

CHAPTER-V

INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT



5.1 Internal Control System and Internal Audit

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PUBLIC WORKS DEPARTMENT

5.1 Internal Control System and Internal Audit

Highlights

Internal controls provide an excellent tool for managers to ensure efficient, effective and economic utilization of resources. These also ensure that organizational assets, financial interests and other resources are safeguarded and reliable information is available to the administration. The objective of the Public Works Department (PWD) is to construct roads, bridges and buildings including maintenance in accordance with the central rules and regulations in force.

Internal control system in the Department was deficient and led to unrealistic budgetary process, drawal of funds in excess of actual requirement and parking of funds in PWD deposits besides issue of supply orders in excess of delegated financial powers. Procurement of stores much in advance of actual requirement indicated poor inventory management. Internal audit of the Department was not done by the Internal Audit wing of the Director of Accounts and Treasuries.

There were wide variations between the actual expenditure and the budget provisions indicating that the projections made by the Department were not realistic.

(Paragraph 5.1.7)

Contractors were paid interest free mobilization advance, which was indicative of deviation from the codal provisions besides undue financial benefit.

(Paragraph 5.1.10)

Materials costing Rs.6.13 crore lying in store as of March 2007 indicated that the purchase of materials was made without proper assessment of requirement.

(Paragraph 5.1.11)

Creation of Division without necessary infrastructure led to idle expenditure of Rs.17.24 lakh on manpower.

(Paragraph 5.1.12.2)

5.1.1 Introduction

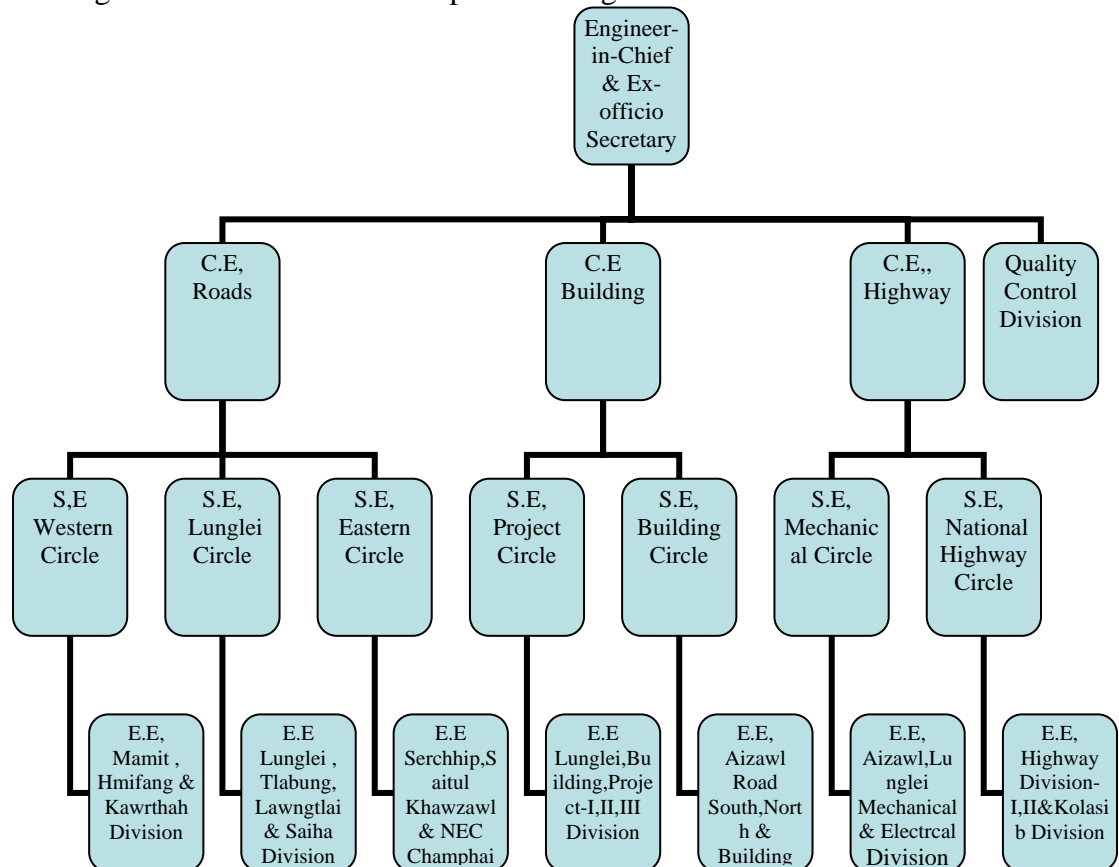
Internal controls provide an excellent tool for managers to ensure efficient, effective and economic utilization of resources. These also ensure that organizational assets, financial interests and other resources are safeguarded and reliable information is available to the administration. Internal Audit, as an independent entity, examines and evaluates the level of compliance with the Departmental rules and procedures and provides independent assurance to the management on the adequacy or otherwise of the existing internal controls.

