

Chapter-V

Internal Control Mechanism in Government Departments

SCHOOL AND MASS EDUCATION AND PANCHAYATI RAJ DEPARTMENTS

5.1 Internal Control Mechanism in School and Mass Education Department and Panchayati Raj Department

Highlights

Internal Control Mechanism (ICM) in an organisation is meant to ensure that its operations are carried out according to the applicable laws and regulations and in an economical, efficient and effective manner. A built-in Internal Control System and strict adherence to Statutes, Codes and Manuals minimize the risk of errors and irregularities, and helps to protect resources against loss due to waste, abuse and mismanagement. Audit review of the functioning of the ICM during 2002-04 in School and Mass Education Department (SMED) and Panchayati Raj Department (PRD) revealed deficient budgetary and expenditure control, poor cash management, inadequate controls in store management and poor operational and supervisory controls in the departments.

- **Unnecessary supplementary provision of Rs.55.88 crore was obtained by the School and Mass Education Department in December 2002 when there were overall savings of Rs.140.64 crore at the end of March 2003 indicating deficient budgetary control by these departments.**

(Paragraph 5.1.4)

- **In violation of the Orissa Budget Manual, unnecessary provisions of Rs.7.63 crore made by SMED in 2002-03 and Rs.6.94 crore and Rs.2.21 crore made by SMED and PRD respectively in 2003-04 for vacant posts. The provisions were finally surrendered by the Departments.**

(Paragraph 5.1.5)

- **Expenditure controls in both the Departments were poor as evident from the rush of expenditure towards the end of the financial year. Three out of four Directorates of the School and Mass Education Department did not reconcile their expenditure figures of 2003-04 as of 30 June 2004.**

(Paragraphs 5.1.9 and 5.1.10)

- **The financial discipline in cash management were not observed by the Drawing and Disbursing Officers. The heads of the administrative departments and controlling officers had also failed to stem the rot.**

(Paragraph 5.1.12)

- **Due to non-adherence to rules governing advances, Rs.9.30 lakh under Motor Cycle Advance and Rs.14.44 lakh under House Building**

Advance in PRD remained unsecured and their proper utilisation was doubtful.

(Paragraph 5.1.13)

➤ **Supervisory controls were inadequate. Officers of various cadres of PRD including its autonomous organisations failed to carry out periodic inspections, which affected the functional efficiencies of various schemes and activities.**

(Paragraph 5.1.16)

➤ **Prescribed controls in stores management of both the departments, such as physical verification of stores, proper maintenance of stock registers and obtaining security from the storekeepers, were not adhered to.**

(Paragraph 5.1.17)

➤ **Failure of review, monitoring and evaluation mechanism indicated gross deficiencies in review of activities and evaluation of execution of the schemes at the highest level. While the General Body (GB) of Orissa Primary Education Programme Authority did not hold meeting since 1997, the GB of Orissa Rural Development and Marketing Society (ORMAS) had shortfall of four out of six such meetings during 2002.**

(Paragraph 5.1.18)

5.1.1 Introduction

Internal Control Mechanism (ICM) in an organisation is meant to ensure that its operations are carried out according to the applicable laws and regulations and in an economical, efficient and effective manner. The Government has a well-established internal control system where the overall financial control is exercised by the Finance Department and the control over specific functional activities is exercised by the respective departments themselves. A scheme of delegation of powers exists to enable the functionaries at different levels to carry out their assigned tasks and responsibilities while simultaneously ensuring adherence to the prescribed internal controls. While the Internal Control is an integral part of an organisation's operation it is the principal focus of the Internal Audit's attention.

5.1.2 Audit coverage

Audit reviewed the ICM of the School and Mass Education Department (SMED) and Panchayati Raj Department (PRD) covering a period of two years from 2002-03 to 2003-04.

The functioning of ICM was test checked in the offices of the Commissioner-cum-Secretary, four Directorates³⁵ at Bhubaneswar, two Circle Inspector of Schools² (CIS) and one District Inspector of Schools (DIS), Khurda in SMED.

³⁵ (i) DSE, (ii) DEE, (iii) DME, and (iv) DTESCERT.

² CIS, Bhadrak and Khurda

Similarly, six offices of PRD viz. the Commissioner-cum-Secretary, the Director State Institute of Rural Development (SIRD), Bhubaneswar, two District Panchayat Officers³ (DPOs) and two Block Development Officers⁴ (BDOs) out of 24 were test checked in audit.

