad

misappropriation involving Rs 5.65 crore[♠] were noticed in 90 paragraphs. Register in KFC Form 4B was required to be maintained to note the details of pending IRs and paragraphs. Head of office or an officer authorised on his behalf was to inspect the register atleast once in a month and issue instructions for speedy clearance of the outstanding paragraphs. The register kept in the Directorate was not in Form 4B and the required details were not posted and checks were not exercised.

5.1.54 As per KFC, 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 years of issuance of the IR irregularities were not rectified.

Conclusions

5.1.55 Internal control system was ineffective in the department. In-built controls prescribed for various activities of the department were not functioning. Rules, regulations and directives of Government regarding budget preparation, expenditure control, accounting of transactions, maintenance of records etc. were mostly ignored.

5.1.56 Administration of various loans involving fixing of terms and conditions, completeness of loan registers, effecting recoveries, etc., were poor and therefore the dues to Government could not be assessed and collected. Schemes intended for promotion of industries like SIS, Development areas/plots, etc., could not achieve their objectives due to unjustifiable delays and lack of monitoring. The financial and other data were unreliable as basic records were incomplete or not available. In the administrative functions, non-compliance with rules, regulations and executive directives was endemic. There was no system in place for ensuring accountability for lapses or losses. Due to poor monitoring and ineffective functioning of the internal audit wing most of the deficiencies remained unreported.

5.1.57 Recommendations

- ★ Comprehensive instructions prescribing controls to be exercised at different levels may be issued.
- ★ Accountability obligations at different levels may be prescribed and compliance monitored.
- ★ Loan administration should be reorganised ensuring adherence to rules, regulations and management directives so as to effect prompt recovery of dues.
- ★ Documentation of transactions and events from initiation till final classification in summary records should be prompt and complete.
- ★ An independent Internal Audit Wing directly reporting to the Head of the Department may be set up with specially trained staff and mandate to conduct internal audit of all the offices under the department with a specific periodicity.

[♠] Over payments (58 paras) Rs 7.06 lakh, Undue benefit allowed (27 paras) Rs 190.00 lakh, Infructuous expenditure (4 paras) Rs 368.00 lakh and Misappropriation (1 para) Rs 0.01 lakh

Response of the department

5.1.58 The report was discussed (April 2004) in detail with the Principal Secretary to Government, Industries Department who fully agreed with all the recommendations of Audit. He also agreed to issue suitable instructions to the concerned officers so as to effectively streamline the internal control system in the department in line with the recommendations.

5.1.59 Government admitted the facts and stated (November 2004) that strict instructions had been given to the Director to take urgent and time bound action to implement the recommendations/suggestions of Audit.

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