

CHAPTER V
INTERNAL CONTROL SYSTEM

PUBLIC WORKS DEPARTMENT

5.1 Internal Control System

Highlights

Budgetary controls were not effectively enforced. Additional requirements were not properly assessed and supplementary provisions proved excessive.

(Paragraph 5.1.6)

The submission of monthly accounts was generally delayed and in some cases the delay was as much as 150 days.

(Paragraph 5.1.10)

Controls to detect and minimise risk of pilferage and loss of stores by annual physical verifications were not effectively implemented. No reserve stock limit was fixed.

(Paragraphs 5.1.15 & 5.1.16)

Introduction

5.1.1 Internal control is an integral process that is carried out by an entity's management and is designed to provide reasonable assurance that the following objectives are achieved:

- (a) fulfilling accountability obligations;
- (b) complying with applicable laws and regulations;
- (c) executing operations with effectiveness and efficiency;
- (d) safeguarding resources against loss.

Policies and procedures are often referred to as controls and collectively they comprise Department's internal control which is intended to minimise the risk to which the Department might otherwise be exposed as a result of fraud, negligence, error, incapacity or other causes.

Organisational structure

5.1.2 The overall management of internal control of the Public Works Department (PWD) lies with the Chief Engineer (CE), who is the Controlling Officer of the Department. For smooth and efficient financial management and ensuring financial discipline, the CE is assisted by a Financial Advisor (FA), an Assistant Financial Advisor (AFA) and a number of Divisional Accountants/Additional Divisional Accountants at different levels. In implementation of policies and programmes of the department, he is assisted by an Additional Chief Engineer, Superintending Engineers, Executive Engineers, Assistant Engineers etc. The men-in-position of internal control management against the sanctioned strength and their responsibilities with accountability centres are indicated in *Appendix-XXXV*.

The posts of one Financial Adviser, one Assistant Financial Adviser, 22 posts of Divisional Accountants and two posts of Additional Divisional Accountants have been lying vacant for two to 10 years. In the absence of the above functionaries who are responsible for maintenance of accounts, preparation of financial reports and giving expert advice on financial matters, internal control system in the Department cannot be considered adequate as many controls relating to financial management, accounting and efficiency in expenditure cannot be effectively exercised.

Internal Control Standards

5.1.3 The Department follows norms and standards prescribed in the CPWD code and manuals, and also the executive orders issued by the State Government from time to time. Delegation of Financial Powers Rules, 1995 determines the financial powers of various level officers in the Department, and the General Financial Rules provide norms of propriety for better financial administration. These rules and manuals together constitute internal controls for the Department.

Audit coverage

5.1.4 To evaluate the internal control system of the Department, records of 10* out of 33 Divisions were test checked for the period from 1999-2000 to 2003-04 during April-May 2004. Deficiencies noticed in internal control system are discussed below:

Budgetary Control

5.1.5 The Annual Financial Statement showing estimated receipt and expenditure of the Department in respect of a financial year is framed before the

* Bridge Division, Building Divisions No. I and II, Bishnupur Division, Chandel Division, Churachandpur Division, Imphal West Division, National Highway Division No. IV, Stores Division and Tamenglong Division.

commencement of the year, based on actuals of the last three years and activities/works to be taken up in the coming year.

All Drawing and Disbursing Officers (DDOs) under the Department are the estimating authorities for their Circles/Divisions and submit budget estimates to the Controlling Officer (CE). After due scrutiny, the proposed estimates are consolidated and forwarded to the Administrative Department (Public Works Department) for onward transmission to the Finance Department. Once budget estimates (BE) are passed by the Legislature, the Finance Department communicates the approved budget estimates for PWD to the CE. The CE is required to exercise budgetary controls to ensure that there is no expenditure over sanctioned grant and the savings are surrendered well in time. He is to ensure that budget estimates are prepared accurately.

5.1.6 Test check disclosed that budgetary controls were not effectively enforced in the Department. Budget provisions of Rs.132.16 crore (Revenue: Rs.66.01 crore and Capital: Rs.66.15 crore) were obtained by PWD during 2002-03. Against these provisions, the department incurred expenditure of Rs.64.51 crore under Revenue and only Rs.41.36 crore under Capital.

The original budget provision under Capital (Rs.30.01 crore) was too low requiring substantial amount of supplementary provisions to be made during the year. After having obtained supplementary grant, the Department could not spend Rs.24.79 crore out of it, indicating that the estimates prepared by the Department especially for Capital portion were inaccurate.

