

## CHAPTER-V INTERNAL CONTROL SYSTEM IN GOVERNMENT DEPARTMENTS

### CO-OPERATION DEPARTMENT

#### 5.1 Internal Control System in Co-operation Department

##### *Highlights*

*Internal control system is the fundamental process by which an organisation directs its activities to effectively achieve its objectives. Such a system consists of methods, systems and procedures for protecting resources from waste, loss, theft, misuse or mismanagement and provides reasonable assurance that the unit's goals and objectives will be achieved. The review of internal control system in Co-operation Department showed persistent savings against budgeted provisions, non-observance of financial discipline in cash management, operational controls were deficient, shortfall in carrying out statutory audits and inspections of co-operative institutions. Administrative controls were slack leading to dislocation in functioning of the Cooperative Tribunal due to frequent vacancy in the post of member judge, irregularities in respect of staff sent on foreign service, lack of quality inspection of subordinate offices and tardy finalisation of vigilance cases. The internal audit of the department was ineffective.*

- ◆ **During the period 2003-06, persistent savings were seen ranging from 26 to 44 per cent in plan expenditure against budget provisions due to preparation of unrealistic budget estimates.**

**(Paragraph 5.1.2.1)**

- ◆ **Due to lack of adequate supervisory officers with marketing background and non-assignment of statutory obligations to the Agricultural Marketing Directorate created in 1996, the functioning of the Directorate was ineffective. Consequently, 25 out of 43 'Krusak bazars' established in 2001-02 at a cost of Rs 2.93 crore remained inoperative as of July 2006.**

**(Paragraph 5.1.4.1)**

- ◆ **During 2003-06, the post of Member Judge in the cooperative tribunal was vacant for 14 months in different spells leading to pendency of 33 to 50 per cent of dispute cases.**

**(Paragraph 5.1.4.2)**

- ◆ **The shortfall in inspections of co-operative institutions was 40 per cent. Besides, there was annual shortfall in conducting audit of co-operative institutions ranging from 4830 to 6884 units during 2003-06.**

**(Paragraphs 5.1.3.2 and 5.1.3.3)**

\* Abbreviations used in this Chapter have been expanded in the Glossary of abbreviations at pages 228-234.

◆ **Internal Audit was ineffective as the system in place failed to cover 87 to 93 per cent of the units during 2003-06. Out of 24 units audited during 2003-06, only nine audit reports (40 per cent) were issued.**

**(Paragraph 5.1.6)**

#### **5.1.1.1 Introduction**

Internal Control Mechanism in an organisation is meant to ensure that its operations were carried out by adherence to laws, regulations and management directives so that day to day business is run in orderly and efficient manner and organisation's objectives are achieved. The objective of the Co-operation Department is to strengthen the co-operative movement in the State in the fields of agricultural credit, marketing, processing and cold storage, consumer protection and housing to uplift the status of the community in general and the weaker sections in particular as envisaged in the Orissa Co-operative Society (OCS) Act 1962. There were 10459 cooperative societies under the department for coverage of above activities of which nine<sup>1</sup> were apex societies. Under the credit sector, the Orissa State Co-operative Bank (OSCB) being an apex society was dealing with advancing short term agricultural credits through 17 District Central Cooperative Banks (DCCBs) and 2726 Primary Agricultural Credit Societies (PACS).

#### **5.1.1.2 Organisational set up**

The department is headed by the Principal Secretary and has four Directorates. The Cooperative Directorate headed by the Registrar of Cooperative Societies (RCS) is assisted by a Deputy RCS (DRCS) at the Divisional level in the 13 divisions and by 47 Assistant RCS (ARCS) at the circle level. The Cooperative Audit Directorate is headed by the Auditor General of Cooperative Societies (AGCS) with 16 Audit Circles each headed by an Assistant AGCS. The Directorate of Agricultural Marketing (DAM) is headed by the Director of Agricultural Markets with six Marketing Regions each headed by a Regional Marketing Officer (RMO). The department has also a Cooperative Tribunal with the status of a Directorate. Besides, it has under its administrative control, one public sector undertaking i.e., Orissa State Warehousing Corporation (OSWC) constituted by a Central Act and a single statutory Board namely "Orissa State Agricultural Marketing Board" (OSAMB) constituted under the Orissa Agricultural Produce Markets Act 1956.

#### **5.1.1.3 Audit objectives**

The audit objective was to assess the working of the internal control system in respect of the following:

- Budgetary and expenditure controls;

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<sup>1</sup> (i) Orissa State Co-operative Union (OSCU), (ii) Orissa State Co-operative Bank (OSCB), (iii) Orissa State Co-operative Agriculture and Rural Development Bank (OSCARD), (iv) Orissa Federation of Urban Co-operative Banks and Credit Co-operative Societies, (v) Orissa State Co-operative Marketing Federation (Markfed), (vi) Orissa Consumer Co-operative Federation (OCCF), (vii) Orissa Co-operative Housing Corporation (OCHC), (viii) Cotton Growers Co-operative Marketing Federation (Cotfed) and (ix) Orissa State Federation of Labour and Construction Co-operative Ltd.

