

## CHAPTER-V

### INTERNAL CONTROL AND INTERNAL AUDIT SYSTEM

#### 5.1. Evaluation of internal control and internal audit system in the Public Works Department (Public Health Branch)

**PUBLIC WORKS  
DEPARTMENT  
(PUBLIC HEALTH  
BRANCH)**

##### Highlights

Internal Control System is an integral process by which an organisation governs its activities to effectively achieve its objectives. A built-in Internal Control System and strict adherence to Statutes, Codes and Manuals minimise the risk of errors and irregularities. An evaluation of Internal Control System in the Public Works Department (Public Health Branch) revealed the weaknesses of the internal control in vogue in the department such as non-compliance to rules, manuals and codes in the area of budget preparation, expenditure, accountal of transactions, maintenance of stores etc.

- *Budget estimates for 2001-02 to 2003-04 were prepared without taking into account actual requirements, as demands were 26 per cent to 67 per cent higher than actual expenditure incurred.*

*(Paragraph 5.1.6)*

- *The CE/SEs as Controlling Officers did not maintain Control Registers for annual plan outlay and expenditure incurred thereagainst.*

*(Paragraph 5.1.10)*

- *In 11 divisions, 209 works valuing Rs 51.12 crore were executed upto March 2004 without sanction of estimates.*

*(Paragraph 5.1.18)*

- *In five divisions, contractor's ledgers were not maintained for the period from April 2001 onwards.*

*(Paragraph 5.1.24)*

- *Seven divisions did not adjust the storage charges and at the end of March 2004 credit balance (profit) of Rs 74.93 lakh (three divisions) and debit balance (loss) of Rs 1.17 crore (four divisions) had accumulated.*

*(Paragraph 5.1.33)*

## **Introduction**

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

## **Organisational set-up**

**5.1.2.** The Administrative Secretary (AS), Public Health (PH) Branch is the overall incharge of the department. There are three Chief Engineers (CEs), 12 Circle Offices headed by the Superintending Engineers (SEs), 48 Divisions each headed by the Executive Engineer (XEN/DO) and a Monitoring Cell under the control of SE (Monitoring). In each divisional office, the Divisional Accounts Officer (DAO) performs functions; as an Accountant; as a Primary Auditor; as Financial Assistant- cum-Adviser to the XEN.

## **Scope of Audit**

**5.1.3.** To evaluate the effectiveness of internal control and internal audit system in the department, the records of the offices of three Chief Engineers, four Circles<sup>1</sup> (out of 12 Circles) and 12 Divisions<sup>2</sup> (out of 48 Divisions) for the period from April 2001 to March 2004 were test checked between December 2003 and June 2004.

## **Audit objectives**

**5.1.4.** Objective of the review was to examine whether:

- in the department proper internal controls existed and were exercised over preparation of budget estimates and expenditure thereagainst,
- supporting records have been prescribed and maintained accurately and reports/returns prepared/submitted on due dates as laid down under rules/instructions,

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<sup>1</sup> SEs, Public Health Circle, (i) Bathinda, (ii) Hoshiarpur, (iii) Chandigarh and (iv) Patiala.

<sup>2</sup> Public Health (RWS) Divisions (i) Bathinda-I, (ii) Bathinda-II, (iii) Garhshankar, (iv) Hoshiarpur, (v) Mohali, (vi) Mansa, (vii) Patiala, (viii) Rajpura, (ix) Ropar, (x) Talwara, (xi) Mohali-I and (xii) Mohali-II.

- effective control system existed in the department to ensure that works were executed in accordance with sanctioned estimates/approved work programme. Amounts placed under suspense heads were cleared promptly and charged to final heads of account/works,
- foolproof system for procurement of stores existed and that the stores were procured prudently and against definite requirement; Reserve Stock Limits were got sanctioned; periodical physical verification of stores were carried out and results reported to CE/Audit,
- officers of headquarters office visited field regularly to monitor the execution of schemes and
- department had evolved adequate internal audit system to judge the efficacy of the working of the department.

