

CHAPTER VII : INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT ARRANGEMENT IN GOVERNMENT DEPARTMENTS

AGRICULTURE DEPARTMENT

7.1 Internal Control System in Agriculture Department

Introduction

7.1.1 Internal control is an integral part of the department designed to provide reasonable assurance in achievement of the objectives ethically, economically and efficiently. Internal control is, thus, broadly defined as a process effected by a department with reference to policies, plans, programmes, rules and regulations safeguarding the assets of the department and fulfillment of objectives and goals.

Internal control system in Agriculture Department was reviewed (April to June 2005) in audit covering the period from 2000-05. Test-check was conducted in the Directorate of Agriculture, two out of six Deputy Directors of Agriculture (West and South) and five Superintendents of Agriculture (SAs)[♦] out of 22. Results of test-check are discussed in the succeeding paragraphs.

Tools of internal control and their role

Budgetary control

7.1.2 Budget is a quantitative financial expression of a programme of measure planned for a given period. The budget is drawn up to plan future operations and to make ex-post-facto checks on the results obtained. Preparation of budget on time and analysis of variations noticed in actual execution serves the purpose of internal control.

For the purpose of preparation of budget, the procedure followed in the State was that the Finance Department would indicate in advance the ceiling limit of expenditures of various department under various demands. The administrative departments prepared their budget (Plan) proposals in consultation with the Planning and Co-ordination Department and submitted it to the Finance Department for approval.

The budget provision, funds released and actuals their-against during 2000-2005 were as under:

[♦] Mohanpur, Bishalgarh, Jirania, Matabari and Dukli.

Table No. 7.1

(Rupees in crore)

Year	Budget provision	Funds released by Finance Department	Actual expenditure	Short release by State Government (2-3)
(1)	(2)	(3)	(4)	(5)
2000-01	24.25	17.22	17.22	7.03 (29)
2001-02	22.48	19.81	19.81	2.67 (12)
2002-03	19.82	17.06	17.06	2.76 (14)
2003-04	16.14	9.97	9.97	6.17 (38)
2004-05	8.21	5.95	5.95	2.26 (28)
Total	90.90	70.01	70.01	20.89 (23)

Source: Records furnished by the Department

Notes: Figures in brackets indicate the percentage

It may be seen from the above table that despite preparation of budget proposals in accordance with the ceilings imposed by Finance Department, there was short release of funds by the Finance Department ranging between 12 and 38 per cent, though the department was fully utilizing the funds released. Records of five SAs test-checked indicated that the following schemes/programmes remained incomplete or delayed due to short release of funds by Finance Department:

- i) National Water Shed Development Project in Rain Fed Areas (6 projects),
- ii) Watershed Development Project in Shifting Cultivation Areas (5 projects),
- iii) Integrated Wasteland Development Project (two projects),
- iv) True Potato Seeds Programme,
- v) Agri-extension and Farmers Training.

Annual Planning

7.1.3 For implementation of different schemes / programmes, the department was required to prepare an annual action plan well in advance of a financial year. The dates of preparation and submission of the annual action plan to Government and approval thereof are shown below:

Table No. 7.2

Year of Annual Plan	Date of preparation	Date of submission to Government	Date of approval by Government	Month (s) of delay
2000-01	July, 2000	July, 2000	September, 2000	6
2001-02	April, 2001	May, 2001	May, 2001	2
2002-03	May, 2002	May, 2002	May, 2002	2
2003-04	June, 2003	June, 2003	June, 2003	3
2004-05	July, 2004	July, 2004	August, 2004	5

Source: Records furnished by the Department

The above table indicated that there was delay ranging from two to six months, in finalisation of annual action plan during the period from 2000-01 to 2004-05. Thus, the time available for implementation of the annual plan got reduced.

Expenditure control

7.1.4 According to Rule 77 of Central Treasury Rules, Vol.I physical verification of cash is required to be conducted by DDO at the end of each

month and a certificate to that effect is to be recorded in the cash book. Finance Department also in their Memorandum (December 1996) issued instructions for physical verification of cash every month by the DDOs and the head of the department was to arrange for surprise check of cash chest once in a quarter.

Test-check of the records of five SAs revealed that physical verification of cash was never conducted in two cases. In other three cases verification was conducted for one month, four months and 26 months respectively during 2000-2005. Surprise check was arranged by the head of department only for four months (in one case), one month (in one case) and two months (in two cases) against the requirement of 20 months during the period. The provisions of Treasury Rules and instructions of the Finance Department were not scrupulously followed resulting in weakening of control.

Special audit of Superintendent of Agriculture, Panisagar conducted (March - May 2005) at the request of the Government, revealed that non-observance of provision for handling of cash by the drawing and disbursing officer resulted in fraudulent disbursement of Rs. 20.78 lakh during 1998-99 to 2002-03. This escaped the notice of the Controlling Officer because of non-observance of internal control precepts in the department.

Financial Rules provide that funds drawn in Abstract Contingent (AC) bills should be adjusted within 60 days from the date of their drawal through Detailed Countersigned Contingent (DCC) bills.

Test-check of the records of the Directorate revealed that Rs. 14.26 crore drawn on 1568 AC Bills during 1978-79 to 2003-04 (year-wise details given in **Appendix XXXII**) were lying outstanding as of June 2005. The funds were advanced to four Deputy Directors of Agriculture, 22 Superintendents of Agriculture and three Executive Engineers for implementation of various programmes.

The implementing agencies had not submitted (June 2005) adjustment of the expenditure incurred out of the funds advanced to them. As a result, the expenditure booked by the department by drawing funds of Rs. 14.26 crore in AC bills could not be vouched in audit. Non adjustment of 25 years old AC bills is indicative of poor financial management.