- Operational controls;
- Administrative and monitoring controls;
- System of Internal Audit.

#### 5.1.1.4 Audit coverage

The records of the offices of the Principal Secretary and the four directorates, two satellite organisations (OSAMB and OSWC), two apex bodies (OSCB and OSCU) and twelve field offices<sup>2</sup> were test checked in audit during April to June 2006 covering the period 2003-06.

### Audit Findings

#### 5.1.2 Budgetary and expenditure control

The Orissa Budget Manual (OBM) requires the administrative departments to prepare budget estimates based on inputs from lower formations, incur expenditure within the budgeted provisions, avoid rush of expenditure towards the end of the financial year and surrender anticipated savings in time. The review of budgetary and expenditure controls of the department showed instances of persistent savings, belated surrenders, accumulation of balances in the civil deposit and rush of expenditure as discussed in the succeeding paragraphs.

##### 5.1.2.1 Persistent savings under plan budget

Budget Provision, expenditure incurred and savings/surrenders made by the department during 2003-06 were as under:

Year	Provision		Expenditure		Savings and surrenders	
	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-plan
2003-04	45.11	192.88 <sup>*</sup>	30.03	191.54	15.08 (33)	1.34
2004-05	28.81	33.59	16.25	32.39	12.56 (44)	1.20
2005-06	27.53	34.17	17.53	33.29	10.00 (26)	0.88
<b>Total:</b>	<b>101.45</b>	<b>260.64</b>	<b>63.81</b>	<b>257.22</b>	<b>37.64 (37)</b>	<b>3.42</b>

Note: Figures in the parenthesis represent percentage.

\* Includes Loan from Calamity Relief Fund (Rs 16 crore) and from Orissa Contingency Fund (Rs 95 crore) for indemnity of crop insurance.

It could be seen from the table that there was savings ranging from 26 to 44 per cent during 2003-06. Analysis of the savings revealed that provision of Rs 27 crore at the rate of rupees nine crore every year was made under the Centrally Sponsored Plan scheme 'Macro Management of Agriculture' in the above three years against which the department spent only about to eight crore. While the Government's Annual Action Plans submitted to the GOI for three year period required only Rs 10.20 crore. This indicated that the department failed to synchronise the budget provisions with its Annual Action Plans. Besides, there were savings in the State Plan (Rs 4.44 crore in 2004-05 and Rs 1.07 crore in 2005-06) meant for share capital to co-operative credit institutions, assistance to agricultural credit stabilisation fund and

**During 2003-06, persistent savings in plan expenditure against budget provisions ranged from 26 to 44 per cent due to preparation of unrealistic budget estimates**

<sup>2</sup> (i) Three DRCS: Balasore, Puri and Cuttack; (ii) six ARCS: Balasore, Bhadrak, Puri, Khurda, Cuttack and Cuttack City Circle; (iii) three AAGCS: Balasore, Puri and Cuttack-I.

Co-operative central banks etc. due to non-release of funds by the department. Thus, the department at the apex level failed to scrutinise the budget proposals keeping in view the actual requirement.

#### ***5.1.2.2 Belated surrender of funds***

Orissa Budget Manual (OBM) provides that all anticipated savings should be surrendered immediately after they are foreseen and latest by 10<sup>th</sup> March of the financial year. It was, however, noticed that the Department in all the above three years surrendered savings on the last working day of the respective financial years. Thus, the financial discipline sought to be exercised in accordance with the provisions of the OBM was ignored by the controlling officer of the department.

#### ***5.1.2.3 Irregular parking of funds in Civil Deposit to avoid lapse of budget provision***

The OBM and the Orissa Treasury Code prohibit drawal from treasury unless it was required for immediate requirement. It was noticed that the department accumulated Rs 6.55 crore under 8443-Civil Deposit-800-Other Deposits as of March 2006 which were drawn out of the budget provisions in earlier years (1991-98) to avoid lapse of provisions. These drawals in the respective years were for investing as share capital and payment of managerial subsidy in weak co-operative credit institutions. All such withdrawals had the approval of the controlling officer of the department. Such accumulation of funds in the civil deposit without incurring expenditure during the year of their drawals for the intended purposes led to erosion of legislative control over the expenditure.