The objective of the Public Works Department (PWD) is to construct roads, bridges and buildings including maintenance in accordance with the central rules and regulations in force

5.1.2 Organizational set-up

The Secretary and Engineer-in-Chief, PWD. is the administrative head of the Department. Three Chief Engineers (CEs) responsible for execution, monitoring and evaluation of assets created by the Department are assisted by Superintending Engineers (SEs) in seven circles and Executive Engineers (EEs) in the 25 divisions.

Organizational chart of the Department is given below:



5.1.3 *Audit objectives*

Audit objectives were to see whether the internal control system of the Department provides a reasonable assurance that the system is efficient to achieve its objectives through the following:

- Budgetary controls
- Financial and expenditure controls
- Operational controls
- Supervisory and monitoring controls
- Effectiveness of internal audit

5.1.4 *Scope of audit*

Adequacy and effectiveness of the internal control mechanism, including the system of internal audit, in PWD for the period 2002-03 to 2006-07 was reviewed in audit through a test-check (May – June 2007) of the records of the Engineer-in-Chief (E-in-C), three (CEs), three (SEs) (out of seven circles), eight divisions (out of twenty five), Finance Department and Director of Accounts and Treasuries.

5.1.5 *Audit Criteria*

The following criteria was used to assess the efficacy of the internal controls:

- Provisions of the General Financial Rules
- Provisions of the Central Treasury Rules
- Provisions of the Central Public Works Department Works Manual

5.1.6 *Audit Methodology*

Before taking up this review, audit objectives, scope and audit criteria were discussed with the Secretary cum E-in-C, PWD in an entry conference (8 May, 2007). Information and records furnished by the Department in response to audit queries were used as audit evidence.

5.1.7 *Audit Findings*

The important points noticed during the review are discussed in the succeeding paragraphs.

5.1.7.1 Budgetary control

The State was formed in 1986, yet the State Government did not have any budget manual of its own. The provisions of the General Financial Rules are followed for formulation of budget and other financial matters. The non-plan budget proposals are prepared by the E-in-C after compilation of estimates received from all the Drawing and Disbursing Officers (DDOs) for its onward submission to the Finance Department through the Administrative Department. In case of the Plan budget, the annual plan outlay is finalized in consultation with the State Planning Board. For effective control as well as for estimation of savings/excess over grants, returns of monthly expenditure obtained from the DDOs are consolidated and examined. The Department surrenders the grants/appropriations or portion thereof to the Finance Department as and when savings are anticipated. The budget provision and expenditure of the Department there against during 2002-03 to 2006-07 are as shown below:-

Table-5.1

(Rupees in crore)

Year	Section	Budget Provision	Actual Expenditure	Excess (+) Savings (-)
2002-03	Revenue	50.48	54.92	(+)4.44(9)
	Capital	121.13	68.98	(-)52.15(43)
2003-04	Revenue	54.08	53.96	(-)0.12(-)
	Capital	194.76	182.47	(-)12.29(6)
2004-05	Revenue	55.29	53.78	(-)1.51(3)
	Capital	216.27	162.66	(-)53.61(25)
2005-06	Revenue	59.62	59.37	(-)0.25(-)
	Capital	221.21	199.72	(-)21.49(10)
2006-07	Revenue	77.16	76.83	(-)0.33(-)
	Capital	222.03	214.14	(-)7.89(4)

Source: Appropriation Accounts (Grant No. 45)

As can be seen from above, there was wide variations between the actual expenditure and the budget provision indicating that the projections made by the Department were not realistic. Except during 2002-03 where there was excess expenditure over the budget allotment, there were savings every year ranging from Rs. 0.12 crore (2003-04) to Rs. 53.61 crore (2004-05). The Department however, had not surrendered the anticipated savings on time to enable the other needy Departments to get additional funds. No cognisable action was taken by the Finance department in this regard.