Besides, six⁵ autonomous bodies/societies under the administrative control of SMED and three⁶ of the PRD were also covered in audit. These bodies/societies were required to follow Government rules and regulations by and large besides resolution passed in their governing body (ORMAS, DRDA and OPEPA) and Executive Committee (SRC).

5.1.3 Audit Objective

The audit objective was to ascertain the adequacy of various Internal Controls, in each of the two departments, such as

- Financial controls
- Administrative controls
- Operational controls
- Supervisory controls

Budgetary Controls

5.1.4 Provisions of budget manual ignored

The Orissa Budget Manual (OBM) envisaged effective adherence to budgetary controls, which among other things required the administrative departments to prepare budget estimates based on inputs from lower formations, spend within the budgeted amounts, avoid rush of expenditure towards the close of the year and surrender the anticipated savings in time. Supplementary provision for funds was to be asked only in case the original allotment would prove insufficient. This required regular monitoring of monthly expenditure incurred by the Drawing and Disbursing Officers (DDOs) of sub-ordinate offices by the Directorate and of the Directorate by the administrative department. The Finance Department also issued explicit orders imposing restrictions on filling up vacant posts and that budget provision for such vacant posts should not be made.

The actual expenditure *vis-a-vis* budget provisions of the two Departments during 2002-04 were as follows:

School and Mass Education Department

(Rupees in crore)

Sl. No.	Particulars	2002-03			2003-04		
		Revenue	Capital	Total	Revenue	Capital	Total
1.	Original Grant/	1662.66	3.00	1665.66	1631.56	52.03	1683.59

³ DPO, Cuttack and Khurda.

⁴ BDO, Khurda and Barang

⁵ Orissa Primary Education Programme Authority (OPEPA), Bhubaneswar, District Project Coordinator (DPC), Puri and Bhadrak, State Resource Centre (SRC), Bhubaneswar, Zilla Sakhyarata Samiti (ZSS), Puri and Bhadrak

⁶ Orissa Rural Development and Marketing Society (ORMAS), Bhubaneswar, District Rural Development Agencies (DRDAs), Khurda and Cuttack.

Sl. No.	Particulars	2002-03			2003-04		
		Revenue	Capital	Total	Revenue	Capital	Total
	Appropriation						
2.	Supplementary Grant/Appropriation	55.88	Nil	55.88	100.13	Nil	100.13
3.	Total Grant	1718.54	3.00	1721.54	1731.69	52.03	1783.72
4.	Actual Expenditure	1577.90	3.00	1580.90	1575.30	2.02	1577.32
5.	Savings (-)	(-) 140.64	-	(-) 140.64	(-)156.39	(-) 50.01	(-) 206.40
6.	Percentage of savings	8.18	-	8.17	9.03	96.12	11.57

Unnecessary supplementary provision of Rs.55.88 crore under Revenue Section

From the table, it was apparent that failure to adhere to the above provisions of the OBM as discussed in succeeding paragraphs resulted in unnecessary supplementary provision of Rs.55.88 crore obtained by the SMED in December 2002 in view of overall savings of Rs.140.64 crore under the revenue head. Similarly, the original grant of Rs.52.03 crore during 2003-04 proved to be far in excess of the requirement in view of the savings of Rs.50.01 crore under capital head. The savings were partly due to making provision for vacant posts in disregard of the orders of the Finance Department. Thus, the department did not follow the control measures prescribed for preparation of budget scrupulously. Similar state of affairs also prevailed in the Panchayati Raj Department.

Panchayati Raj Department

(Rupees in crore)

Sl. No	Particulars	2002-03			2003-04		
		Revenue	Capital	Total	Revenue	Capital	Total
1.	Original Grant/ Appropriation	348.30	14.55	362.85	753.64	16.30	769.94
2.	Supplementary Grant / Appropriation	133.19	-	133.19	259.47	-	259.47
3.	Total Grant	481.49	14.55	496.04	1013.11	16.30	1029.41
4.	Actual Expenditure	463.37	14.55	477.92	460.11	14.55	474.66
5.	Savings (-)	(-) 18.12	-	(-) 18.12	(-) 553.00	(-) 1.75	(-) 554.75
6.	Percentage of savings	3.76	-	3.65	54.58	10.74	53.89

Supplementary provision of Rs.259.47 crore under revenue during 2003-04 was wholly unnecessary

During 2003-04, the expenditure was less than 50 per cent of the provision including supplementary. The supplementary provision of Rs.259.47 crore under revenue head was wholly unnecessary.