#### ***5.1.2.4 Rush of expenditure***

According to the OBM rush of expenditure in the closing months was regarded as breach of financial regularity. It was, however, seen that the department incurred 31 to 86 *per cent* of the annual plan expenditure during the month of March in all the years during 2003-06. Such hasty spending during the last month of the year was likely to be imprudent besides being breach of financial regularity.

#### ***5.1.2.5 Non-adherence to rules governing advances to Government servants***

The employees availing House Building Advance (HBA) are required to submit sale deeds failing which they are liable to refund the entire amount with penal interest within two months of receiving advance. Scrutiny of register of sanctions of HBA in the department and three directorates<sup>3</sup> revealed that the first of the two instalments of HBA in 19 cases involving payment of Rs 20.89 lakh was released in two to six spells to each of the Government servant. Although five to 38 months elapsed since the payment of the first instalment, neither the Government servants submitted the sale deeds in support of acquisition of land etc. nor the DDOs had insisted their submission. Similarly, in respect of advances given for purchase of motor cycle/moped, the

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<sup>3</sup> RCS, Co-operative Tribunal, Director of Agricultural Marketing (DAM).

government servants were required to submit the money receipts for purchases and mortgage deeds etc. In the event of failure of the Government servant to do so, the amount was to be recovered together with penal interest. The department and four Directorates paid advances of Rs 13.84 lakh for purchase of motor cycle/moped etc during 2003-06 to sixty employees who did not submit the required documents. The Registrar of Co-operative Societies issued (May 2006) notices to the defaulting employees after the omissions were pointed out by audit. In the absence of purchase deeds, the proper utilisation of advances was doubtful and the advances remained unsecured.

#### ***5.1.2.6 Failure of Internal Control in cash management***

The Orissa Treasury Code (OTC) and the Orissa General Financial Rules (OGFR) provide internal control measures in cash management, which were ignored by the drawing and disbursing officers (DDOs) of the seventeen offices test checked as detailed below:

- ◆ Five<sup>4</sup> DDOs did not attest each entry in the cash book in token of check.
- ◆ In one<sup>5</sup> satellite organisation closing balances of the cash book at the end of each day's transaction were not authenticated by the DDO since July 2002.
- ◆ In twelve offices<sup>6</sup>, the DDOs did not verify the totals in the cash book nor got them verified through any other responsible officer.
- ◆ Physical verification of cash at the end of each month was not done by the heads of the offices in fourteen offices<sup>7</sup> including two satellite organisations test checked in audit.
- ◆ Surprise check of cash is required to be conducted by an authority not responsible for maintenance of cash book. Also, a certificate to the effect that the cash balance found during physical verification agreed with the balances is required to be recorded in the cash book. It was, however, observed that in all the test checked offices (17 numbers), monthly surprise verification of cash was not conducted during 2003-06 except on the occasions when inspection was conducted by higher authorities.
- ◆ Analysis of monthly closing balance in the cash book was not done in eight offices<sup>8</sup>.
- ◆ In seven offices<sup>9</sup>, the bill registers were not reviewed by the DDOs regularly during the period covered under review, though such reviews can detect fraudulent drawal of funds.

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<sup>4</sup> Cooperation Department; AGCS, Bhubaneswar; DAM, Bhubaneswar; Cooperative Tribunal, Bhubaneswar; DRCS, Cuttack.

<sup>5</sup> OSAM Board, Bhubaneswar.

<sup>6</sup> Cooperation Department; RCS; AGCS; DAM; DRCS, Balasore, Cuttack, Puri; ARCS, Balasore, Bhadrak, Puri, Cuttack; AAGCS, Puri.

<sup>7</sup> Cooperation Department; RCS; AGCS; DAM; Cooperative Tribunal; DRCS, Balasore, Puri, Cuttack; AAGCS, Puri; ARCS, Bhadrak, Puri, Cuttack, Cuttack city.

<sup>8</sup> RCS; AGCS; DAM; Cooperative Tribunal; DRCS, Cuttack; ARCS, Balasore, Bhadrak, Puri.

<sup>9</sup> Cooperation Department; RCS; DAM; Cooperative Tribunal; DRCS, Puri, Balasore; ARCS, Puri.