### **Financial controls**

#### **5.1.5. Rules and instructions provide that:**

- Budget should be prepared on the basis of average expenditure of six months of the previous year and actual expenditure of six months of the current year; no expenditure should be incurred unless funds were made available.
- To watch any excess of expenditure against budget grant, a Control Register should be maintained; funds may not be drawn from the Treasury at the fag end of year to avoid lapse of grant.
- Expenditure should be proportionately incurred throughout the year and rush of expenditure towards end of financial year is avoided.
- Cash book should be maintained as per rules.
- Reconciliation should be carried out periodically with the Treasury and Accountant General (A&E).
- CE should allocate funds/Letter of Credit (LOC) among the divisions in proportion to budget grant within a period of 10 days from the date of receipt of LOC.

The review revealed that a number of these financial controls were not exercised, as brought out below:

#### ***Preparation of inflated budget estimates***

**Budget estimates were prepared without taking into account actual requirements**

**5.1.6.** Budget estimates for 2001-02 to 2003-04 were prepared without taking into account actual requirements. Demands were *26 per cent to 67 per cent* higher than actual expenditure incurred as given in table as follows:

*(Rupees in crore)*

Year	Nature of expenditure	Budget demanded	Budget allotted	Expenditure	Percentage of savings over budget demanded
2001-02	Non-Plan	192.93	183.95	109.39	43
	Plan	198.00	103.30	99.35	50
2002-03	Non-Plan	211.78	190.14	137.96	35
	Plan	228.25	143.55	119.62	48
2003-04	Non-Plan	208.51	193.51	155.32	26
	Plan	280.10	113.62	92.85	67

Preparation of inflated budget was indicative of lack of control over preparation of budget. However, reasons thereof were called for which were awaited (August 2004).

***Expenditure in excess of budget provisions***

**5.1.7.** In eight divisions, against release of funds of Rs 21.01 crore (seven schemes), Rs 22.45 crore (three schemes) and Rs 9.70 crore (two schemes) during the years 2001-02 to 2003-04, expenditure of Rs 29.45 crore, Rs 31.77 crore and Rs 18.41 crore was incurred, resulting in excess expenditure of Rs 8.44 crore, Rs 9.32 crore and Rs 8.71 crore respectively. Reasons for excess expenditure and action taken for regularisation thereof to ensure legislative control were awaited (August 2004).

***Expenditure without budget provisions***

**In eight divisions, expenditure was incurred in excess of budget provisions**

**5.1.8.** In eight divisions, during the period 2001-2004, Rs 5.03 crore were incurred without provisions of funds. When this was pointed out, two XENs stated that the expenditure was incurred in anticipation of receipt of funds. The reply was not tenable as the Divisional Officers concerned had violated the provisions of rules.

***Drawal of funds to avoid lapsing of budget***

**5.1.9.** In seven divisions, cash was drawn at the fag end of March and unspent cash balances of LOC of Rs 3.17 crore were irregularly carried over to the subsequent financial years in order to avoid lapsing of budget grant.

***Non-maintenance of control registers***

**Control Registers for annual plan outlay and expenditure incurred thereagainst were not maintained**

**5.1.10.** The CE/SEs as Controlling Officers did not maintain Control Registers for annual plan outlay and expenditure incurred thereagainst. When this was pointed out (April 2004), CE issued (April 2004) instructions for the maintenance of Control Registers. Further compliance was awaited (August 2004).

***Differences in figures of expenditure***

**5.1.11.** A comparison of figures of expenditure reported to GOI with those appearing in the Appropriation Accounts of the State Government revealed variation as per ***Appendix-XXXII***. Though the reconciliation of figures was carried out with the Accountant General (A&E), differences still persisted as the department had not adopted the figures that had appeared in Appropriation Accounts, as was required. This was indicative of deficient internal control mechanism.