5.1.5 Failure in scrutiny of budget proposals with regard to making provision for vacant posts

Controlling officers made provision of Rs.16.78 crore in the Budgets for 2002-03 and 2003-04 for vacant posts

In 2002-03, SMED made a provision of Rs.7.63 crore for vacant posts all of which was surrendered. Similarly, in 2003-04, the provisions of Rs.6.94 crore and Rs.2.21 crore made by SMED and PRD respectively for vacant posts were also surrendered. The fact that such unrealistic provisions were made by these departments and also accepted by the Finance Department (FD) reflected adversely on the quality of scrutiny of the budget proposals by the FD. Thus, the controlling officers of the above two departments as well as the FD failed to exercise the necessary controls as provided in the OBM.

5.1.6 Failure to surrender anticipated savings in time

Controlling Officers of both the departments failed to surrender Rs.120.52 crore in 2002-03 and Rs.668.04 crore in 2003 in time

The OBM provided for surrender of all anticipated savings to the Government latest by 10 March of the financial year. However, the two departments surrendered Rs.120.52 crore (SMED: Rs.108.11 crore and PRD: Rs.12.41 crore) in 2002-03 and Rs.668.04 crore (SMED: Rs.186.82 crore and PRD: Rs.481.22 crore) in 2003-04 on the last day of the respective financial years. Thus, the financial discipline sought to be imposed through the OBM was ignored by the controlling officers of these two administrative departments.

5.1.7 Irregular drawal of money by transfer credit to civil deposit head to avoid lapse of funds

Irregular crediting of Rs.91.42 lakh to PL accounts by the PRD only to avoid budgetary lapse

The Orissa Treasury Code restricted the drawal of monies from the treasury unless it was required for immediate disbursement. It was observed that during 2002-03, the Under Secretary, PRD drew (March 2003) Rs.36.42 lakh from the service major head 2015-Election and credited the amount to the civil deposit head to avoid lapse of the provisions under the service head. Similarly, the PRD sanctioned (15 March 2004) Rs.55 lakh meant for awards to Panchayati Raj institutions on the occasion of 'Panchayati Raj Day' after the scheduled day (5 March 2004) was over. On the basis of this sanction, the Project Director, DRDA, Khurda drew (March 2004) the amount and credited it to his Personal Ledger (PL) account where the amount continued to be parked without utilisation as of May 2004. These unnecessary drawals inflated the expenditure figures of the departments during the years 2002-04.

Rs.99.56 crore lying in Civil Deposit of both the departments without utilisation for a period ranging from one to 13 years

Further, as of March 2004, five⁷ offices of the SMED and two⁸ offices of the PRD had accumulated credits of Rs.82.54 crore and Rs.17.02 crore respectively under civil deposits head by drawing from the budget provisions of the respective service major heads in earlier years (1991-2004) to avoid lapse of funds. All such irregular withdrawals had the approval of the controlling officers of the grants i.e. the Commissioner-cum-Secretary to the Government and in seven cases, had the approval of even the Finance Department. This irregular practice resulted in erosion of legislative control over expenditure, as the drawals from civil deposits in the subsequent years neither required further legislative approval nor were the expenditures incurred subject to legislative authority through the appropriation mechanism. Thus, using the facility of transfer credit from the Consolidated Fund to the civil deposit head violated the basic budgeting discipline.

The irregular practice of transferring money from the Consolidated Fund to the civil deposit and expenditure met there from in the subsequent years eroded the legislative control over expenditure

The absence of specific provision in the Orissa Treasury Code (OTC), for closure of PL Accounts at the end of the year and writing back the unspent amounts to the concerned service major head of account from which the funds were originally deposited into the civil deposits, facilitated continuation of such indiscipline. Such provisions were, however, found in the Treasury Codes / Manuals of several States as well as the Union Government (Civil Accounts Manual).