- ◆ Requisite security deposit/bond was not furnished by the cashier in fifteen offices<sup>10</sup> including two satellite organisations.
- ◆ In ten offices<sup>11</sup>, there was no reconciliation between the bank balances in the cash books and the balances in bank accounts.
- ◆ As per rules, advances given to government servants for various official purposes, should be adjusted within the month of payment. In the Department though the amount (Rs 4949) of advance was small, it has been carried forward since 1998-99. In the RCS directorate an amount of Rs 1.62 lakh is outstanding as advance against 19 employees. In the OSAM Board, no advance register is maintained although Rs 11.61 lakh was outstanding against the staff as of March 2006. Lack of proper monitoring and prompt settlement of advances increases the risk of misappropriation.
- ◆ All Government receipts are required to be credited to Government account within three working days. Three offices<sup>12</sup> violated the rule by not depositing the receipt within the prescribed period. The ARCS, Puri kept Rs 45983 without crediting the same to Government account since December 2004.
- ◆ As per rule, liquid cash exceeding Rs 5000 should not be kept in the cash chest as a measure of safety against theft, misappropriation or misutilisation of Government money. In violation of the above orders, the RCS Directorate retained cash balances of Rs 1.5 lakh and above in cash chest on all the days during 2003-06.
- ◆ Though the rules prohibit incurring of expenditure in excess of the allotted funds, four offices<sup>13</sup> incurred expenditure by raising loans/advances from other cooperative institutions.
- ◆ The DDO of the department met expenditure on POL and telephone charges (Rs 7.47 lakh) by taking temporary advances from different cooperative institutions due to want of allotment of funds and the amount was not routed through the books of the DDO.
- ◆ The RCS has been following a practice of advancing moneys from available cash to the drivers and assistants of the Directorate to meet the cost of POL and of telephone bills for adjustment on receipt of allotment. As on 31 March 2006, such advances of Rs 83232 was outstanding against 13 employees. Of them, eight employees were already transferred from the department, two are retired and three have expired.

Thus, there was general departure from observance of rules and procedures relating to cash management in the department.

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<sup>10</sup> Cooperation Department; RCS; DAM; Cooperative Tribunal; DRCS, Cuttack, Puri; AAGCS, Balasore, Puri, Cuttack; ARCS, Balasore, Puri, Khurda, Cuttack and Cuttack city.

<sup>11</sup> RCS, AGCS, DAM, Cooperative Tribunal, AAGCS, Balasore, Puri, Cuttack; ARCS, Bhadrak, Puri, Cuttack city.

<sup>12</sup> Cooperation Department; Cooperative Tribunal; ARCS, Puri.

<sup>13</sup> Cooperation Department; RCS; DRCS, Cuttack; ARCS, Cuttack.

### 5.1.2.7 Controls in stores management

The OGFR prescribed the procedure for procurement, storage and disposal of stores. During the review of test checked offices, the following deficiencies in stores management were noticed.

- Two<sup>14</sup> out of seventeen offices did not carry out annual verification of stores during 2003-06.
- None of the store keepers of the test checked offices (21 numbers) furnished any security deposit or bond though required under the rules. In the absence of such bonds or securities, recovery against losses due to pilferage etc. could not be ensured.
- The department did not maintain any 'dead stock register'. While issuing the stores and stock, proper acknowledgements were not obtained from the persons to whom the stores were issued. Non-maintenance/improper maintenance of stock records might lead to misappropriation.

### 5.1.3 Operational Controls

The department has the mandate to discharge various statutory responsibilities under the Orissa Cooperative Societies Act, 1962 and other allied Acts covering audit and inspection of the cooperative institutions in the State. In the credit sector, the department was to facilitate financing seasonal agricultural operations through the cooperative banks etc. Deficiencies noticed in the operational controls are discussed below.

#### 5.1.3.1 Shortfall in recovery of surcharge cases

Under the provisions of the Orissa Co-operative Societies Act, 1962, the Auditor General was to initiate surcharge action on a person if found guilty during the course of any audit, enquiry, inspection causing any deficiency in the assets of a society by breach of trust, willful negligence, misappropriation, fraud, unauthorised retention of any money or other property belonging to the society etc. After giving the person concerned a reasonable opportunity of being heard, the Auditor General may make an order, requiring the person to pay or restore the money or property, with interest at such rates as he may consider just and equitable. If the order is not carried out, the RCS is to execute the same as a decree of a civil court or enforce recovery as arrears of land revenue. Scrutiny of records of the AGCS revealed that 6846 out of 10870 number of surcharge cases relating to 1999-2006 were finalised (February 2006) ordering recovery of Rs 35.85 crore out of which only Rs 14.25 crore were recovered as of May 2006. However, action to recover the remaining Rs 21.60 crore through enforcement or by certificate action as arrears of land revenue was not initiated by the RCS (July 2006).

Thus, the statutory provisions in regard to enforcement of recovery were not adhered to.

**Surcharge cases involving Rs 21.60 crore were not enforced by the RCS nor certificate cases initiated for realisation as arrears of land revenue**

<sup>14</sup> Cooperation Department and AGCS.