All anticipated savings have to be surrendered immediately once the savings are foreseen without waiting for the end of the year. However, total savings of Rs.1.50 crore under Revenue and Rs.24.79 crore under Capital had not been surrendered at the close of the year 2002-03.

5.1.7 As regards planning for the procurement of stores, CPWD Manual Vol II (Para 38.2) provides that Executive Engineers of the divisions should furnish annual requirement of stores well in advance before commencement of the financial year, so that the Stores Division could arrange bulk procurement of indented stores economically following prescribed tendering norms and ensure timely supply of stores. None of the works divisions did furnish their requirements in advance and purchases were made by the Stores Division on the basis of availability of funds without reference to the actual requirements.

Since the Department procures large quantity of material and stores every year for construction and maintenance purposes, budget estimates of the Department cannot be accurately prepared unless annual requirement of stores is assessed well in advance by the Divisions as per norms and taken into account in preparing the BE.

Expenditure control and financial reporting

5.1.8 The Department has two-tier system of expenditure control, one at the level of DDOs and the overall control at the level of the CE. DDOs are required to submit monthly head-wise expenditure statements, monthly accounts, physical and financial progress reports of each work under different heads of accounts to the Controlling Officer for monitoring purposes.

5.1.9 Payments are made by cheques in Public Works Department and the Government controls its cash outflow by placing limits on the drawal by the DDOs. Under the system, the Government allots cheque drawal authority (CDA) quarterly to the drawing officers with a limit which cannot be exceeded by the DDOs.

The Finance Department often issues CDA for an amount much lower than the budget provision placed at the disposal of the Department. As a result, funds available for the ongoing works under BE cannot be used. During the last three financial years (2001-02 to 2003-04), the Finance Department issued CDA only for Rs.69.89 crore to PWD against the budget provision of Rs.150.17 crore for works expenditure.

Though the system of issuing CDA is an effective control over expenditure, the mismatch between BE and CDA is often an obstacle to speedy and timely completion of works.

There was rush of expenditure in the month of March during 2002-03 due to issue of CDA at the end of the year. It is against the interest of the State that money is spent hastily or in an ill-considered manner just to avoid lapse of budget grant. The rush is therefore, regarded as breach of financial regularity and should be avoided.

5.1.10 System of rendering monthly accounts is an important mechanism through which monitoring and control over expenditure is exercised by the Government. The Divisional Officers are required to submit their compiled monthly accounts to the Accountant General between 7th to 10th of the following month for consolidation and submission to the Finance Department of the State Government. Public Works Divisions in the State render accounts very late thereby defeating the system of monitoring and expenditure control through accounts. Monthly accounts of 33 Divisions pertaining to the months of October 2003 to March (P) 2004 were submitted late and the delay ranged up to 150 days which badly affected closing of annual accounts of the State Government for the year 2003-04.

Other internal controls

Control Register for Inspection Reports

5.1.11 According to CPWD Manual Volume II (Para 59.25), a Control Register should be maintained in the Division for watching disposal of audit inspection reports. The register should be reviewed by the Executive Engineer every month. While submitting the register, the Divisional Accountant should record a certificate that reminders wherever due, had been issued to the officers concerned. No such register was however, maintained by the Divisions. As on 31 March 2004, 262 inspection reports containing 1556 paragraphs of financial value of Rs.178.56 crore were outstanding against the Public Works Divisions in the State for the period 1985-86 to 2003-04. Thus, action on the inspection reports which bring out serious cases of financial irregularities and lack of internal controls was not taken by the divisions.

Quality control of works

5.1.12 As a watch dog of quality control procedures, quality control teams of the Department are required to review quality control procedures and lay down norms to ensure a systematic and comprehensive control of quality in works. To enable the functioning of the quality control teams at the circle level, a quarterly statement of original works-in-progress costing Rs.22.50 lakh and above is required to be furnished by the Divisions as per CPWD, Manual Vol. II (Para 58.15). No such returns were sent to the concerned authority as per the records made available to audit by the Monitoring and Quality Control Division. Thus, internal controls for ensuring quality in works were not implemented strictly by the Divisions.

5.1.13 To ensure that the works are executed according to the design and specifications laid down for them, the CPWD Manual Volume II lays down that the departmental officers should frequently inspect the works. Works agreements also require the contractor to employ one qualified engineer to supervise the works costing above Rs.2 lakh and to receive technical orders of the departmental officers at the time of inspection of works as the contractors themselves may not be able to understand technical matters. These provisions form part of the internal controls to ensure quality in execution of works by the contractors.