⁷ DEE, Bhubaneswar (Rs.38.13 crore), DME, (Rs.3.52 crore), DTE (Rs.3.07 crore), SMED (Rs.2.36 crore) and DSE (Rs.35.46 crore).

⁸ PRD (Rs.1.97 crore) and PRD(GP)(Rs.15.05 crore)

5.1.8 Unauthorised appropriation of departmental receipts for expenditure

The cardinal principle of not appropriating the departmental receipts for expenditure was violated

As per the OTC, all Government receipts were required to be credited to Government account within three working days. In disregard of the above, the DPO, Khurda purchased (January 2003) a computer for Rs.0.76 lakh out of interest earned on Government money kept in the bank. Thus, the cardinal principle of not appropriating the departmental receipts for expenditure was violated by the DPO, Khurda.

Expenditure Controls

5.1.9 Non-reconciliation of figures

Three out of four Directorates of SMED did not reconcile their expenditure figures with the books of AG(A&E) for the whole of 2003-04

All controlling officers were required to reconcile their figures of actual expenditure with those in the books of the Accountant General (A&E). Three out of four Directorates of the School and Mass Education Department viz., DSE, DEE and DTE did not reconcile their expenditure figures for the whole of 2003-04 as of 30 June 2004. Such non-reconciliation was fraught with the risk of unauthorised and malafide expenditure by various subordinate spending authorities remaining unnoticed.

5.1.10 Failure in monitoring of progressive expenditure

Control mechanism for preventing rush of expenditure towards the end of the year in both the departments was lacking

Rush of expenditure in the month of March is highly prone to the risk of the Government not getting proper value for money as the expenditure is likely to take place without due diligence. Therefore, Rule 147 of the OBM required the controlling officers to avoid rush of expenditure in the closing months by keeping a close watch on the progressive expenditure of the DDOs and the Department as a whole on a month-to-month basis. However, it was seen that the PRD, had incurred 44 per cent and 34 per cent of its total expenditure in March alone in 2002-03 and 2003-04 respectively. Similarly, the expenditure for the SMED for the corresponding periods stood at 19 per cent and 16 per cent respectively. The FA of the PRD stated (July 2004) that on receipt of proposals from field officers, the administrative department after due scrutiny endorsed the files to FD for release of funds and after obtaining concurrence of the FD the funds were released to concerned DRDAs. Co-ordination of getting proposal from the Sub-ordinate officers and release of money in time was undeniably the responsibility of the controlling officer.

5.1.11 Non-adherence to rules of spending/expenditure control

Huge funds from one scheme to other were diverted in OPEPA during 2002-04

OPEPA resorted to temporary diversion of huge funds from one scheme to other during 2002-04 as indicated below:

Sl. No	Name of the scheme from which diverted	Year	Number of scheme(s) to which diverted	Amount (Rupees in lakh)
1	District Primary Education Programme (DPEP)	2002-03 2003-04	Five Three	1006.84 1100.00
2	Sarva Sikshya Abhiyan (SSA)	2002-03 2003-04	Two Two	1350.00 546.00
3	DPEP-II	2002-03 2003-04	One (DPEP) Three	300.00 1661.00
4	Education Guarantee Scheme and AIE	2002-03 2003-04	One (DPEP) One (SSA)	590.00 520.00

Sl. No	Name of the scheme from which diverted	Year	Number of scheme(s) to which diverted	Amount (Rupees in lakh)
TOTAL		2002-03		3246.84
		2003-04		3827.00

Records were not maintained to watch recoupment of such diversions in the absence of which the possibility of beneficiaries under one scheme getting deprived of the benefits under that scheme due to paucity of funds could not be ruled out.

5.1.12 Failure of Internal Control in cash management

The Orissa Treasury Code (OTC) and the Orissa General Financial Rules (OGFR) provided several internal control measures in cash management which were blatantly ignored by a number of DDOs of the 14 offices of the SMED and PRD test checked during the period of review. The details were as under:

- According to Rules, advances given to Government servants for various purposes should be adjusted within one month of payment. Twelve⁹ out of 14 offices showed total outstanding advances of Rs.4.56 crore as of 31 March 2004. Age analysis of these advances was not available in these offices. Some of the advances were rolling since 1973-74. Similarly, advances of Rs.83.03 lakh paid during 1992-2004 remained unadjusted in ORMAS (under PRD) as of May 2004 against officials of ORMAS, Government Departments, DRDAs, private agencies and individuals. It was seen that the ORMAS had not taken any steps during the period of review to settle these outstanding advances. Lack of proper monitoring and prompt settlement of advances increased the risk of misappropriation and fraud.
- Six¹⁰ out of 14 offices did not maintain the cashbook in the prescribed format during the two years of review. Such a situation was fraught with serious risks of cash misappropriation and fraud.
- Though the Rules prohibited incurring expenditure from available cash, five¹¹ offices incurred such expenditure and depicted the same in the closing balance of the cashbook as 'paid vouchers' for Rs.8.53 lakh. Thus, the disbursing officers unauthorisedly incurred the above expenditure without legislative authority for years together.
- Despite the instructions issued by the FD that Government money should not be kept in the form of Bank Drafts (BD), Deposit at Call Receipts (DCR) or in bank accounts as it affected the ways and means position of the State Government, four¹² offices kept Rs.1.24 crore in the form of

⁹ (i) DEE, Bhubaneswar (Rs.0.29 lakh), (ii) DME (Rs.0.24 lakh), (iii) DSE (Rs.0.24 lakh), (iv) CIS, Bhadrak (Rs.0.30 lakh), (v) DIS, Khurda (Rs.0.06 lakh), (vi) DPO, Cuttack (Rs.0.27 lakh), (vii) PRD(Workshop)-Rs.0.58 lakh, (viii) PRD (GP)-Rs.0.78 lakh, (ix) BDO, Barang (Rs.313.47 lakh), (x) BDO, Khurda (Rs.2.34 lakh), (xi) DPO, Khurda (Rs.0.37 lakh) and (xii) SIRD, Bhubaneswar (Rs.137.00 lakh)

¹⁰ (i) CIS, Khurda, (ii) DPO, Cuttack, (iii) BDO, Barang, (iv) BDO, Khurda, (v) DPO, Khurda and (vi) SIRD, Bhubaneswar.

¹¹ (i) DEE, Bhubaneswar(Rs.2.10 lakh), (ii) DME (Rs.0.07 lakh), (iii) DSE (Rs.2.95 lakh), (iv) CIS, Bhadrak (Rs.3.01 lakh) and (v) DPO, Cuttack (Rs.0.40 lakh)

¹² (i) CIS, Khurda (Rs.0.58 lakh), (ii) DIS, Khurda (Rs.0.75 lakh), (iii) DEE, Bhubaneswar (Rs.50.81 lakh) and (iv) DPO, khurda (Rs.71.45 lakh).

BD/DCR, two¹³ offices had Rs.18.75 lakh in Savings Bank accounts and five¹⁴ offices deposited Rs.2.74 crore in the current accounts with banks. None of them advanced any reason for doing so.

- In two offices, there was no reconciliation between the cashbooks and the bank accounts leaving a discrepancy of Rs.21.22 lakh. This included large discrepancy of Rs.19.40 lakh that remained un-reconciled in Circle Inspector of Schools, Bhadrak (SMED) as of 31 March 2004.

The other deficiencies relating to cash management were that the cash book were not attested, daily totals in the cash book were not verified, physical verification of cash at the end of each month/monthly surprise verification of cash was not carried out by the heads of the offices.

There was no analysis of monthly closing balances in the cashbook. As a result, age-wise and scheme-wise unspent balances were not ascertainable thereby increasing the scope of misutilisation and diversion of funds for unauthorised purposes.

As is evident from the foregoing paragraphs, the DDOs had failed to observe the basic tenets of financial discipline in cash management and the heads of administrative department or controlling officers had not succeeded in stemming the rot. Ineffective functioning of ICM, apart from leading to poor monitoring of activities, increased the risk of things going wrong and remaining unnoticed for years together.

Administrative Controls

5.1.13 Non-adherence to rules governing advances

In respect of advances given for purchase of motor cycles, the Government servants were required to submit the money receipts for purchases as well as mortgage deeds. In the event of failure to do so, the amount was to be recovered together with penal interest.

The PRD sanctioned motorcycle advances of Rs.9.30 lakh during 2002-04 to 47 employees who, however, did not submit receipts for purchases and mortgage deeds.