**5.1.3.2 Arrears in auditing of accounts of the co-operative societies**

The Auditor General, Co-operative Societies (AGCS) functioning as a directorate is entrusted with the statutory responsibility of auditing accounts of all the OSCBs, DCCBs, Urban Co-operative Banks and co-operative societies functioning under the department at least once in each cooperative year under Section 62 of Orissa Co-operative Societies Act 1962. Besides, the Orissa Co-operative Societies Rules envisaged that the statement of accounts of the cooperative societies were to be prepared by the auditor in the form prescribed by the AGCS. The year-wise number of units, which could not be audited during the period from 2003-06 were as under:

Year	Total number of units required to audit	Number of units not audited	Percentage of shortfall of audit
2003-04	18046	6884	38
2004-05	17386	5603	32
2005-06	17036	4830	28

**Due to vacancy in different posts, the AGCS failed to cover statutory audit of 28 to 38 per cent of cooperative institutions during 2003-06**

The percentage of shortfall in auditing the units during 2003-06 was 28 to 38 *per cent*. The reasons for shortfall as stated by the Directorate were non-availability of records for certain periods and non-maintenance of accounts by the co-operative societies, vacancy in the posts (103 out of 786) of auditors, vacancy in the post of AGCS (managed temporarily by the Managing Director, OSCB), Joint AGCS and Assistant AGCS, non availability of vehicle in the Directorate for supervision work, restrictions on traveling allowances of auditors and Assistant AGCS.

**5.1.3.3 Shortfall in statutory inspection of co-operative societies**

Section 64(i) of Orissa Co-operative Society Act, 1962 required that every society shall be inspected by the RCS or any person authorised by him on his behalf at least once in every co-operative year and the report thereof communicated to the society, its financing bank and the AGCS within one month. The inspection among others was to cover critical analysis on the constitution, financial and human resource management, resource mobilisation and their utilisation, recovery of dues, management of non-performing assets, follow up action on audit and inspection reports etc. It was seen that against the mandatory provision of one hundred *per cent* inspection of all the co-operative societies within the jurisdiction of RCS during a year, the coverage of inspection for 2003-04 and 2004-05 was 59 and 60 *per cent* respectively. Report for the year 2005-06 was awaited (June 2006). The RCS attributed the shortfall to non-adherence to the inspection programme at the field level. He also observed in his review notes that as a result, large number of societies remained without inspection for years together which ultimately gave enough scope to the societies for committing several irregularities leading to mismanagement, malpractice, erosion of funds by way of omission, commission and misappropriation. Further, he observed that most of the inspection reports did not contain the required critical analysis and suggestion for remedial measures. Such shortfall and lack of quality in inspection at various levels affected the functional efficiency and implementation of various schemes and activities as below.

**There was shortfall in conducting statutory inspection of cooperative societies by the RCS ranging from 40 to 41 per cent during 2003-05**



- ◆ There was sharp decline in the number of cooperative societies functioning under the department. Out of 10459 societies, 5104 are in liquidation process and 839 are in moribund condition. During 2003-06, co-operative societies numbering 1463 were liquidated in which Government fund in the form of share capital and loan of Rs 4.08 crore remained unrecovered.
- ◆ The Orissa State Co-operative Agriculture and Rural Development bank with 50 branches at the Sub-Divisional level established for advancing long term credit to the members of the PACS were functioning without any activity as the recovery of loans advanced became zero during 2003-06. Consequently, there was no flow of funds from NABARD since August 2003.
- ◆ Orissa State Federation of Labour and Construction Co-operative Limited, an apex co-operative formed in 1996 for undertaking labour contract, construction and engineering activities of the department and others had become sick and the department is unaware of further development since 2001.

#### 5.1.4 Administrative and monitoring Control

##### 5.1.4.1 Irregular creation of a separate Agricultural Marketing Directorate

According to a resolution (June 1994) of the department, a separate Agricultural Marketing directorate was created (November 1996) for improvement in purchase and sale of notified agricultural produces of the State in the best interest of the producers and consumers for which the GOI assured financial assistance in running the directorate and its field offices through a letter. However, the above letter was alleged to have not been issued by the GOI and accordingly, in 2002 the Chief Minister ordered for a vigilance inquiry. The fact of non-issue of such a letter was also confirmed by the GOI to Audit (August 2006). As of March 2006, the recurring and non-recurring expenditure incurred on the directorate was Rs 1.98 crore since its operation. However, the department did not take any follow up action on the orders of the Chief Minister to conduct the enquiry (July 2006).

