

CHAPTER-V

INTERNAL CONTROL SYSTEM

5.1. Evaluation of internal control system in Technical Education and Industrial Training Department

TECHNICAL
EDUCATION
AND
INDUSTRIAL
TRAINING
DEPARTMENT

Highlights

➤ *Budget estimates for 2000-01 to 2004-05 were prepared without taking into account actual requirements, as demands were 73 to 100 per cent higher than actual expenditure incurred on the plan side.*

(Paragraph 5.1.6)

➤ *Cash management was deficient as neither the cash books were maintained properly nor the reconciliation of accounts was done with the books of Treasury Officers.*

(Paragraph 5.1.8 & 5.1.9)

➤ *General provident funds were not maintained properly.*

(Paragraph 5.1.11)

➤ *Against the target of 2848 inspections, only 494 inspections (17 per cent) were conducted by the Directorate.*

(Paragraph 5.1.13)

➤ *Machinery registers were not inspected and physical verification of stores and stock was not being conducted.*

(Paragraph 5.1.14 & 5.1.15)

➤ *There was scope for optimisation of deployment of teaching staff.*

(Paragraph 5.1.17)

➤ *Internal audit was ineffective.*

(Paragraph 5.1.18)

Introduction

5.1.1. Internal controls are laid down in the rules, regulations, codes and manuals of the Department and adherence thereto provide reasonable assurance to departmental officers regarding reliability in accounting and financial reporting as well as the effectiveness and efficacy in the Department's operation. The controls also act as a safeguard against errors and irregularities in operational and financial matters.

Organisational set-up

5.1.2. The Principal Secretary to the Government of Punjab, Technical Education and Industrial Training Department is in overall charge of the Department. The Directorate of Technical Education and Industrial Training under the Department is vested with the responsibility of implementing the Government's policies and programmes relating to technical education and industrial training. In discharging his responsibilities, the Director is assisted by three Additional Directors, one Joint Director, 11 Deputy Directors, five Assistant Directors and one Placement Officer at the Directorate. Eighteen Polytechnic Institutions (PIs) and 95 Industrial Training Institutes (ITIs) and one Tanning Institute (TI) and one Institute of Textile Chemistry and Knitting Technology (ITCKT) are functioning in the field. In addition, one Deputy Controller of Finance and Accounts (DCFA), one Assistant Controller of Finance and Accounts (ACFA) and two SAS¹ qualified Section Officers, are provided by the Finance Department. Their duties and responsibilities include, *inter-alia*, internal audit of the organisation as per the standing orders of the State Government.

Audit objectives

5.1.3. Audit objectives were to see whether the internal control system of the Department provided a reasonable assurance that the Department would achieve its objectives through the following types of control:

- Financial controls;
- Administrative controls;
- Manpower management; and
- Internal audit.

¹ SAS:-Subordinate Accounts Service.

Audit coverage

5.1.4. Audit review for the period 2001-05 was conducted at the Secretariat of the State Government, the Directorate, 19 ITIs², five PIs³, one TI and the ITCKT between September 2004 and February 2005. The results of the review are discussed in the succeeding paragraphs.

Financial controls

5.1.5. Financial rules are prescribed for enforcing financial discipline. Failure of any organisation to ensure adherence to financial rules exposes it to financial irregularities, wasteful expenditure, misappropriation, fraud and the risk of non-availability of funds for discharging its mandated responsibilities. It also reduces the possibility of generating extra-budgetary resources.

Preparation of inflated budget estimates

5.1.6. The two main instruments of financial control are budgeting and accounting. It was observed (September 2004 to February 2005) during audit that the budget estimates for 2000-01 to 2004-05 were prepared without taking into account actual requirements. The following table depicts the year-wise and Department-wise position of savings which ranged between 73 and 100 *per cent* on the plan expenditure side.

² Anandpur Sahib, Chuhar Chak, Gujjarwal, Jagraon, Jalandhar (W), ITC – MTI Jalandhar, Kharar, Kartarpur, Ludhiana (B), Ludhiana (W), Manuke, Mohali, Morinda, Moga, Nakodar, Nangal, Phillaur, Ropar and Samrala.

³ Jalandhar (W), Khunni Majra, Ludhiana (W), GTB Garh (Moga) and Ropar.