Similarly, the PRD sanctioned and paid advance amounting to Rs.14.44 lakh for purchase of land for building houses to 12 employees during 2002-04. Although the purchase deeds were to be submitted within two months from the date of drawal of advances as per rules, none of the loanees submitted any such purchase deed to the Government as of June 2004.

It was only after these were pointed out in audit that notices were issued (May/June 2004) to the defaulting employees. In the absence of the purchase deeds, the proper utilisation of the advances was doubtful and the advances remained unsecured.

Due to non-adherence to rules governing advances of Rs.9.30 lakh under MCA and Rs.14.44 lakh under HBA of PRD remained unsecured and their proper utilisation was doubtful

¹³ (i) BDO, Barang (Rs.3.46 lakh) and (ii) BDO, Khurda (Rs.15.29 lakh)

¹⁴ (i) CIS, Bhadrak (Rs.26.58 lakh), (ii) CIS, Khurda (Rs.124.72 lakh), (iii) DIS, Khurda (Rs.12.14 lakh), (iv) DPO, Cuttack (Rs.109.93 lakh) and (v) PRD(GP)-Rs.1.30 lakh.

Operational Controls

5.1.14 Irregularities in payment of grants-in-aid

Payment of grant-in-aid to non-government schools by SMED without verification of audited accounts and asset records

While releasing Government grants to non-government schools, the staff strength and student strength were to be monitored. As per sections 7, 8 and 11 of the Orissa Education Act, the grantees were to submit their audited annual accounts and list of movable and immovable assets. Though the schools in the State under the DEE did not submit any such records for the period under review, the SMED continued to release grants to them regularly. In the absence of submission of such records, the possibility of overpayment on account of non-existent teachers and students could not be ruled out.

Further non-maintenance of records and non-refund of unspent funds of closed schemes were noticed in the following cases, which might likely to lead to abuse of assets and misutilisation.

DRDA, Khurda paid Rs.2.60 lakh to an Under Secretary of PRD over hand receipt

Payment of Rs.2.60 lakh was made (April 2002 and February 2003) by DRDA, Khurda to an Under-Secretary, PRD over hand receipt without obtaining money receipt as required under the DRDA Accounting procedures. Such procedure was fraught with the risk of misutilisation of funds.

ORMAS had an unspent balance of Rs.35.51 lakh under TRYSEM programme closed in 1999

DRDA, Khurda had not submitted utilisation certificates relating to various schemes to the State Government as of May 2004. Unspent grants of Rs.11.57 lakh in respect of schemes closed between 1999 and 2002-03 and Rs.35.51 lakh in ORMAS under TRYSEM programme, which was closed in 1999, were not refunded to Government.

5.1.15 Failure in submission of periodic progress reports

Delay in submission of MPRs by the subordinate officers to the district level officers ranged between 16 and 116 days in SMED and upto 240 days in PRD

The Monthly Progress Reports (MPRs) for the district level officers were the single most important monitoring tool in the hands of the Government. It was observed that the subordinate offices did not submit these reports in time. The delay ranged from 16 to 116 days in case of three offices of SMED and upto 240 days in three offices of PRD. Five¹⁵ offices did not submit even the quarterly reports on physical and financial progress in time. Similarly, monthly and quarterly progress reports were not submitted by OPEPA to SMED during June 2003 to March 2004. As regards ORMAS, there was no provision made by Government for submission of such periodic progress reports, though it received huge amount of government grants. In absence of this vital Management Information System (MIS) as well as due to inadequate inspections, the top executives of the departments did not keep themselves abreast of the strengths and weaknesses of the field level offices.

¹⁵ (i) DSE, Bhubaneswar, (ii) DTE, Bhubaneswar, (iii) DIS, Khurda, (iv) CIS, Bhadrak and (v) CIS, Khurda

Supervisory Controls

5.1.16 Failure to carry out periodic inspection

The heads of the departments / Directors were required to inspect the district offices at least 10 days in a month. However, the actual number of inspections carried out by the Director, Panchayati Raj in PRD recorded a shortfall of 46 days during January to June 2002 and 54 days during January to June 2003. Similarly, Director, Special Projects, PRD had also a shortfall of 56 days during January to June 2003. Such shortfall in inspections by the Directors affected the sense of accountability in the lower formations besides leaving deficiencies in implementation of the schemes undetected.

