
CHAPTER-V
Internal Control Mechanism in Government Departments**COTTAGE AND SMALL SCALE INDUSTRIES DEPARTMENT****5.1 INTERNAL CONTROL MECHANISM IN COTTAGE AND SMALL SCALE INDUSTRIES DEPARTMENT*****HIGHLIGHTS***

Internal control measures envisaged in the Government rules and procedures to safeguard against errors and irregularities in financial matters were not effectively followed. Non-observance of budgeting procedure and inadequate expenditure control led to preparation of unrealistic budget, expenditure without budget provisions and withdrawal of fund without requirement. Absence of control over release of financial assistance to public sector undertakings, co-operative societies and small scale industrial units and lack of pursuance for recovery of Government's dues led to unfruitful investment and also non-recovery of huge amount of loans and interest. Poor manpower management resulted in vacancies in posts of key functionaries coupled with unproductive expenditure on idle staff. Internal Audit wings of the directorates were underutilised and failed to ensure adherence to the rules and regulations.

Non-observance of budgeting procedure such as compilation of inputs from field offices, consideration of previous year's expenditure and actual men on roll, etc. made the budget provisions unrealistic and resulted in savings during each of the years 2001-2006.

(Paragraph 5.1.5)

During 2002-2006, 43 to 88 per cent of revenue expenditure excluding salary and 30 to 96 per cent of capital expenditure were incurred by the department in the month of March of the respective years.

(Paragraph 5.1.7)

The department neither maintained any loan register nor introduced any computerised database for loan management. The terms and conditions of 506 loans amounting to Rs 184.13 crore sanctioned to ten units (three under closure) had not been settled and as a result recovery of these loans could not be ensured.

(Paragraph 5.1.10)

Owing to lack of effective pursuance, the department failed to recover overdue instalments of principal and interest aggregating Rs 23.80 crore from co-operative societies/SSI units/entrepreneurs. Of this, there was no scope for recovery of Rs 5.70 crore from 799 defunct Co-operative societies in three test-checked districts.

(Paragraph 5.1.11)

In absence of proper planning for implementation, the centrally sponsored scheme for construction of houses for flood affected weavers

Abbreviations used in this review have been listed in the Glossary (page 213)

remained abandoned depriving the flood affected weavers; while GOI subsidy of Rs 2.34 crore remained parked with the State Government for over five years.

(Paragraph 5.1.12)

There was no Internal Audit Wing of the department. The internal audit wings of Directorates of C&SSI and Sericulture were ineffective. The Directorate of Handloom and Textile did not set up internal audit wing.

(Paragraph 5.1.18)

5.1.1 Introduction

The primary objective of Cottage and Small Scale Industries Department (department) is to promote growth of cottage and small scale industries in the State including promotion of handloom and textile industries and development of sericulture. The department provided financial assistance by way of loans and grants as well as contribution towards share capital of public sector undertakings, co-operative societies, small scale industrial units, etc.

Effective internal control mechanism in the Cottage and Small Scale Industries Department calls for adequate controls over Government investment and financial assistance to Public Sector Undertakings/ Co-operative Societies/ Small Scale Industrial units /entrepreneurs by way of proper accounting, close monitoring over fruitful utilisation of government's assistance as well as follow up and pursuance for repayment of loans and payment of interest.

5.1.2 Organisational set-up

The department, headed by a Principal Secretary, had three directorates viz. Directorate of Cottage and Small Scale Industries, Directorate of Handloom and Textiles and Directorate of Sericulture. Of these three directorates, two had their own internal audit wings; while the Directorate of Handloom and Textiles had no internal audit wing.

5.1.3 Audit objective

The audit objective was to assess whether:

- Budgetary, expenditure and cash controls were effective;
- control over investments and recovery of dues was adequate;
- monitoring over performance of assisted units was adequate and effective;
- manpower management was prudent; and
- internal audit arrangement was effective.