(Rupees in crore)

Department	Year	Nature of expenditure	Original Budget demand	Final Budget allotment	Expenditure	Savings	Percentage of savings
Director Technical Education	2000-01	Non-Plan	26.44	22.70	16.98	9.46	36
		Plan	88.00	31.30	14.56	73.44	83
	2001-02	Non-Plan	18.97	15.09	12.53	6.44	34
		Plan	65.24	19.31	10.30	54.94	84
	2002-03	Non-Plan	30.03	29.16	27.74	2.29	8
		Plan	19.65	7.05	4.66	14.99	76
	2003-04	Non-Plan	28.22	36.18	34.66	Excess	--
		Plan	16.39	2.92	2.03	14.36	88
	2004-05	Non-Plan	33.10	26.81	24.44	8.66	26
		Plan	8.26	3.37	2.24	6.02	73
Director Industrial Training	2000-01	Non-Plan	34.78	38.07	33.98	0.80	2
		Plan	35.25	16.94	3.93	31.32	89
	2001-02	Non-Plan	40.56	39.46	34.36	6.20	15
		Plan	20.25	7.32	3.68	16.57	82
	2002-03	Non-Plan	47.10	40.76	38.19	8.91	19
		Plan	42.01	0.43	0.02	41.99	99
	2003-04	Non-Plan	46.58	47.54	44.48	2.10	5
		Plan	11.10	0.60	0.02	11.08	99
	2004-05	Non-Plan	47.05	45.79	38.63	8.42	18
		Plan	4.97	4.97	Nil	4.97	100

In response to the audit observations the Department stated that savings occurred due to (i) cut on expenditure imposed by the Government, (ii) schemes not cleared by Government; and (iii) bills not passed by the treasury. Further, it was intimated by the Technical Wing that budget was demanded, keeping in view the construction work of newly proposed PIs but, due to financial crisis, the Government did not approve the proposed budget. The reply was not acceptable as there were recurring savings over even the actually allotted budget. The proposal for the construction of new PI's was also not proper in view of fact that against 21046 sanctioned seats, only 12175 to 10061 students took admission during this period and seats upto 55 per cent were lying vacant. Savings of such huge magnitude, as such, reflect over-pitching of demand for funds without there being any preparatory work or plan of action to utilise funds, depicting an unsatisfactory state of affairs in general and weak internal control in budgeting matters.

Expenditure in excess of/ without budget provisions

Expenditure was incurred in excess of and without budget provision

5.1.7. During 2003-04, in the Industrial Training Wing of the Directorate, expenditure totalling Rs 1.17 crore had been incurred in excess of budget provision under the sub-head⁴ of office expenditure and expenditure of Rs 29.25 lakh had been incurred under three sub-head⁵ without any budget allotment reflecting a lack of appropriate internal control.

5.1.8. Cash Book

Cash Books were not maintained as per financial rules

- In ten ITIs⁶ and three PIs⁷, the totals of cash book for periods ranging from two to five years were neither verified periodically by the Head of Office nor his authorised representative nor were the details of closing balance of cash mentioned in the cash book. Improper maintenance of cash book and non-verification of cash balance exposed the organisations to the risk of misappropriation and fraud.
- Details of bill-wise undisbursed amount are required to be mentioned against monthly closing balances of cash book; in six ITIs⁸ and one PI⁹, such details were not mentioned for periods ranging from two to five years. Such lapses too could ultimately lead to misappropriation of funds or frauds.
- In the Directorate and in 15 ITIs¹⁰, three PIs¹¹ and one ITCKT, Bill Registers were neither maintained in prescribed form nor reviewed monthly by the Head of Office. Further, in 16 ITIs¹², five PIs¹³, one ITCKT and one TI, the Bill Transit Register was neither maintained in the prescribed form nor reviewed bi-weekly by the Head of Office.

⁴ Office expenditure (Rs 1.17 crore).

⁵ Material and Supplies (Rs 28.40 lakh), Other Charges (Rs 0.65 lakh) and Machinery & Equipment (Rs 0.20 lakh).

⁶ Chuhar Chak, Jagraon, Kartarpur, Kharar from 2000-01 to 2004-05, Mohali from 4/2000 to 10/2004, Morinda from 4/2000 to 11/2004, Nakodar from 2000-01 to 2004-05, Nangal from 4/2000 to 11/2004, Ropar from 4/2000 to 4/2003 and Samrala from 4/2000 to 4/2002.

⁷ Khunni Majra from 2000-01 to 2004-05, Ludhiana(W) from 4/2000 to 11/2004 and Ropar from 2000-01 to 2004-05.