The Directorate was to implement the market regulation scheme as envisaged under the Orissa Agricultural Produce Market Act, 1956. As per a status paper submitted (May 2005) by the director-in-charge to the department, the directorate does not have a full time director since September 1997 and was under the additional charge of other officials. These officials were preoccupied with multifarious cooperative work relating to their own offices. As such, they had very little time to look after the functions of this directorate affecting the monitoring and market development schemes in the State. The functioning of the directorate was not effective for want of adequate supervisory staff and the existing staff lacked sufficient marketing knowledge to supervise and coordinate the work of the subordinate officers both at the headquarters and field levels. At the field level, five out of six Regional Marketing Offices were under additional charge of local ARCS who do not have marketing background. Besides, the director has not been assigned with

**Lack of adequate supervisory officers with marketing background, the functioning of Agricultural Marketing Directorate was ineffective**

**25 'Krushak bazars' established during 2001-02 at a cost of Rs 2.93 crore remained inoperative as the Government did not take remedial measures for efficient functioning of the Agricultural Marketing Directorate**

any statutory powers for supervision and control of regulated market committees, which were the implementing agencies of different schemes at the grass root level. Rather, such statutory obligations were assigned to the OSAMB. Consequently, in 25 out of 43 places where 'Krushak bazars' were established during 2001-02 at a cost of Rs 2.93 crore, remained inoperative. The Government was yet to address the above deficiencies for efficient functioning of the Directorate (July 2006).

***5.1.4.2 Serious dislocation in the functioning of the Co-operative Tribunal due to absence of member judge***

**During 2003-06, the post of Member Judge in the cooperative tribunal was vacant for 14 months in different spells leading to pendency of 33 to 50 per cent of dispute cases**

The Co-operative Tribunal under the Department was having a member from Orissa Superior Judicial Services (senior branch). During 2003-06, the member post remained vacant for 14 months in four different spells<sup>15</sup> due to retirement of the members and time taken for filling the vacant post. As such disposal of cases during the aforesaid period ranged from 50 to 67 per cent<sup>16</sup> of the total number of cases pending for disposal in a year. Out of 1226 cases registered during 2003-06 and 544 cases pending prior to that, only 1222 cases were disposed of leaving a balance 548 cases (July 2006) of which 88 cases related to the period 1997-2003. Vacancy in the posts of the judicial member for such longer spells affected the disposal of the dispute cases and the purpose of setting an independent tribunal for speedy disposal of cases remained unfulfilled. Besides, the staff deployed in the tribunal were left without work during the vacancy of the member post leading to incurring idle expenditure on their salaries etc. The department has never initiated any action to overcome such intermittent dislocation in the functioning of the tribunal.

***5.1.4.3 Non-recovery of leave salary and pension contribution in respect of staff sent on foreign service***

As per the provisions of Orissa Service Code, Government servants when sent on foreign service, leave salary and pension contribution is recoverable from the borrowing organisation. As stipulated by the Government, the lending department is to issue sanction orders regulating the terms and conditions of foreign service before the personnel are relieved for joining the foreign body. The terms and conditions among others are to contain the provisional rate of the contributions payable by the foreign employer within 15 days of the succeeding month in which the government officials are relieved subject to confirmation of the rate by Accountant General (A & E) later.

**Staff were being sent on foreign service without sanction orders containing terms and conditions of foreign service**

Audit scrutiny revealed that as of July 2006, 143 employees of the RCS (88) and the AGCS (55) were on foreign service to the apex cooperative societies and cooperative banks etc. It was noticed that the departmental authorities

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<sup>15</sup> (i) 1 April 2003 to 14 July 2003, (ii) 5 July 2004 to 22 December 2004, (iii) 1 July 2005 to 29 September 2005 and (iv) 1 March 2006 to 24 July 2006 (continuing).

<sup>16</sup> 60 per cent in 2003-04, 67 per cent in 2004-05 and 51 per cent in 2005-06.

have been flouting the above instructions of the Government as below:

- ◆ Officers were sent on foreign service without receipt of any proposal for the same from the foreign employer and sanction orders containing terms and conditions of foreign service were not issued before sending the officers on foreign service in all the above cases.
- ◆ In five cases, sanction orders were not issued even after expiry of four to thirty-six months from the dates of their reversion to parent department.

As per a review made (January 2006) by the RCS, recovery of Rs 2.16 crore towards leave salary and pension contribution from different borrowing organisations were in arrears. Besides, penal interest at prescribed rate was also leviable on the defaulting foreign employers.

This indicated laxity in the administrative control of the department leading to violation of service rules.

#### **5.1.4.4 Non-recovery of Guarantee Commission**

In course of its normal functioning, the department stands guarantee for co-operatives in obtaining loan from banks and in return the department charge guarantee commission from the loanees at the prescribed nominal rates depending on the type of institution. The commission is recovered on the maximum amount of guarantee sanctioned irrespective of the amount availed or outstanding on 1<sup>st</sup> April each year till liquidation of loan. It was seen in audit that guarantee commission of Rs 49.49 lakh in respect of 21 institutions of the department for which Government stood guarantee for Rs 310.17 crore was outstanding as of 31 December 2005. The department had not taken timely action to recover the outstanding guarantee commission. This indicated weak administrative control in monitoring recovery of the guarantee commission.