***5.1.12. Deficiencies in system of release of Letter of Credit (LOC)***

- No records i.e. Budget Control Register with regard to allocation of LOC as required was maintained, in the absence of which, it could not be ascertained in audit as to how the CE assured himself that the LOC was released in correct proportion.
- Out of LOC of Rs 177.55 crore released during 2001-02 (Rs 33.79 crore), 2002-03 (Rs 69.50 crore) and 2003-04 (Rs 74.26 crore), an amount of Rs 134.13 crore (76 *per cent*) was released with a delay (after allowing 3 days for transit) ranging between one day and 252 days.
- In 10 divisions, an amount of Rs 21.03 crore was transferred to other divisions without due approval of the CE.

***Rush of expenditure during last quarter***

**In eight divisions, stipulated requirement of incurring proportionate quarterly expenditure was not adhered to**

**5.1.13.** In eight divisions, out of the total expenditure of Rs 39.35 crore incurred during 2001-02 and Rs 60.10 crore during 2002-03, over 45 *per cent* (2001-02:Rs 17.58 crore) and 52 *per cent* (2002-03:Rs 31.05 crore) were spent during last quarter. The expenditure was stated to have been made according to release of LOC. Thus, stipulated requirement of incurring proportionate quarterly expenditure during the year was not adhered to besides the regular flow of expenditure was also not ensured.

***Non-reconciliation with treasury***

**5.1.14.** In 10 divisions, Form PWA 26 showing the results of reconciliation with treasuries relating to remittances and cheques encashed was in arrear for the period from January 2001 to March 2004. The unreconciled amounts pertained to the period as old as 1988 and their proper accountal was of utmost urgency.

Further, pay and allowances amounting to Rs 70.18 crore drawn from treasuries between April 2001 and March 2004 by these divisions was also not reconciled, for which no reasons were on record.

***5.1.15. Deficiencies in maintenance of Cash Book***

- In 12 offices, requisite certificate in token of having the totals checked, was not found recorded in the Cash Books at the close of each month.
- In 12 offices, cuttings and over-writings made in the Cash Books, were not attested by the DDOs.
- In eight divisions, the classifications of transactions were not written in the Cash Books in violation of rules.

***Improper maintenance of Receipt and Cheque Books Control Register***

**5.1.16.** The Receipt and Cheque Books to be used should be obtained from the Treasury Officer concerned and entered in the register of Receipt and Cheque Books (Form DFR 4) maintained by the XENs. The counterfoils of used Receipt and Cheque Books should be returned promptly to the DOs for record.

In 12 divisions, 261 Receipt Books and 85 Cheque Books were used between April 2001 and March 2004. Neither records of issue of Receipt and Cheque Books were maintained nor counterfoils of used Receipt and Cheque Books were got recorded with the divisional offices. Thus, non-compliance of codal provisions was indicative of lack of internal control over the issue/use of Receipt and Cheque Books.

***Operational controls***

**5.1.17.** Rules and instructions relating to execution of works provide that:

- No work should be commenced without sanction of estimates or anticipatory sanction of the competent authority.
- Any probable excess expenditure over sanctioned estimates was required to be reported to SE through work slips.

- Immediately when a work is completed, SE should see that the accounts of work are closed and completion report is prepared.
- No provision should be made in estimates for contingency expenditure except with prior permission of Finance Department (FD) in each case.
- Every XEN is required to submit a consolidated Tools and Plants (T&P) Return to Audit by 15<sup>th</sup> October every year.
- The items appearing under Cash Settlement Suspense Account (CSSA) should be cleared within 10 days from the date of receipt of the accounts.
- The accounts relating to all transactions with contractors should be maintained by Divisional Officers in the Contractor's ledger in the prescribed form and be closed and balanced on monthly basis.
- The Divisional Head Clerks should maintain and keep proper custody of library books, duly updated.