5.1.8 Financial Controls

5.1.8.1 Parking of funds in PW Deposit

According to Rule 290 of the Central Treasury Rules Vol- I, which is being followed by the State Government, no money should be drawn unless it is required for immediate disbursement. Also, as per the said Rule, no money should be drawn at the fag end of the year to avoid lapse of budget grants.

It was observed from the records of eight¹ test checked divisions that between 46 and 84 *per cent* of the total expenditure was drawn in the last quarter of the years 2002-03 to 2006-07. There was rush of expenditure in March and the expenditure ranged between 40 to 79 *per cent* of the total expenditure as shown below:-

Table: 5.2

(Rupees in crore)

Name of the Division	Total expenditure on works	Amount drawn in		Amount retained in PW Deposits from the drawal in March (with <i>percentage</i> in brackets to total amount drawn in March)
		Last quarter (<i>percentage</i>)	March (<i>percentage</i>)	
Quality Control Division	9.36	5.23 (56)	4.68 (50)	1.19 (25)
National Highway Division No.II	24.39	11.21 (46)	10.33 (42)	7.10 (69)
Electrical Division	14.29	9.97 (70)	9.13 (64)	6.61 (72)
Aizawl Building Division	16.21	9.17 (57)	7.75 (48)	2.40 (31)
Kolasib Division	42.91	24.12 (56)	20.50 (48)	6.98 (34)
Khawzawl Division	12.28	7.9 9 (65)	6.88 (56)	3.29 (48)
Serchhip Division	26.64	22.3 4 (84)	20.93 (79)	14.38 (69)
NEC Division Champhai	19.09	10.92 (57)	7.73 (40)	1.75 (23)
Total	165.17	100.95 (61)	87.93 (53)	

Source: Monthly Accounts and information furnished by the Divisions.

Contrary to Rule *ibid*, out of Rs. 87.93 crore drawn in March, 25 *per cent* (Rs. 1.19 crore) to 69 *per cent* (Rs. 14.38 crore) was retained in Public Works Deposits during 2002-07. Immediately after drawal, the amount was shown as spent although actual expenditure was incurred much later. Consequently,

¹ 1. Quality Control Division 2. National Highway Division No.II 3. Electrical Division 4. Aizawl Building Division 5. Kolasib Division 6. Khawzawl Division 7. Serchhip Division 8. NEC Division Champhai

expenditure of the Department remained overstated distorting the Accounts of the State Government. Thus, drawal of funds in advance and in excess of actual requirement and retention of funds in P W Deposits at the end of each year indicated that planning and fund management in the Department were poor.

5.1.9 Expenditure controls

5.1.9.1 Issue of supply/work orders/indents in excess of permissible financial limit

As per delegation of financial powers, the E E. is empowered to issue work orders up to Rs. 15 lakh per annum. In violation of this provision, seven² EEs issued supply/work orders/indents valued Rs. 20.20 crore which ranged from Rs. 16 lakh to Rs. 2.73 crore annually as detailed below :-

Table: 5.3

(Rupees in crore)

Name of the Division	2002-03		2003-04		2004-05		2005-06		2006-07		Total	
	No	Value	No	Value	No	Value	No	Value	No	Value	No	Value
Highway No. II	59	0.33	40	0.32	43	0.33	22	0.22	40	0.33	204	1.53
Electrical Division	240	0.82	428	2.25	66	1.35	-	-	27	0.32	761	4.73
Aizawl Building Division	27	0.19	72	0.23	98	0.47	122	0.44	106	0.67	425	2.00
Kolasib Division-I	234	0.80	270	1.25	237	1.46	295	1.74	401	2.73	1437	7.98
Khawzawl Division	-	-	31	0.25	-	-	-	-	144	0.55	175	0.80
Serchhip Division	96	0.35	47	0.16	22	0.17	45	0.29	118	0.79	328	1.76
NEC Division Champhai	55	0.38	22	0.28	-	-	45	0.40	19	0.33	141	1.39
Total											3471	20.20

Source: Information furnished by the Divisions

Thus, issue of supply/work orders/indents in excess of financial power indicated not only violation of the provisions of DFP but also laxity in operational and expenditure controls.