#### **5.1.4.5 Monitoring of loan recovery**

On the recommendation<sup>17</sup> of the Public Accounts Committee (PAC), the Finance Department issued (August 1997) guidelines to all the departments of the Government to take action for recovery of loan and interest by way of issue of demand notices. In case of default, suitable legal action should be initiated immediately. Scrutiny of the loan ledger maintained by the department revealed that an amount of Rs 45.44 crore<sup>18</sup> was sanctioned and paid to different cooperative organisations during 1997-2005. Out of the Rs 32.68 crore recoverable as of 31 March 2006, only Rs 25.28 crore (77 per cent) was recovered (March, 2006). Besides, out of interest dues of Rs 18.58 crore as of 31 March 2006, Rs 9.29 crore (50 per cent) was not realised. In 32 cases involving loan of Rs 13.88 crore, not a single instalment of principal amount was realised which included three<sup>19</sup> cases involving loan of Rs 6.36

<sup>17</sup> 11<sup>th</sup> report (9<sup>th</sup> Assembly).

<sup>18</sup> 1997-98: Rs 7.33 crore, 1998-99: Rs 5.14 crore, 1999-2000: Rs 1.87 crore, 2000-01: Rs 3.73 crore, 2001-02: Rs 14.22 crore, 2002-03: Rs 2.87 crore, 2003-04: Rs 9.43 crore, 2004-05: Rs 0.85 crore.

<sup>19</sup> (i) OSCARD bank: Rs 1.43 crore (repayable between March 2002 and March 2006), (ii) Nayagarh Co-operative Sugar Industries: Rs 1.36 crore (repayable between March 2002 and March 2006), (iii) Baragarh Co-operative Sugar Industries: Rs 3.57 crore (repayable between March 2002 and March 2006).

**The department has not taken timely action to recover outstanding guarantee commission of Rs 49.49 lakh from 21 institutions**

crore where the period of repayment of loan was already expired (July 2006). However, no legal action was initiated on the defaulters (June 2006) by the department. Further, the required information on loans sanctioned prior to 1997-98 by the RCS were not reflected in the loan register. As such, the loan recovery mechanism and internal control system intended to be instituted by the PAC/Government remained non-functional.

#### ***5.1.4.6 Annual inspections of subordinate offices***

The RCS allots annual inspections of the 60 subordinate offices to the Senior officers of his office with the instructions that the activities of the subordinate office relating to a year be completed by the end of the subsequent year. The review report of the RCS on the position of inspection of sub-ordinate offices for the year 2004-05 conducted during 2005-06 revealed that only 41 out of 60 offices allotted to 11 officers were inspected. As observed by the RCS, the inspection reports did not disclose clear position on the different activities of the subordinate offices. However, no improvement was achieved on the shortfall in inspection (June 2006). Due to lack of quality in inspection, the top executives of the department could not keep themselves abreast of the strengths and weakness of the field offices.

Besides, as per instructions of the RCS to the field formation, all the heads of offices were required to conduct half yearly inspection of their own offices. The position of total number of offices where half yearly inspection was not conducted during 2003-06 was not available with the RCS. However, four<sup>20</sup> out of nine test checked DRCS and ARCS offices functioning under the RCS defaulted in conducting their half yearly inspection from one to five occasions during 2003-06. As observed by the RCS, the half yearly inspection reports received from different subordinate offices were completely perfunctory and stereo type.

### **5.1.5 Vigilance Control**

#### ***5.1.5.1 Inaction in finalisation of vigilance cases***

The Cooperation Department does not have vigilance cell for disposal of complaints alleging misappropriation of Government funds and other irregularities like fraud, embezzlement etc. However, the vigilance wing of General Administration Department conducted vigilance raids and forwarded findings to the department for follow up action.

Scrutiny of records revealed that 51 cases were listed during 1987-88 to 2005-06 covering 13 cases of misappropriation, 12 cases of bribery and 26 cases of falsification and other irregularities. Of these, 25 cases were finalised

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<sup>20</sup> (i) ARCS, Puri: July-December 2005, (ii) ARCS, Khurda : July-December 2005, (iii) ARCS, Balasore July 2004 to December 2005 and DRCS, Cuttack: January 2003 to December 2005.

(June 2006). The status of the remaining 26 cases was as under.