5.1.4 Audit coverage

A review on the internal control mechanism in the department for the period 2001-2006 was conducted during January to April 2006 by test-check of records of the department, three directorates, Deputy Director of Handloom and Textiles (DDHT), Kolkata Division, three¹ Deputy Directors of

¹ Birbhum, Nadia and Murshidabad

Sericulture (DDS) out of eight, three² District Industries Centres (DIC) out of 21 and two³ Handloom Development Officers (HDO) out of 20 in the State.

Audit Findings

Budget, expenditure and cash controls

The Department did not follow the budgeting procedures prescribed in the West Bengal Financial Rules as discussed in the succeeding paragraphs:

5.1.5 Budgeting procedure ignored

Budget estimates were prepared without obtaining inputs from DDOs

West Bengal Financial Rules (WBFR) envisaged that each budgeting authority was required to prepare budget estimates (BE) on the basis of actuals of the previous year and revised estimate of the current year and to submit the same to the Finance Department (FD) within 15 October each year. Scrutiny revealed that the department made delays of one to four months in sending such estimates to FD during 2001-2006. In absence of proper monitoring and pursuance on the part of the directorates, the DDOs were not submitting monthly expenditure statements showing allotment, expenditure and balances to the directorates. The department also failed to prepare departmental accounts and to reconcile the same with those booked by the Accountant General (Accounts & Entitlement) as required under Rule 385 of WBFR. The proforma accounts of the commercial activities of the Directorate of Cottage and Small Scale Industries were also not prepared before preparation of the budget. As a result, the budget estimates were prepared on *ad-hoc* basis by adding 10 per cent to previous year's allocations for different heads of accounts without considering actual expenditure incurred and revenue collected during previous year.

The budget provisions *vis-à-vis* actual expenditure and savings during 2001-2006 were as under:

Year	Budget Provision			Expenditure			Excess (+) / Savings (-)			Percentage of savings to Budget provisions
	Capital	Revenue	Total	Capital	Revenue	Total	Capital	Revenue	Total	
(R u p e e s i n c r o r e)										
2001-2002	51.22	117.13	168.35	41.66	75.78	117.44	(-) 9.56	(-) 41.35	(-) 50.91	30
2002-2003	43.46	114.91	158.37	26.85	64.89	91.74	(-) 16.61	(-) 50.02	(-) 66.63	42
2003-2004	29.32	86.74	116.06	25.32	73.05	98.37	(-) 4.00	(-) 13.69	(-) 17.69	15
2004-2005	27.91	102.71	130.62	24.95	94.84	119.79	(-) 2.96	(-) 7.87	(-) 10.83	8
2005-2006	49.10	168.67	217.77	52.99	153.09	206.08	(+) 3.89	(-) 15.58	(-) 11.69	5
Total	201.01	590.16	791.17	171.77	461.65	633.42	(-)29.24	(-) 128.51	(-) 157.75	20

(Source: Appropriation accounts)

Deficient budgetary control led to preparation of unrealistic budget

The savings in revenue budget occurred mainly due to preparation of estimates against salaries without considering actual number of employees on roll. Savings in capital outlay were attributable to non-receipt of comprehensive work proposals along with estimates from field offices. Thus, budget estimates lacked correlation with requirement or physical performance and were thus unrealistic.

² Howrah, Murshidabad and South 24 Parganas

³ Birbhum and Nadia

5.1.6 Expenditure without budget provision

Rs 15.23 crore were spent either in excess or without any budget provisions on 13 schemes

The Directorate of Cottage and Small Scale Industries spent Rs 3.70 crore on nine State plan schemes during 2001-2005 without any budget provision in utter disregard to provisions of Budget Manual. Further, against budget provision of Rs 3.53 crore for payment of grants-in-aid to Technical and Industrial Schools during 2003-2005, the directorate paid Rs 4.54 crore during the said period resulting in excess payment of Rs 1.01 crore over the budget provisions.

The Directorate of Handloom and Textiles spent Rs 12.63 crore on three state plan schemes⁴ during 2004-2005 against the budget provisions of Rs 2.11 crore resulting in excess expenditure of Rs 10.52 crore over the budget provisions.

Thus, due to non observance of adequate budgetary control, the department released funds for different schemes in excess of budget provisions or even without budget provisions.