This important internal control was however, not fittingly enforced by the departmental officers. Test-check on the records of five divisions¹ revealed that in respect of 22 works, executed during the period from 1997-98 to 2003-04, the contractors did not employ the required technical staff. To an audit query regarding adherence to norms for inspection of works, and number of periodical inspections actually carried out, the Head of Department could not furnish the

¹ Bishnupur Division, Bridge Division, Chandel Division, Building Division, and National Highway Division IV.

actual number of inspections carried out by the departmental officers, indicating lack of monitoring at the apex level.

Control for timely completion of works

5.1.14 For timely completion of works and to avoid extra expenditure due to rise in cost of construction materials, the CPWD Manual Vol.II (Para 29.3) lays down that compensation should be recovered from the contractors at the rate of one *per cent* of the estimated cost of the work for every day of delay subject to a maximum of 10 *per cent* of the estimated cost.

This internal control was not effectively exercised. A test check of records of seven Divisions² revealed that completion of 36 works executed during 1997-98 to 2003-04 was delayed and the Department did not realise any compensation for the delays although no time extensions were granted to the contractors.

Accounts of stores

Stocktaking

5.1.15 CPWD Manual Volume II (Para 48) provides for physical verification of stores by a responsible officer other than the custodian at least once a year. Discrepancies, if any, between book balance and physical balance should be investigated and reconciled by ascertaining reasons for the shortages. But no such verification was conducted prior to 2003. Thus, internal control to detect pilferage, deterioration and loss of stores and to minimise such risks were not effectively implemented by the Stores Division.

Reserve Stock Limit

5.1.16 CPWD Manual Vol. II (Para 37.4) stipulates that no reserve stock should be kept except with the specific sanction of and to a monetary limit to be prescribed by the competent authority. The Executive Engineer, Stores Division could not provide the monetary limit prescribed in this regard.

Non-reconciliation of treasury remittance

5.1.17 Receipts remitted to treasury through challans are required to be reconciled monthly by the Division with the treasury figures to ensure that the revenue remitted has been credited to the Government account. No such reconciliation was carried out by the Divisions in the absence of which, it was not possible to establish that revenue remitted to the treasury according to the records of the Division had actually been accounted for in the Government accounts. Department's failure in effectively implementing this internal control is fraught with the risk of misappropriation of Government revenue.

² Bishnupur Division, Engineering Cell, Bridge Division, Building Division, National Highway Division IV, National Highway Division II and Churachandpur Division.

Non-adherence to Delegation of Financial Power

5.1.18 According to the Delegation of Financial Power Rules, 1995, the power delegated to the Head of the Office for purchase of stationery articles in each case is Rs.1,000 subject to annual limit of Rs.12,000. Instances of non-adherence to rules and of exceeding the limits were noticed in audit. Three Divisions³ incurred expenditure on purchase of stationery articles ranging between Rs.25,000 to Rs.60,000 during the last five years⁴ exceeding their annual delegated powers.

Inadequate deployment of manpower

5.1.19 The internal controls for proper manpower management were also not enforced. According to the information furnished to Audit, the men-in-position of Section Officers in the Department is 430 against the sanctioned strength of 514, whereas the Store Division was having 16 Section Officers against 12 sanctioned posts. The excess officers in the latter were not transferred to other needy Divisions having shortage of such officers.

Internal Audit

5.1.20 Internal audit is an integral component of internal control system. The Department has got no internal audit wing of its own. The Director of Local Fund Audit is entrusted with the internal audit of Government Departments including PWD. However, irregularities pointed out in internal audit were mainly of routine nature.

Conclusion

5.1.21 The foregoing observations show that the system of internal control in the Public Works Department was ineffective and inadequate. There was lack of adequate staff for enforcing financial discipline. Prescribed records were not maintained and rules and regulations were not strictly adhered to thereby affecting the efficient operation of the Department.

Recommendations

- Budget estimation should be more realistic and procedures tightened by ensuring that key Finance and Accounts posts are filled up.
- Inventory management should be honed up to ensure that there is no mismatch between actual requirement, availability of funds and economic procurement of and timely distribution of essential stores.

³ Building Division No.I, Building Division No.II and Imphal West Division.

⁴ 1999-2000 to 2003-04.

- Expenditure control measures should be put in place to ensure that there is no mismatch between Budget estimates and allotment of cheque drawal authority for speedy and timely completion of works.
- Immediate action should be taken to introduce and maintain control registers for watching action taken on inspection reports.
- Timeliness and quality of construction works need to be improved by enforcing the provisions of inspection by departmental officers.