² 1. Highway No. II 2. Electrical Division 3 Aizawl Building Division 4. Kolasib Division-I
5. Khawzawl Division 6 Serchhip Division 7. NEC Division Champhai

5.1.10 Undue financial benefit

As per Para 31.6 of CPWD Manual, which is being followed by the Department, in respect of certain specialized and capital intensive works, mobilization advance limited to 10 *per cent* of the tendered value or Rs. one crore whichever is less, shall be sanctioned to the contractors at 10 *per cent* simple interest.

For execution of the work “Upgradation of Keitum to Artahkawn Road”, the Department entered (December 2002) into agreements with the contractors which inter alia provided for grant of interest free mobilization advance to the contractors. Accordingly, the EE, Serchhip Division paid Rs. 1.11 crore (November 2006: Rs. 90 lakh, March 2007: Rs. 21 lakh) interest free mobilization advance to three contractors. This was indicative of deviation from the codal provisions besides undue financial benefit to the contractors.

5.1.11 Purchase of materials much in advance of actual requirements

Materials required for construction and maintenance works are purchased by the E-in-C based on the annual requirements received from the working divisions through the C.Es. The materials are stocked in Store/Quality Control Division and issued to the working divisions on receipt of indents.

Scrutiny of records revealed that as of March 2007, materials valued at Rs. 6.13 crore (bitumen: Rs. 5.77 crore others viz. chain link, barbed wire and goad proof wire mesh: Rs. 36 lakh) were lying in stores. Out of 2891.056 ton bitumen (80/100) purchased during 2006-07, the working divisions indented for 1264.879 ton bitumen being 44 percent of purchased quantity. Further, other materials valued at Rs. 36 lakh were awaiting issue since October 2001. Thus, purchase of materials much in advance and without actual requirement indicated that annual requirement was not assessed properly.

5.1.12 Operational controls

5.1.12.1 Inspection works

It is incumbent upon various executives to inspect the works to ensure that the works are being executed according to design, drawing and specifications laid down in the contract, Inspecting Officers (CE, SE) should ensure issue of instructions by way of recording their findings in the inspection register at site or by issue of inspection notes, copies of which shall be pasted in the inspection register. The observations recorded in the inspection register by SE/CE are required to be reviewed during subsequent inspections to ensure their compliance. It was, however, observed that none of the six working divisions test checked maintained inspection register. In its absence, it could not be vouchsafed in audit

whether any inspection was carried out or not and if so whether any action on the specific defects noticed during inspection was taken by the divisions.

5.1.12.2 Creation of Division without necessary infrastructure led to idle expenditure on manpower.

Government of Mizoram, Public Works Department created two Sub-divisions for quality control viz. Sub-division I and II at Aizawl and renamed the PWD Store Division, Aizawl as Quality Control Division Aizawl and Lunglei Store Sub-division as Quality Control Sub-division III at Lunglei by Government notification dated 1.6.2001.

First inspection of work at site for quality control was conducted by the Sub-divisional Officer of Sub-divisions on 6 March 2002. However, a laboratory for conducting quality control tests was commissioned only in November 2002 for carrying out the quality control test for the sub- divisions I to III.

As per information furnished by the Department, an amount of Rs.17.24³ lakh was paid as salary to the staff of the three divisions for the period from April 2002 to October 2002 although the staff remained virtually idle during this period due to non-existence of the laboratory for quality control tests.

Thus, posting of staff before creating the necessary infrastructure resulted in idle expenditure of Rs. 17.24 lakh on payment of salary. Had proper infrastructure been created prior to creation of quality control divisions, the expenditure on salary of the idle manpower could have been avoided.

5.1.12.3 Extra expenditure of Rs.29.50 lakh

Scrutiny revealed that in the following cases, extra expenditure was incurred by the Department:

- Scrutiny of records of Executive Engineer, PWD Project Division III Aizawl (1.8.05 to 30.9.06) revealed that the work “Construction of Women polytechnic (Third Technician Education Project)” was awarded to M/S Other Construction Enterprises (P) Ltd. Engineer & Contractor, Kolkata at a bid price of Rs.793.33 lakh on 11.12.2002. As per agreement, the work was to be completed by 10.12.2004. However, as per the

<u>³Name of the Sub-division</u>	<u>No. of Staff</u>	<u>Expenditure on salary</u>
Sub-division-I	9	Rs.3.86 Lakh
Sub-division-II	8	Rs 4.13 Lakh
Sub-division-III	<u>1</u>	<u>Rs. 9.25 Lakh</u>
Total-	18	Rs.17.24 Lakh.

measurement book the work was shown as completed only on 31.5.2005 at a cost of Rs 822.83 lakh.