Control mechanism for preventing rush of expenditure in the month of March was not effective

5.1.7 Rush of Expenditure in March

During 2002-2006, 43 to 88 *per cent* of revenue expenditure excluding salary and 30 to 96 *per cent* of capital expenditure were incurred by the Department in the month of March of the respective years, flouting Rule 389 of WBFR. In case of 19 schemes, 74 to 100 *per cent* of budget provisions of 2005-2006 were released to field offices in March 2006 thereby enhancing the possibility of imprudent spending.

5.1.8 Withdrawal of fund without assessing requirement

SR 229 of WBTR provides that no money should be drawn from treasury unless it is required for immediate disbursement. In violation of this provision, the Director of H&T drew Rs 19 lakh in March 2003 for conducting market survey on handloom industries without assessing the requirement of fund for this purpose. The cheque for Rs 19 lakh was not encashed as no survey was conducted and the lapsed cheque was deposited into treasury in July 2004. Thus, the fund was drawn from treasury without ascertaining viability of the scheme and also without having any commitment for immediate payments.

5.1.9 Other irregularities in cash management

5.1.9.1 During 2001-2006, the heads of offices did not conduct any physical verification of cash in the directorates. Out of nine test-checked units, physical verification of cash was never done in three⁵ units and in one⁶ unit such verification was conducted by the DDO only in April 2001 and in July 2002.

⁴ Share Capital to West Bengal State Handloom Weavers Cooperative Society Limited (Tantuja), Share capital to West Bengal Handloom and Powerloom Development Corporation Limited, Market Incentive Scheme under Dinadayal Hatkharga Pratshanyan Yojana for weavers coop society, NGOs

⁵ Directorate of Sericulture, Dy Director of Sericulture, Barhampur and HDO, Suri

⁶ DIC, Howrah

In absence of physical verification of cash, possibility of temporary misappropriation of cash could not be ruled out.

5.1.9.2 According to SR 31 (V) of WBTR, after the end of each month a consolidated statement of all remittances made during the month is to be obtained from the treasury for reconciliation with the cash book. During 2001-2006, none of the test-checked DDOs collected such statements from the treasury and reconciled the same with cash books. Therefore, the correctness of entries of remittance in cash book could not be vouchsafed.

Control over investment

The department disbursed loans, share capital contributions and grants-in-aid to PSUs⁷ and co-operative societies, small scale industries, entrepreneurs, etc. Ineffective control over accounting of such financial assistance, non-assessment of economic viability of the units before providing such assistance and absence of proper follow up mechanism resulted in non-recovery of substantial amounts of overdue instalments of loans and interest thereon and blocking up of funds in the share capital of unviable units. Some illustrative cases are discussed in the succeeding paragraphs:

5.1.10 Non recovery of loans and interest from PSUs

The Department disbursed loans aggregating Rs 256.89 crore to 15 PSUs and seven State Co-operative Societies as of March 2006. Scrutiny in audit revealed the following:

- The department neither maintained any loan register nor introduced any computerised database for loan management.
- The terms and conditions of 506 loans amounting to Rs 184.13 crore sanctioned between 1971-1972 and 2004-2005 to ten units had not been settled as of March 2006 and hence recovery of such loans was not ensured. Of these ten units, three were under closure.
- There was no system of issuing any demand notice to loanees. The department also did not take any action for recovery of overdue instalments of loans aggregating Rs 37.91 crore and accrued interest of Rs 49.66 crore⁸ as of March 2005.

Overdue amounts of principal of Rs 37.91 crore and interest of Rs 49.66 crore remained unrealised from PSUs

5.1.11 Loans to Weavers' Cooperative Societies/Small Scale Industries

5.1.11.1 For employment of weavers through development of small industries in handloom sector, the department disbursed loans of Rs 37.43 crore during 2001-2006 to primary handloom weavers' co-operative societies (PHWCS), but neither maintained any consolidated report on number of PHWCS assisted nor monitored their performance vis-à-vis employment generated. No action was also taken for recovery of the loans and interest.