⁸ Chuhar Chak, Jagraon, Kharar from 2000-01 to 2004-05, Mohali from 4/2000 to 2/2002, 4/2003 to 12/2003 and 2/2004, Morinda from 4/2000 to 11/2004 and Nakodar from 2000-01 to 2004-05.

⁹ Khuni Majra.

¹⁰ Anandpur Sahib, ITC-MTI Jalandhar, Ludhiana (B), Chuhar Chak, Jagraon, Kartarpur, Kharar, Morinda, Nangal, Ropar, Gujjarwal, Jalandhar(W), Ludhiana(W), Manuke and Moga.

¹¹ Khunni Majra, Ludhiana(W) and Jalandhar (W).

¹² Anandpur Sahib, ITC – MTI Jalandhar, Ludhiana (B), Chuhar Chak, Jagraon, Kartarpur, Kharar, Morinda, Nangal, Nakodar, Ropar, Gujjarwal, Jalandhar (W), Ludhiana (W), Manuke and Moga.

¹³ Jalandhar (W), Khunni Majra, Ludhiana (W), Ropar and GTB Garh (Moga).

The Department admitted (September 2004 to February 2005) the facts and assured adherence to the extant rules in this regard.

5.1.9. Non-reconciliation of withdrawals and deposits

In order to ensure that all amounts drawn from the treasury have been entered in the cash book, the Head of Office should obtain from the Treasury Officer by the 15th of every month, a list of all bills drawn during the previous month and trace all amounts in cash book. Similarly, he should obtain from treasury, by the 15th of each month, a consolidated receipt for all remittances and reconcile it with the cash book.

Expenditure and receipts were not reconciled with Treasury

- In six ITIs¹⁴ and one PI¹⁵, reconciliation of withdrawals was not conducted with the treasury during the period from 2000-01 to 2004-05. Similarly, reconciliation of deposits with treasury was also not conducted by the Director Industrial Training for the period from April 2000 to September 2004 and three ITIs¹⁶ and one PI¹⁷ for the periods ranging from one to five years; no reasons for non-reconciliation were on record.

Improper maintenance of Punjab Government Employees Group Insurance Scheme (GIS) accounts

5.1.10. As per the Punjab Government Employees Group Insurance Scheme, 1982, a consolidated statement of subscription received and payments made shall be sent by each Head of Office in respect of the members of the Scheme working in his office to the Head of his Department so as to reach there by the 20th of that month. Further the DDO will reconcile the total amount credited/paid to/from the Saving Fund/Insurance Fund in respect of the establishment of his office with the figures booked in the office of the Accountant General (Accounts & Entitlements) Punjab, quarterly and record a certificate to this effect on the broadsheet maintained in his office.

The GPF accounts and GIS schemes were not maintained as per instructions

The following irregularities in maintenance of the Punjab Government Employees GIS, 1982 were noticed in Audit:

- The Directorate had not received from its subordinate offices, consolidated statements, for the preceding five years (2000-01 to 2004-05), showing service-wise total amount of subscriptions received in the Saving Fund and Insurance Fund and payments made out of these funds to employees who resigned/retired or otherwise ceased to be in Punjab Government service or died in harness.

¹⁴ ITC – MTI Jalandhar, Jagraon, Mohali, Manuke, Nakodar and Samrala.

¹⁵ Khunni Majra.

¹⁶ Mohali, Manuke from 2000-01 to 2004-05 and Morinda from 2004-05.

¹⁷ Khunni Majra from 3/2004 onwards.

- Total amounts credited and debited to and from pertaining to both savings and insurance funds were not reconciled with the figures booked in the office of the Accountant General (Accounts & Entitlements) Punjab, quarterly and certificate to this effect was not recorded on the broadsheet maintained by the Directorate office, six ITIs¹⁸, two PIs¹⁹ and one TI for the period 2001-05.