It was observed that the contractor was paid cost escalation of Rs.29.50 lakh (Rs.24.74 lakh for civil work and Rs.4.76 lakh towards electrical work) due to delay of 506⁴ days in handing over the site to the contractor by the Department and enable the contractor to complete the work on stipulated time (10.12.2004).

- Similarly, scrutiny of records of Executive Engineer, PWD Building Division Lunglei (1.5.2005 to 31.7.2006) revealed that the work “Strengthening of Government Polytechnic at Lunglei, Mizoram” was awarded (October 2002) to the contractor at a contracted price of Rs 8.03 crore, with the stipulated date of completion as 19.11.2004. The work was commenced on 19.12.2002 and was completed on 31.01.2005. As per terms and conditions of clause 47.1 of the agreement (December 2002) price escalation was not applicable to work carried out beyond the stipulated time for reasons attributable to the contractor. In the instant case the contractor was paid Rs.19.26 lakh being the escalation charges beyond the terms and conditions of clause *ibid* even though the delay for completion of work was attributable to contractor i.e. slow mobilisation of materials and machinery and lack of manpower.

5.1.13 Monitoring

The implementation of works programme is monitored through monthly/quarterly progress reports submitted by the working division to the controlling officers. Scrutiny of progress reports of seven test checked divisions revealed that the prescribed format did not provide for the target and actual date of completion of work. As a result, the Controlling officer was not able to take corrective measures against time over run of works, which led to bad financial management.

5.1.14 Failure to enforce accountability for non settlement of Inspection Reports of the Principal Accountant General (Audit)

The irregularities noticed during the local audit conducted by the Principal Accountant General (Audit) (Pr. A.G) are communicated through Inspection Report (I.Rs) to the Heads of officers inspected with a copy to the next higher authority. A half-yearly report of pending I.Rs is sent by the Pr.A.G to the

⁴506 days viz,(i) excavation for foundation held up due to non completion of survey work (19 days); (ii) lay out of buildings (30days);(iii) details of drawings (28days); (iv) non availability of ground floor level for multipurpose hall (41days); (v) blockade of site (17days); (vi) works deferred (324days) and (vii) sanction of mobilization advance (47days).

Secretary of the concerned administrative department to facilitate monitoring of the action on the reports.

As of December 2006, 539 paragraphs relating to 101 I.Rs of P.W.D were outstanding either due to non-receipt of replies or the replies being incomplete. Large pendency of I.Rs indicated failure of the concerned controlling officers to initiate action on the points raised in the I.RS. The concerned Secretary of the administrative department also failed to ensure timely action by the concerned controlling officers and thus control of the administrative department on the controlling officers was not adequate.

5.1.15 *Internal Audit*

Internal Audit is an important management tool to examine and evaluate the level of compliance to the rules and procedures. The Director of Accounts, Treasuries and Ex-Officio Examiner of Local Accounts is empowered to examine and carry out the audit of accounts of various Government departments and local bodies.

According to the information furnished (May 2007) by the Director of Accounts and Treasuries, internal audit of accounts of the PWD was never conducted during the five years period ending March 2007 due to shortage of staff in internal audit wing.

Thus, the adequacy and effectiveness of the accounting and internal control system in PWD through an independent agency remained unevaluated.

5.1.16 *Conclusion*

Internal control system in the Department was deficient and led to unrealistic budgetary process, drawal of funds in excess of actual requirement and parking of funds in P W Deposits besides issue of supply orders in excess of delegated financial powers. Inspection register to ensure compliance of specific defects noticed during inspection was not maintained. Procurement of stores much in advance of actual requirement indicated poor inventory management. Internal audit of the Department was not done by the Internal Audit wing of the Director of Accounts and Treasuries.

5.1.17 *Recommendations*

- Budget should be prepared on a realistic basis and funds provided should be utilised optimally. Savings should be surrendered on a timely basis.
- Delegation of Financial Powers should be scrupulously followed.

- Appropriate format should be devised for monitoring the progress of various projects and the execution of works should be monitored closely so as to avoid time and cost overrun.
- Internal audit system in the State needs to be strengthened to ensure functioning of internal control system in the Department effectively for achieving the desired objectives.

The audit findings were reported to the Department/Government (August 2007); reply had not been received (December 2007).