Test-check of records of DDHT, Kolkata Division and HDOs of Birbhum and Nadia revealed that out of loans aggregating Rs 6.18 crore given to 1079

Government's dues of Rs 5.70 crore remained unrecovered from 799 defunct co-operative societies

⁷ Public Sector Undertakings

⁸ Excluding interest on loans in respect of which terms and conditions were not settled

societies, principal of Rs 5.22 crore and interest of Rs 8.05 crore were overdue for recovery as of March 2006. Further, out of those 1079 societies, 799 were non-functioning and hence there was little chance of recovery of Government dues (principal Rs 2.16 crore and interest Rs 3.54 crore) from these units.

**Rs 8.62 crore
remained unrealised
from SSI units**

5.1.11.2 The department disbursed loan of Rs 10000 to each tiny, village and artisan based SSI unit under the Bengal State Aid to Industries Act 1931. The loan was repayable in 15 equal annual instalments along with interest at 8 *per cent* per annum. The aggregate amount of loans overdue for repayment and interest accrued thereon stood at Rs 4.61 crore and Rs 4.01 crore respectively as of March 2005 after recovery of only Rs 74.05 lakh during 2001-2005.

Test-check of records of three⁹ DICs revealed that DIC of South 24 Parganas initiated seven certificate cases for recovery of Rs 0.60 lakh out of Rs 16.52 lakh recoverable from 189 SSI units while DICs of Howrah and Murshidabad did not take any action for recovery of outstanding dues of Rs 1.25 crore.

5.1.11.3 Under Additional Employment Programme, the department provided margin money loan not exceeding Rs 0.75 lakh to each entrepreneur for setting up new SSI units. As the directorate did not maintain any loan ledger indicating the amount of loan disbursed, terms of repayment and payment of interest, etc. for monitoring over realisation of the same, even the total amount of loans given and amounts due for recovery were not available.

**Margin money loan
of Rs 1.48 crore
remained unrealised
from 1263 units
under three DICs**

In three test-checked DICs, against Rs 1.48 crore recoverable from 1263 units as of March 2006, only one certificate case was initiated by DIC Howrah in February 2005 for recovery of Rs 12669 while DICs of South 24-Parganas and Murshidabad did not initiate any certificate case (March 2006).

5.1.11.4 The DIC, Howrah disbursed loans aggregating Rs 1.32 crore to 22 units during October 1987 to June 1999 for payment of Sales Tax. The loan was repayable in three equal annual instalments after moratorium period of ten years. In case of default in repayment of loan, interest at six *per cent per annum* was chargeable from due date. Upto March 2006, only Rs 37.55 lakh was repaid by 16 units, while Rs 42.96 lakh became overdue from 12 entrepreneurs as of March 2006. No action was initiated against the defaulters for realisation of Government dues.

5.1.12 Centrally sponsored scheme not implemented

Under the central scheme for construction of 2596 rural workshed cum houses for flood affected (in September 2000) weavers at a cost of Rs 35000 each, the department received subsidy of Rs 2.34 crore (Rs 18000 per house) from GOI (Rs 1.80 crore in November 2000 and Rs 0.54 crore in March 2001). HUDCO was to give loan of Rs 14000 for each house through WBIDFC¹⁰ and each weaver was to pay Rs 3000.

⁹ DICs of Howrah, South 24-Parganas and Murshidabad

¹⁰ West Bengal Industrial Development Finance Corporation Limited

Centrally sponsored scheme remained abandoned despite availability of required fund

After releasing Rs 45.43 lakh in March 2003 as first instalment of loan, HUDCO did not pay any further loan to WBIDFC as the department did not make any headway towards implementation of the scheme. The unutilised loan of Rs 45.43 lakh was retained by WBIDFC and it repaid principal amount of Rs 24.21 lakh and paid interest of Rs 10.27 lakh up to May 2006 to HUDCO as the fund was otherwise utilised by it. The GOI grant of Rs 2.34 crore was lying unutilised with the State Government.

Thus, in absence of any control over implementation of centrally sponsored scheme, the GOI grants remained unutilised besides misutilisation of HUDCO loan depriving flood affected weavers of the benefit of the scheme.