Improper maintenance of general provident fund accounts

5.1.11. The subscription by employees to their General Provident Fund (GPF) is mandatory. The accretions to individual accounts of each employee is held by the Directorate in trust. Since the money deducted does not belong to the organisation, its safety and the correctness of accounts is of great importance. Inflated credits and deflated debits would cause over drawal from the fund; the reverse would affect the interests of the employees. However, maintenance of accounts of GPF was far from satisfactory inasmuch as the consolidated statement of interest allowed in the GPF accounts was not sent to the Accountant General by the Directorate for the period 2000-05 to ensure correct accounting. The broadsheet of GPF had not been maintained for 2000-01 onwards in the Directorate and in 16 ITIs²⁰, three PIs²¹, ITCKT and TI. The statement of interest credited to GPF accounts had not been forwarded to the Directorate since 2000-01 onwards by 16 ITIs²², five PIs²³, ITCKT and TI. The General Index Register had not been maintained as required under the provisions of GPF scheme in four ITIs²⁴, one PI²⁵, ITCKT and TI. GP Fund accounts were not maintained in the prescribed Ledger in Form- P.F.-9 in four ITIs²⁶.

On this being pointed out, the Department admitted (September 2004 to February 2005) the facts and stated that requisite records would be maintained in future.

Thus, there was complete lack of internal control over the preparation and maintenance of GPF accounts of employees and the submission of prescribed returns and information. The absence of a system of internal audit allowed the system to deteriorate.

¹⁸ Gujjarwal, Jalandhar (W), ITC-MTI Jalandhar, Kartarpur, Manuke and Moga.

¹⁹ Jalandhar and GTB Garh (Moga).

²⁰ Chuhar Chak, Gujjarwal, Jagraon, Jalandhar(W), ITC-MTI Jalandhar, Kharar, Kartarpur, Ludhiana(B), Manuke, Mohali, Morinda, Moga, Nakodar, Nangal, Ropar and Samrala.

²¹ Khuni Majra, Ludhiana(W) and GTB-Garh(Moga).

²² Anandpur Sahib, Chuhar Chak, Gujjarwal, Jagraon, Jalandhar(W), Kharar, Kartarpur, Ludhiana(B), Manuke, Mohali, Morinda, Moga, Nakodar, Nangal, Ropar and Samrala.

²³ Jalandhar(W), Khuni Majra, Ludhiana(W), GTB Garh(Moga) and Ropar.

²⁴ Gujjarwal, ITC-MTI Jalandhar, Manuke and Moga.

²⁵ GTB Garh (Moga).

²⁶ Ludhiana (W), Mohali, Morinda and Nakodar.

Administrative controls

5.1.12 The Industrial Training wing of the Directorate is required, as per the Training Manual, to conduct quarterly inspections of field units and institutes to obtain assurance that:

- (i) technical training is being imparted to students in conformity with approved course content, periodicity and on regular basis;
- (ii) there is no laxity on the part of the members of faculty;
- (iii) there are no constraints of shortage of staff, funds or training infrastructure; and
- (iv) the level of satisfaction of trainees is along the expected lines and also the existing system of training is adequate or needs change.

Inadequate field inspections

5.1.13. The Directorate prescribes maintenance of a register indicating the due dates of inspection of the field units and institutions. The prescribed register was not maintained. Further, the Principals of ITIs are also required to carry out inspections of institutes for ensuring smooth working of training programme and to increase the efficiency of administration. In audit it was noticed between September 2004 and February 2005 that:

- Against the required 2848 inspections to be conducted between January 2000 and December 2004, only 494 inspections (17 *per cent*) of ITIs were carried out by the Director Industrial Training. No record was, however, maintained to watch compliance of discrepancies found during inspection.
- In six ITIs²⁷ out of 19 test checked, the heads of institutions did not conduct inspections of institutes for ensuring smooth working of the training programme and to increase efficiency of the administration during 2000-01 to 2004-05 in contravention of the provisions of the training manual.

There was no internal control mechanism to watch whether inspections as required were conducted and the discrepancies pointed out therein were properly and effectively addressed.

The Department admitted the fact and stated that the needful will be done in future.

Inspections conducted by Directorate were short by 83 *per cent* and no inspection was conducted by the head of the institution

²⁷ Chuhar Chak, Jagraon, Kharar, Morinda, Moga and Nakodar.

Stores and stock

As per Punjab Financial Rules – Volume –I, the Head of an Office or any other officer entrusted with the store of any kind should maintain suitable accounts and inventories and prepare correct returns in respect of the stores in his charge. Further, a physical verification of all stores should be made at least once in every year by the Head of the Department.