However, operational controls of the Department were weak and deficient as follows:

***Commencement of works without sanction of estimates***

**In 11 divisions, 209 works were commenced without sanction of estimates**

**5.1.18.** In 11 divisions, 209 works valuing Rs 51.12 crore were executed upto March 2004 without sanction of estimates and no anticipatory sanctions were also sought/submitted in these cases; reasons thereof were not on record. Thus, as a result of non-following of rules, CE/SEs failed to exercise control over unauthorised execution of works.

***Excess expenditure over estimates***

**5.1.19.** In nine divisions, against the sanctioned estimates of Rs 14.85 crore in 55 works, expenditure of Rs 17.25 crore was incurred upto March 2004. However, the XENs did not report excess expenditure of Rs 2.40 crore to SEs through work slips for consideration and regularisation, thus, showing lack of control over expenditure.

***Non-preparation of completion reports***

**5.1.20.** In 10 divisions, 508 RWS schemes were completed between April 2001 and March 2004 but neither were the accounts of these works closed nor were the completion reports prepared as of March 2004. The SEs did not call for completion reports of completed works as required. In reply, the SEs stated that necessary instructions would be issued to the field offices. Further report was awaited (August 2004).

***Irregular provision of contingency in work estimates***

**5.1.21.** In seven divisions, in 152 estimates valuing Rs 50.37 crore, the provisions for contingency amounting to Rs 1.10 crore was made. Further, it was seen that two divisions had incurred an expenditure of Rs 35.47 lakh against the provision of contingency on office expenses, stationery, petty purchases etc., in violation of Government instructions. In four divisions, the details of expenditure incurred on contingency were neither posted in the Register of Major/Minor works nor made available to Audit.

***Cash Settlement Suspense Account***

**5.1.22.** In eight divisions, 89 items involving Rs 4.01 crore outstanding at the end of 2003-04 under the suspense head of accounts, pertained to the period from November 1970 to January 2004 and were awaiting clearance since long. As a result of non-clearance of items, the possibility of misappropriation/non-accountal of material by the concerned divisions cannot be ruled out. The corrective measures were not taken for such a long period, which indicated absence of monitoring at appropriate levels.

***Tools and Plants (T&P) returns***

**5.1.23.** The prescribed T&P returns for the period from April 2001 to March 2004 were not prepared by 10 divisions. The chances of pilferage of T&P articles in the absence of proper records could not be ruled out. This persistent irregularity was indicative of absence of internal control mechanism.

***Non-maintenance of contractor's ledger***

**Contractor's ledgers  
were not maintained  
in five divisions**

**5.1.24.** In five divisions, contractor's ledgers were not maintained for the period April 2001 onwards and in another five divisions, the contractor's ledgers were neither maintained in proper format nor closed and reviewed periodically. This was indicative of lack of effective internal control over the accounts of contractors.

***Up-keep of codes and manuals***

**5.1.25.** In 10 divisions, either no Library Registers were maintained or where maintained, the departmental codes and manuals were not available as per registers. Further, Guard files containing correction slips and important departmental instructions issued by Government or CE from time to time, were also not maintained. These compendiums, which were the main tools for executing proper internal control, thus, were not available with the department.



## Store management and inventory control

5.1.26. Departmental rules provide that:

- Stores should be purchased economically and according to definite requirement.
- Stock should be restricted to Reserve Stock Limit (RSL).
- Stores should be physically verified in the month of August every year and results reported to CE.
- Stock balances as per Bin Cards and Priced Stores Ledger (PSL) should be reconciled periodically.
- Storage charges (Profit/Loss) should be adjusted at the end of the year.

The deficiencies noticed in store management and inventory control, were as follows:

### *Non-fixation of Reserve Stock Limit*

**Reserve Stock Limit  
was not got sanctioned  
in eight divisions**

5.1.27. Although eight divisions were holding stores valuing between Rs 1.41 crore and Rs 4.63 crore during the years 2001-02 to 2003-04, RSL had not been got sanctioned from the Finance Department, indicating lack of control over inventory.