Similar observations were made in the para 3.1.25 of the Audit Report for the year ended March 2003. The para was discussed in PAC in July 2004. The department submitted before the PAC that steps had already been taken for adjustment of AC bills. However, the unadjusted amount is increasing continuously.

Operational control

7.1.5 Office procedure manual or any functional manual of a department provides guidelines to the officials in respect of their specific duties to be carried out. The manual also helps the head of office / department as a tool of administrative control as well as in maintaining adequate internal control system in the department.

Records of the Directorate of Agriculture indicated that the department had neither prepared any manual nor guidelines for assigning duties and responsibilities to the officials and to oversee the functioning of the department. The Directorate stated that circulars and instructions issued by Government from time to time are followed to maintain internal control in the department.

Records regarding inspection by the Supervisory officers from district level to sector level were not maintained though rules/orders required this. The department fixed (January 1996) the norms of inspection of field demonstration by the Supervisory officers @ 10 per cent (District level), 30 per cent (Sub-Divisional level) and 75 per cent (Sector level) of total number of demonstrations provided by the department. But the DDA (West) and two SAs, test-checked, could not produce records to indicate that prescribed number of inspections of field demonstrations were carried out during the last five years.

The department did not prepare any time schedule for preparation of proforma accounts in respect of different agriculture inputs. The department also did not have any system for reconciliation of accounts of stock of procurement and distribution with sale proceeds at regular intervals.

However, it was noticed that proforma accounts were prepared for the year 1991-92 as of March 2005, indicating arrear of accounts for 13 years. From the accounts for the year 1991-92 it was noticed that Rs. 66.30 lakh was to be recovered from 950 VLW* who were responsible for not depositing the sale proceeds for agri-inputs since 1971-72 to 1991-92. The subsequent year's accounts may reflect further recoveries and the recoverable amount on Agriculture inputs may increase on compilation of subsequent year's account. Except issue of demand notices, no further action was taken against the defaulters.

Store management

7.1.6 The Agriculture Department procured various agriculture inputs i.e. seeds, fertilizers, plant protection chemicals (PPC) from outside the State according to requirement for distribution to the farmers and implementation of different schemes. Supply of quality certified seeds on time is one of the basic aim and objectives of the department. For this purpose, programme for procurement of seeds was drawn based on the cut off dates of the sowing seasons as shown below:

Table No. 7.3

Name of crops	District Store	Sub-divisional store	Village Level Worker store	Distribution to farmers	Sowing season
Paddy (Kharif)	3 rd week of February	2 nd week of March	3 rd week of March	4 th week of March	March and April
Jute (Kharif)	4 th week of February	-do	-do-	-do-	March

Source: Records furnished by the Department

* VLW: Village Level Worker.

Tripura Horticulture Corporation Ltd. (THCL), a Government of Tripura undertaking was selected as nodal agency for supply of certified seeds to the Agriculture Department. It was noticed that THCL did not maintain the time schedule for supplying seeds. It also failed to supply 321 MT paddy seeds to the Agriculture Department during the Kharif season of 2003-04. As a result, department had to divert its procurement of seeds from THCL to NERAMAC*, a private sector undertaking company.

The department placed an order (May 2004) with the NERAMAC for supply of paddy seeds by May 2004. The agency could not deliver the seeds and the month of delivery was extended to July 2004, and, as a result, the seeds could not be utilised during 2003-04 as the kharif season was already over three months before supply. However, the seeds were issued to the farmers.

In another case, jute seeds were required to be supplied by February 2004, but the supply order for 3.87 MT jute seeds @ 27,500/- per MT, was placed on SFCI♦ in March 2004 stipulating completion of delivery by March 2004. Delivery of jute seeds was effected only in April 2004, i.e. after the sowing season was over before one month. This delay in procurement resulted in delay in distribution and sowing the seeds.

For pest control the department procured 1000 Ltrs. Chlorophyriphos (PPC) in October 2002 from a Kolkata based firm. On laboratory testing (June 2003) at Faridabad, the PPC was declared as misbranded. Meanwhile, the PPC was distributed to the farmers before receipt of the report of laboratory testing and the firm was paid Rs. 1.76 lakh.

According to terms and conditions of supply, the firm was required to replace the quantity of PPC subsequently found not conforming to ISI specification on laboratory testing, even if it was consumed before testing. The department claimed refund/replacement of PPC only in September 2004. But the firm did not respond as of July 2005. It took eight months to get the laboratory report and 13 months to claim refund/replacement of PPC after receipt of the laboratory report indicating slackness of internal control system in the department.

Internal Audit arrangement

7.1.7 Internal audit is an appraisal activity established within the department as a service to the entity. The functions of internal audit include examination, evaluation and monitoring the adequacy and effectiveness of the accounting as well as internal control system. The department did not have any internal audit arrangement nor was it arranged by the State Government. Directorate of Internal Audit started functioning in May 2002 but it has not taken up the department's internal audit so far.

Conclusion

7.1.8 The internal control system in Agriculture Department was found deficient in many ways. Non verification and non-adjustment of AC bills for prolonged periods is indicative of lack of financial discipline. Delayed

* North Eastern Regional Agricultural Marketing Co-operation Ltd.

♦ State Farms Corporation of India Ltd.

procurement of certified seeds had an adverse impact on crop husbandry. Delayed preparation of proforma accounts indicated lack of operational control as well as store management and was fraught with the risk of embezzlement.

Recommendations

- Office procedure manual or functional manual should be prepared and adopted as a tool of administrative control and internal control in the department should be strengthened.
- Surprise and regular physical verification of cash as per rules should be ensured.
- Desirability of setting up infrastructure for laboratory testing of PPC in the State should be considered.
- Internal audit arrangement should be made immediately.

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