Machinery register

5.1.14. Machinery register (containing details of description of machinery items) should be scrutinised by Directorate every year. In five ITIs²⁸, 32 units imparting training in various trades had been closed between 1992-93 and 2004-05 reportedly due to retirement and transfer of instructors or instructors proceeding on leave without pay. Machinery worth Rs 49.76 lakh was lying idle in these institutions since closure of the units. The machinery registers were never inspected by the Directorate. Consequently, neither were the closed units re-opened nor was the idle machinery transferred to the other institutions in need of such machinery. This resulted in denial of intended benefits to the trainees of the respective trades, besides loss to Government in the event of machinery becoming unfit through lack of use.

On this being pointed out the Department stated that units were temporarily closed for want of staff. The reply was not acceptable in view of the fact that physical verification was to be conducted by the Directorate.

Physical verification of stores and stock

5.1.15. In four ITIs²⁹ and one PI³⁰, physical verification of stores and stock had not been conducted for periods ranging from one to five years. Absence of periodical verification of store and stock at regular intervals not only reflects bad inventory management, it also denies the Directorate to prevent pilferage and unnecessary procurement.

Manpower management

5.1.16. The Directorate has the responsibility of providing adequate number of posts at various levels in each functional unit in the field and ensuring that qualified men are provided against the sanctioned posts. If the number of vacancies, especially in the cadre of instructors, is considerable and persistent, it is likely to adversely affect the work in qualitative and quantitative terms as the number of programmes would be reduced.

²⁸ Gujjarwal, Kartarpur, Moga, Nakodar and Samrala.

²⁹ Chuhan Chak from 4/2003 to 2004-05, Nangal from 2000-01 to 2004-05, Jagraon from 2000-01 to 2004-05 and Nakodar from 2000-01 to 2004-05.

³⁰ Ludhiana(W) from 7/2002 to 2004-05.

Under-utilisation of services of staff

5.1.17. In Government Polytechnic for Women(GPW), Ludhiana, six posts of faculty were sanctioned for the Modern Office Procedure Diploma course for thirty students against which five posts (one HOD + four lecturers) were operated with only five students in 2003-04 and one student in 2004-05 on the rolls of this course in the institution. Such an abnormal teacher pupil ratio escaped Directorate's notice for corrective action in the absence of a suitable internal control mechanism. These students could have been transferred to some other GPW where the number of students was deficient and the staff could be gainfully utilised in understaffed institutions at Amritsar, Jalandhar or some other place. No control record was prepared to watch deployment of staff. Absence of suitable internal control led to waste of human resources as well as money.

On this being pointed out, the Department stated (December 2004) that the staff was not surplus as work load with teachers was adequate and the consent of parents was necessary for shifting the students. The reply was not acceptable because neither was the consent of the parents of the affected students asked as per records nor the teaching of five students could be termed sufficient work load for a five member faculty.

Ineffective internal audit

5.1.18. One ACFA and two Section Officers in the Technical Education Wing and one DCFA in the Industrial Training Wing were posted by the Finance Department of the State Government for overseeing the work related to budget, finance and accounts. Their responsibilities included internal audit of the organisation. However, the Directorate did not provide them with full complement of SAS passed qualified personnel and the work of internal audit was not taken up by the Directorate.

Failure to set up an institutionalised system of internal audit affected the working of the Directorate and its field units in the key areas of administration, finance and accounting functions. In response to Audit observations, the Directorate explained that there was no instruction for conducting internal audit. Their reply is not acceptable because the State Government's extant orders contemplate internal audit by SAS qualified personnel posted by the Finance Department in the Directorate.

Conclusion

5.1.19. The internal controls viz. expenditure control, control in store management, administrative controls, manpower management were inadequate and ineffective in Polytechnic Institutes and Industrial Training Institutes under the control of the Director, Technical Education and Industrial Training Department. The basic checks such as proper maintenance of cash book, submission of reports and returns and preparation of budget were disregarded. Inadequate field inspections and under utilisation of services of staff showed lack of administrative controls. General failure to observe

internal control procedures increased the risk of misappropriation and fraud taking place and remaining unnoticed.

Recommendations

- The tendency of the Department to over pitch its requirement of funds should be checked by the Government in order to allocate financial resources to other Departments more in need of funds.
- A system of periodical review of expenditure should be considered to avoid over-spending under certain heads of expenditure and ensuring timely surrender of funds.
- A system of internal control and internal audit should be put in place in order to effectively oversee the working of the Department, optimizing its output and safeguard against errors, irregularities in operational & financial matters and achieve greater efficiency.

The matter was reported to the Government (April 2005); no reply has been received (December 2005).

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