### *Lack of control over procurement*

5.1.28. In eight divisions where Reserve Stores were maintained, surplus/ unserviceable and obsolete store items valuing Rs 83.34 lakh and Rs 62 lakh respectively, were lying in stock (March 2004). Lack of monitoring by the SEs/CE on procurement resulted in blockade of Government money due to excess purchases, which could have been avoided.

### *Physical verification*

5.1.29. The position of non/late conducting of physical verification of stores in eight divisions to safeguard against the possibility of any shortage was as follows:

<b>Year</b>	<b>No. of Divisions where physical verification not done</b>	<b>No. of Divisions where physical verification was done with delay</b>	<b>Period of delay in months</b>
2001-02	3	4	2 to 27
2002-03	4	3	6 to 14
2003-04	5	3	3 to 5

***Stock taken on Material at Site (MAS) registers***

**5.1.30.** In nine divisions, no physical verification of material borne on MAS registers was conducted during the period covered under review. Failure of DOs to ensure compliance of codal provisions to rule out the possibility of any shortage showed lack of internal controls for which no reasons were on record. When pointed out, all XENs noted the point for compliance.

***Submission of physical verification reports***

**5.1.31.** As per records of CE office, out of 48 divisions, only two divisions had submitted reports of physical verification to the CE during April 2001 to March 2004. The CE did not initiate any action to ensure compliance of instructions. As a result, shortage/pilferage of material, if any, was not brought on record, defeating the purpose of prescribing this return.

***Priced Store Ledger (PSL)***

**5.1.32.** In seven divisions, the PSLs were incomplete as reference to payments or adjustment of debits, vouchers/transfer entry and date were not recorded. Revised issue rates of stock items were not noted in PSLs and entries of issues and receipts of stores in PSLs were not attested by the Divisional Officers.

Further, no reconciliation of stock balances in PSLs and the bin cards was carried out during the period covered under review, thus, defeating the purpose of maintaining PSLs for which no corrective measures had been taken by the SEs. In the absence of complete PSLs, extent of correctness of quantities stated and values of store computed could not be ensured in audit.

***Non-adjustment of storage charges***

**In seven divisions, storage charges were not adjusted at the end of March 2004**

**5.1.33.** Seven divisions did not adjust the storage charges and at the end of March 2004, credit balance (profit) of Rs 74.93 lakh (three divisions) and debit balance (loss) of Rs 1.17 crore (four divisions) had accumulated. In three cases, the XENs stated that rates would be revised. The other three XENs noted the point for compliance. Further, the amounts of loss were neither justified by DOs nor got written off from the competent authority.

### **Administrative controls**

Under the rules, the SE was required to conduct inspections of the divisions falling under his Circle and XENs were also required to conduct inspections of sub divisions under their control, once in a year.

#### **5.1.34. Deficiencies in inspections conducted by SEs/XENs**

- In 17 divisions, out of 51 annual inspections required to be conducted during 2001-04, four SEs did not conduct 11 inspections. Initial replies to 25 Inspection Notes in respect of inspections conducted during 2001-04 were not received from the XENs. This indicated lack of control on the part of SEs to watch compliance to the defects pointed out by them.
- The Government or CE had not prescribed norms for time allotment for inspection on the basis of work load of divisions and time limit for issue of inspection notes. Three SEs issued 21 inspection notes after two months to six months from the completion of inspection by the circle offices. No records relating to issue of inspection notes were available with SE, PH Circle, Patiala.
- No Control Register to watch over the inspections due and conducted, issue of inspection notes, receipt of replies, number of paragraphs and inspection notes outstanding, had either been prescribed or maintained in any of the circle offices covered in review.
- Four XENs did not conduct any inspection of sub-divisions under their control during 2001-02 to 2003-04.
- In seven divisions, inspections were conducted but no inspection notes containing defects noticed were issued to the SDEs.