Officers of various cadres of PRD and SMED including their autonomous organisations failed to carry out periodic inspections affecting the sense of accountability of the sub-ordinate offices

According to the instructions of SMED (July 2000), the Circle Inspector of Schools (CIS) and the District Inspector of Schools (DIS) were to carry out inspections of 192 and 360 schools respectively every year in order to review the working of schools. But while the CIS, Bhadrak had a shortfall of inspection of 154 and 161 schools, the CIS, Khurda recorded shortfall of 166 and 153 schools during 2002-03 and 2003-04 respectively. Similarly, the DIS, Khurda had a shortfall of 314 and 312 schools during the above period. Such shortfall in inspections deprived the higher authorities from knowing about misutilisation/non-utilisation of government grants and deficiencies in implementation of various schemes besides affecting the sense of accountability in lower formations.

Similarly, the PDs, DRDA of Khurda and Cuttack conducted annual inspection in only two out of 10 blocks and five out of 14 blocks respectively in their respective districts during 2003-04. This indicated poor monitoring by the DRDAs of the actual implementation of the poverty alleviation schemes at the block level.

Such shortfall in inspection at various levels affected the functional efficiency and proper implementation of various schemes and activities.

5.1.17 Non-adherence to prescribed controls in stores management

Prescribed controls in stores management of both the departments were not adhered to

The Orissa General Financial Rules (OGFR) prescribes procedures for procurement, storage and disposal of stores. During the review of selected 14 offices of the two departments, the following deficiencies in stores management were noticed.

Eleven out of 14 offices and six out of nine autonomous bodies did not carry out any physical verification of stores at least once in a year during 2002-04 as required under the OGFR. Due to such non-verification, loss of government stores would remain unnoticed.

Storekeepers of eight out of 14 offices as well as the district level offices of OPEPA did not furnish any security deposit or bond though required under the OGFR. The absence of such bonds or securities meant the absence of essential

safeguards against losses due to pilferage etc.

The DPO, Cuttack did not maintain any dead-stock register. The SRC did not maintain stock register in prescribed form and stock entry was not made on bills in proof of receipt of stores in good condition. The PRD (GP) neither mentioned the cost of the articles in the stock registers nor recorded the stock balance correctly as the furniture issued for office use were deleted from the stock account. Such deficiencies in maintenance of stock records are fraught with the risk of misplacement and mismanagement of stock.

5.1.18 Failure of monitoring mechanism

Governing Body/Executive Committee Meetings were conducted to monitor and evaluate proper and timely execution of various schemes and activities.

The Governing Body (GB) of OPEPA, which was to meet twice in a year, did not hold any meeting since 1997 as the Government did not nominate members to GB despite request of OPEPA. Similarly, the GB of ORMAS required to meet once in four months did not hold any meeting during 2002-03 and met only twice during 2003-04.

In Khurda and Cuttack DRDAs, the GB met once in 2003-04 and twice in a year during 2002-04 respectively though required to meet once in a quarter.

As per Rules of SRC, an external agency was to conduct regular / periodical evaluation of the Centre's activities. However, no such evaluation was conducted after 1999.

During 2002-04, shortfalls in holding monthly review meetings in ZSS, Puri and Bhadrak were 14 and six respectively

Such deficiencies at the highest level of these autonomous bodies/societies does not augur well for efficient monitoring and execution of the schemes.

5.1.19 Internal Audit

Internal Audit, as an independent entity within or outside the department was to examine and evaluate the level of compliance to the departmental rules and procedures so as to provide independent assurance to senior management on the adequacy of the risk management and internal control framework in the department.

The scope of audit included check of receipts and expenditure, compliance with laws and regulations and the propriety of expenditure in the subordinate offices of the department. The audit processes, which consisted of planning, execution, issue of reports and their follow-up were generally to be codified in an 'Audit Manual'. Following points were noticed:

The departments did not have any Audit Manual nor they prepared any audit plan for the years under review. No annual targets in terms of number of units to be audited were set for the audit staff. There was no system of supervision of the audit conducted to ensure efficient conduct of audit and follow up. The periodicity of audit of the departmental offices had not been decided. Thus, audit was not undertaken in any systematic and periodical basis.