5.1.13 Investment in sericulture projects without viability study

Investment in sericulture projects without viability study led to loss of Rs 39.94 lakh

The Directorate of Sericulture invested (between March 1994 and January 2002) Rs 64.34 lakh (share capital: Rs 21.77 lakh and loans: Rs 42.57 lakh at an interest of 16 *per cent per annum*) in seven sericulture co-operative societies in Malda for purchase of reeling machines. Of Rs 64.34 lakh, Rs 58.39 lakh was received by the department from National Co-operative Development Corporation (NCDC) as loan repayable in 10 equal annual instalments at an interest of 14.25 *per cent per annum*.

Neither the viability of the projects had been assessed by the department before investment nor was their performance monitored from time to time. In absence of adequate controls in place to pursue the recovery, the societies did not repay the loans and interest while the department paid interest of Rs 39.94 lakh (up to March 2006) to NCDC.

5.1.14 Excess release of financial assistance to National Institute of Fashion Technology (NIFT)

According to the terms and conditions of setting up a branch of NIFT, a Government of India undertaking, in Kolkata in 1995, the department was to pay subsidy for recoupment of 75 *per cent* of revenue deficit of the unit.

Payment of subsidy for revenue deficit without verifying annual accounts led to extra expenditure of Rs 80.59 lakh

NIFT submitted quarterly receipt and payment accounts to the department for release of fund according to the deficit. The department released funds to NIFT from time to time without verifying the audited annual accounts of NIFT and it released total amount of Rs 1.48 crore up to March 2005 against the accumulated deficit of Rs 89.75 lakh as on 31 March 2005 as per audited annual accounts of NIFT. Thus, in absence of adequate control over release of funds to NIFT, the department paid excess subsidy of Rs 80.59 lakh over the admissible amount of Rs 67.31 lakh (75 *per cent* of Rs 89.75 lakh).

Manpower Management

The Industrial Development Officer, Handloom Development Officer, Co-operative Development Officer, Project Coordinator and other field level supervisory staff are crucial for effective coordination and monitoring at various levels in implementation of programmes/schemes in the field of small scale industries and co-operative sector. Lack of adequate control over

manpower management led to huge vacancies in the key posts, improper deployment of staff, etc. as discussed below:

Vacancies existed in key posts due to ineffective manpower management

5.1.15 Vacancies in key posts

In nine test-checked units, the posts of 23 Industrial Development Officers, four Handloom Development Officers, one Co-operative Development Officer, one Project Co-ordinator, 43 Extension Officers and nine Managers were lying vacant for over two to five years. In the absence of field level supervising officers/inspectors, the department was unable to exercise adequate monitoring over functioning of SSI units and weavers' co-operative societies to which it rendered substantial financial assistance in the form of share capital, loan and grants.

Unauthorised excess expenditure of Rs 69.60 lakh on pay and allowances

5.1.16 Irregular deployment of Industrial Development Officers (IDOs)

Against the sanctioned strength of 11 IDOs in DIC, South 24-Parganas, 18 were in position for over five years as of March 2006. The Directorate of C&SSI could not assign any reason for deployment of seven excess IDOs in this DIC. This led to unauthorised expenditure of Rs 69.60 lakh towards pay and allowances of seven excess IDOs during 2001-2006 coupled with underutilisation of manpower.

Retention of staff in defunct units resulted in idle payment of Rs 0.99 crore

5.1.17 Retention of idle staff in closed units

Two units¹¹ under DIC, Howrah and one¹² under DIC, South 24 Parganas were closed in September 1995, May 2000 and July 1992 respectively and one¹³ unit under DIC, Howrah was transferred to a Government Company¹⁴ from August 1995. Despite closure/transfer of these units, 15 employees of these units (Superintendent, Accountant, Upper Division Clerk, Foundry Assistant, Grinder, etc.) were retained in the units without any allotted duty. Non-deployment of these staff in other units of the directorate and consequential non-utilisation of their services resulted in unfruitful payment of Rs 99.46 lakh towards their pay and allowances during 2001-2006.