#### ***Inadequate field inspections***

**5.1.35.** As per guidelines, the officers from the State headquarters should visit the districts, blocks and villages regularly to ascertain execution of schemes as per prescribed standards and specifications. Departure from it, if any, should be highlighted and brought out in inspection tour note.

No record was available of periodical visits of departmental officers to districts, blocks and villages to have access to the quality of execution and operation and maintenance of the schemes.

When this was pointed out, the CE, Patiala stated (April 2004) that schemes were being inspected by the Senior Officers of department at random. However, the reply was not tenable as only four inspection notes relating to 11 RWS schemes of five divisions in respect of inspections conducted by CE in October 2003 and December 2003 were made available and inspection notes for the remaining period from April 2001 to March 2004, were neither found on record nor made available to Audit. The random selection, therefore, was neither representative nor adequate.

In case of four SEs, no records of works inspections and inspection notes with regard to works inspections conducted were either found on record or made

available when asked for. In the absence of proper record of works inspection notes, the adequacy of inspection of works by the SEs could not be ascertained in audit.

### **Internal Audit**

**5.1.36.** The audit of PH Branch was neither being conducted by the Additional Director, Internal Audit Organisation responsible for the audit of Government departments nor was there any internal audit wing in the department.

#### **Monitoring and Evaluation**

**5.1.37.** The Administrative Secretary (AS) being administrative head, was required to monitor the working of the department with reference to physical and financial achievements. However, records did not indicate that periodical reports/returns submitted by the CE were ever analysed with reference to budget provisions, funds released and physical achievements thereagainst. On being asked about the results of monitoring at Government level, it was stated (April 2004) that needful was being done in the meetings at the level of Principal Secretary. However, no supporting documents were either on record or produced to Audit.

The AS did not have information on issues such as guidelines for proper implementation of various schemes, details of projects, schemes in operation in the department, funds received from GOI under various Central/State Plan and Non-Plan schemes and expenditure thereagainst and review of reporting of physical and financial matters and deficiencies noticed. On being enquired, it was stated that the information on these points would be supplied to Audit after collecting the same from the CE/field offices. This indicated the absence of internal control at Government level.

#### **Conclusions**

**5.1.38.** The internal controls were lacking as much as that budget demands during 2001-04 were substantially higher than actual expenditure; expenditure was incurred without / in excess of budget provisions; funds were drawn to avoid lapse of budget; release of LOC was delayed; cash books were not maintained properly; reconciliation of withdrawal/remittances was not done with the treasury; works were executed without sanction of estimates; expenditure on works not restricted to estimates; account of the completed works not closed; completion reports and T&P returns not prepared; accounts of contractors' transactions were not maintained; RSL was not got sanctioned; stores were purchased in excess of requirement; physical verification of stores was either not done or delayed; field inspections by State level Officers, Chief Engineers/ Superintending Engineers were inadequate; no internal audit system existed and there was no proper monitoring of departmental working at Government level.

**5.1.39.** In order to have the replies of the Government to the audit observations issued in April 2004, a mechanism to hold the meetings of the Audit with the Administrative Secretaries was evolved. Accordingly, a meeting with the

Administrative Secretaries under the Chairmanship of Chief Secretary was held on 27 August 2004 and the Secretary, PWD (Public Health Branch) was instructed to furnish replies within two weeks; no reply has been received.

**Recommendations**

- Compliance to rules relating to preparation of annual budget, drawal of funds, incurring of expenditure, maintenance of cash book etc. may be ensured.
- Purchase of stores as per actual requirements, their proper maintenance and physical verification thereof may be ensured.
- All works should be executed as per sanctions and prescribed reports/returns be prepared/submitted on due dates.
- An internal control mechanism may be evolved to safeguard against errors, irregularities in operational and financial matters to ensure greater efficacy of administration.
- An internal audit system may be evolved to judge the efficacy of the department.

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