Failure of review, monitoring and evaluation mechanism indicated gross deficiencies in review of activities and evaluation of execution of the schemes at the highest level

Neither of the departments had any audit plan, targets for the audit staff, periodicity of audit and system of supervision

Audit was conducted on the basis of allegations and requisitions

Special audit was conducted on the basis of 'allegations' and 'requisitions'. The number of offices audited and the percentages are given below which showed that the audit coverage was very poor.

Name of the Department	2002-03			2003-04		
	Number of offices under control	Number of offices audited	Percentage	Number of offices under control	Number of offices audited	Percentage
SMED	300	7	2	300	6	2
PRD	350	19	5	350	20	6

Audit conducted on hundred per cent basis contributed to the shortfall in coverage of units ranging from 94 to 98 per cent

There were no guidelines prescribing the quantum of audit scrutiny i.e. the percentage of transactions to be checked in audit. The audit conducted was on hundred *per cent* basis as a result of which the coverage of the subordinate offices was only two to six *per cent*.

Audit reports were to be prepared within 15 days from the date of completion of audit and issued within seven days thereafter. None of the 13 audit reports in the SMED were issued in time. The details pertaining to issue of audit reports were not available with the PRD.

In PRD, no register for watching compliance to audit reports and settlement of audit paragraphs was maintained.

Reports on non-compliance of audit observations by subordinate offices were not prepared or submitted any time to the FA or the Secretary of the department for monitoring in the selected departments during the entire period of review.

Thus, in absence of audit planning and poor audit coverage, and almost non-existent follow-up of audit reports, the Internal Audit in both the departments was ineffective and could not be relied upon for providing independent assurance to the management about the compliance of ICM.

5.1.20 Lack of response to audit

Principal Accountant General (Civil Audit), Orissa arranges to conduct periodic inspection of Government transactions and the audit findings are communicated through Inspection Reports to the Heads of the Offices/Departments to comply with the audit observations and rectify the defects and promptly report the compliance to the Principal Accountant General. A half yearly report on the pending Inspections Reports is sent to each department to facilitate monitoring and compliance of audit observations.

As on 30 September 2004, 5622 paragraphs relating to 1606 Inspection Reports of SMED and 18321 paragraphs relating to 2193 Inspections Reports of PRD issued up to 30 June 2004 were still pending for settlement. Of these, 1295 paragraphs relating to 476 Inspection Reports in SMED and 2067 paragraphs relating to 390 Inspection Reports of PRD were more than 10 years old. The position of paragraphs in respect of the remaining departments awaiting settlement has been shown in Appendix-XXXIV. Several serious irregularities commented upon in these IRs with money value, vide Appendix-XXXV, had not been settled as of September 2004. Failure to comply with the issues raised by Audit facilitated the continuation of serious financial irregularities and loss to the Government.

The CCA of both the departments were ineffective and could not be relied upon for providing independent assurance to the management

5.1.21 Conclusions

The Internal Controls viz. budget control, expenditure control, cash management, control in store management, operational control and monitoring mechanism were inadequate and ineffective in School and Mass Education Department and Panchayati Raj Department. The basic checks such as proper maintenance of cash book, submission of reports and returns were disregarded. General failure to observe internal control procedures has increased the risk of misappropriation and fraud taking place and remaining unnoticed. No efforts either to set right the system or to take action against the erring officials were evident. Internal Audit was ineffective and failed to bring the failures in ICM to the notice of the management. The autonomous bodies were not serious in implementing the rules and regulations and failed to submit progress reports in time. Despite this, release of funds to these organisations continued.

Recommendations

- ✓ Internal audit coverage of the auditee units should be planned such that all the units are covered in a cycle of one to three years.
- ✓ A provision may be included in the Orissa Treasury Code for closure of PL accounts at the close of a financial year in accordance with the provision in the Civil Accounts Manual of the Government of India.
- ✓ Government should revamp the system of proper response to the audit observations pointed out in Inspection Reports of the Accountant General (Audit) in a time bound manner.

The Commissioner-cum-Secretary, SMED stated (November 2004) that he would get the facts mentioned in the review confirmed from the field offices and assured that action would be initiated to remedy the situation, in the light of the observations made in audit. The Commissioner-cum-Secretary to Government, PRD did not reply so far (November 2004).

BHUBANESWAR

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**ACCOUNTANT GENERAL (CIVIL AUDIT)
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COUNTERSIGNED

NEW DELHI

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