Internal Audit wing

The department had no internal audit wing. The Directorate of C&SSI had its own internal audit wing consisting of one Senior Auditor and one Upper Division Assistant (UDA) under Joint Director of Industries (Audit) functioning from 2004-2005. The Directorate of Sericulture had its internal audit wing consisting of one Head Assistant, one UDA under Deputy Director (Audit). The Directorate of Handloom and Textiles had no internal audit wing.

Internal audit wing was inadequate and ineffective

5.1.18 Under-utilisation of Internal Audit Wing

The Internal Audit Wings of the Directorates of C&SSI and Sericulture did not maintain any consolidated record in respect of units audited by them. The

¹¹ Coir Training cum Service Centre at Ulberia and Central Workshop at Howrah

¹² Umbrella Demonstration Project

¹³ Industrial Estate at Howrah

¹⁴ West Bengal Small Industries Development Corporation Limited

Joint Director of Industries (Audit) stated (February 2006) that all 23 units of the Directorate of C&SSI were inspected during each of the years 2004-2006. The Deputy Director (Audit) Sericulture stated (June 2006) that internal audit was conducted on selective basis. However, the number of units audited during 2004-2006 could not be furnished by him. The Inspection Reports issued from time to time contained some minor objections like non-verification of cash in hand, stocks, etc. improper maintenance of bill register, non-maintenance of registers, etc. No follow up action was taken to regularise these shortcomings.

5.1.19 Lack of response to audit

The Principal Accountant General (Audit), West Bengal arranges to conduct periodical inspection of the department and the unit offices under it. The audit findings are communicated through Inspection Reports (IRs) to the heads of the offices/department for compliance and necessary rectification of defects. A half yearly report on pending inspection reports is also sent to the Principal Secretary of the department to facilitate monitoring and compliance of audit observations.

357 paragraphs of 87 IRs were pending settlement

As of December 2005, 357 paragraphs relating to 87 Inspection Reports (IRs) issued up to June 2005 were awaiting settlement. Of these, 29 paragraphs relating to 22 Inspection Reports were more than 10 years old.

Only one audit committee meeting was held during 2001-2006

In response to the State Government's order of August 1972, the department constituted the Audit Committee only in January 2001 and only one meeting was held (May 2001) during 2001-2006 against requirement of at least one meeting in each quarter. Two paragraphs of two Inspection Reports were settled in this meeting. The Principal Secretary of the Department did not convene any meeting of the Audit Committee for over five years.

5.1.20 Conclusion

Non-working of budgetary and expenditure control made the budget estimates unrealistic. There were instances of excess expenditure or expenditure without budget allotment and rush of expenditure in the month of March. Internal controls over cash management were deficient and led to violation of rules and procedures in maintenance of cash books and handling public money. The department and its directorates failed to protect the interest of the Government due to absence of controls/non-working of controls over Government's investment in public sector undertakings, co-operative societies, small scale industries, etc. Absence of proper records in respect of loans and interest receivable thereon, deficiency in constructive monitoring over utilisation of Government assistance and lack of pursuance for repayment of government dues resulted in non-realisation of huge amount of Government dues. Due to poor manpower management key posts in DICs remained vacant for years together, while services of staff of closed units were not gainfully utilised. The department's internal audit mechanism was inadequate and ineffective.

Recommendations

- *The budgeting procedure should be followed in accordance with the provisions of WBFR enforcing timely submission of monthly expenditure statements by DDOs taking into account actual men-on-roll and estimates for capital works obtained from field offices.*
- *Control over Government's investment as well as operation of SSI units and co-operative societies in which substantial public funds were invested should be honed through periodic inspections for arresting losses and also for recovery of Government's dues.*
- *Immediate action needs to be taken for proper utilisation of manpower retained in defunct units. Manpower deployed in field units should be reviewed periodically to ensure optimum utilisation.*
- *The internal audit mechanism should be strengthened through deployment of adequate number of qualified staff, fruitful supervision and coverage of all units under internal audit.*

The matter was referred to Government in August 2006; reply had not been received (January 2007)

KOLKATA
The

(ARIJIT GANGULY)
Principal Accountant General (Audit)
West Bengal

Countersigned

NEW DELHI
The

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India