1.	Enquiry Officers had not furnished Inquiry Reports	15 cases	1991-2004
2.	Enquiry Officers furnished Inquiry Reports but disciplinary proceedings not finalised.	3 cases	1995-2005
3.	Enquiry Officers furnished Inquiry Reports, disciplinary proceedings finalised but action not yet taken	1 case	1998-1999
4.	Subjudice in the Vigilance court	7 cases	1995-2005

It would be seen from the above that the enquiry officers did not furnish inquiry reports even after 3-15 years of their appointment. Finalisation of disciplinary proceedings after receipt of inquiry report had been delayed for 7-10 years. In respect of one ex-Director of Orissa Co-operative Consumer Federation on the charges of misappropriation of society fund of Rs 1.17 crore, no action had been taken since 1998-99 after finalisation of disciplinary proceedings. Delay in settlement of these cases facilitated the delinquent to escape unscathed.

### 5.1.6 Functioning of Internal Audit

Internal audit in effect is the control of all controls. It is to examine and evaluate the level of compliance to the departmental rules and procedures and statutory provisions so as to provide independent assurance to the senior management on the adequacy of the internal control frame work in the department. Internal audit in the department was, however, quite inadequate as there were arrears in coverage of units upto 93 *per cent* as detailed below:

Year	Number of units planned for audit	Number of units audited	Arrears	Percentage of arrears to total number of units
2003-04	86	6	80	93
2004-05	86	11	75	87
2005-06	86	7	79	92
<b>Total</b>	<b>258</b>	<b>24</b>	<b>234</b>	<b>91</b>

**Internal Audit was ineffective as the system in place failed to cover 87 to 93 *per cent* of the units during 2003-06**

Against the permissible time of 2-3 days, there was unusual delay ranging from one to seven months for submission of audit reports by the auditors to the department. It was also revealed that the department took one to seventeen months for issue of the said audit reports to the audited units from the date of their receipt from the auditors. Thus, issue of audit reports to the audited units ranged from two to 17 months. Out of the 24 units audited during 2003-06, only nine audit reports (40 *per cent*) were issued (May 2006). While audited units were required to furnish compliance within two months from the dates of receipt of audit reports, seven units did not furnish any compliance for over six to thirty months. Only partial compliance from two units was received. Objection Register for watching the total number of audit observations relating to the nine internal audit reports alongwith their money value was not maintained. During internal audit, supervision by the Audit officer was completely absent. The audit personnel were not imparted training to improve their skill in the concerned field.

In reply, the Joint Secretary of the department stated (July 2006) that audit of all the units for all the years could not be conducted due to shortage of manpower in the internal audit wing.

#### **5.1.7 Response to Audit**

The Principal Accountant General (Civil Audit), Orissa conducts statutory audit of the Department, Directorates and its subordinate offices. The major irregularities are reported through Inspection Reports (IRs). A half yearly report on the pending inspection reports is also sent to the Principal Secretary of the department to facilitate monitoring and compliance of audit observations. As of June 2006, paragraphs numbering 260 in 103 IRs issued upto March 2006 was pending for settlement. Out of these, 50 paragraphs in 28 IRs were outstanding for more than ten years.

#### **5.1.8 Conclusion**

The budgetary and expenditure controls were not adhered to, as there were persistent savings against budgeted provisions and non-observance of financial discipline in cash management. Operational controls were deficient due to shortfall in carrying out statutory audits and inspections of co-operative institutions and tardy follow up on realisation of dues relating to surcharge cases. Administrative control was weak, as there was dislocation in functioning of the Cooperative Tribunal due to frequent vacancies in the post of member judge. Besides, irregularities in respect of staff sent on foreign service, lack of quality inspection of subordinate offices were the other areas of slack administrative controls. Vigilance cases were not timely pursued. Internal audit was ineffective as it failed to bring out lapses in ICM of the subordinate offices to the notice of the senior management.

#### **5.1.9 Recommendations**

- Strict adherence to the provisions of the financial rules and procedures should be ensured to avoid unnecessary budget provision and delayed surrender.
- Codal provisions for routing all monetary transaction through cash book should be strictly followed as required under the treasury rules.
- While sanctioning the House Building, Motor Cycle Advances etc. the rules regulating those advances should be strictly adhered to ensure proper utilisation of the same by employees.
- Finalisation of terms and conditions of foreign service should precede the deputation of the government servants to the foreign bodies as envisaged in the Service Code.
- Vacancies in the posts of audit staff under the AGCS Directorate should be filled up to enable him to discharge the required statutory responsibility of auditing the accounts of cooperative institutions.

- Internal Audit wing should be strengthened and planning for coverage of units should be made on the basis of risk indicators corroborated by risk analysis so that all the units are covered in a cycle of one to three years. The periodicity of audit should be based on the expenditure and size of the unit

The Principal Secretary of the Department assured (September 2006) during discussion that suitable follow up action on the audit observations would be taken to rectify the deficiencies.

Bhubaneswar  
The

**(Sanat Kumar Mishra)**  
**Principal Accountant General (Civil Audit)**  
**Orissa**

Countersigned

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The

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**Comptroller and Auditor General of India**