

Chapter-V

Finance Department

Internal Controls in General Provident Fund Organisation

Internal control mechanism in a Government Department is meant to ensure that its activities are carried out according to the prescribed rules and regulations and in an economical, efficient and effective manner. An internal control system and strict adherence to statute codes and manuals minimise the risk of errors and irregularities and help to protect resources against loss due to waste, abuse and mismanagement. Audit review of the functioning of the internal control mechanism during 2002-03 to 2006-07 in the General Provident Fund Organisation (GPFO) (Finance Department), Government of Jammu and Kashmir revealed deficient financial control, and poor operational and supervisory control in the Organisation.

Highlights

- **Unit Broad Sheets (Budget Head-wise) and Consolidated Broad Sheets in respect of the GP Fund accounts of the subscribers required to be maintained under GP Fund Manual had not been maintained.**
(Paragraph: 5.7.2.1)
- **Lack of initiative and non-adherence to the manualised procedure led to accumulation of departmental un-posted debits and credits for Rs. 64.21 lakh and Rs. 14.10 crore respectively.**
(Paragraph: 5.7.2.5)
- **Laxity in maintenance of accounts and lack of coordination between the Drawing and Disbursing Officers and Fund Offices resulted in increase in non-operative accounts and accumulation of negative balance of Rs. 2.95 crore.**
(Paragraph: 5.7.2.6)
- **Non-existence of a viable mechanism between sister Fund Offices and Drawing and Disbursing Officers led to non-finalisation of Final Refund cases of migrants and non-adjustment of Transfer Advices.**
(Paragraphs: 5.7.2.7 and 5.7.2.8)

5.1 Introduction

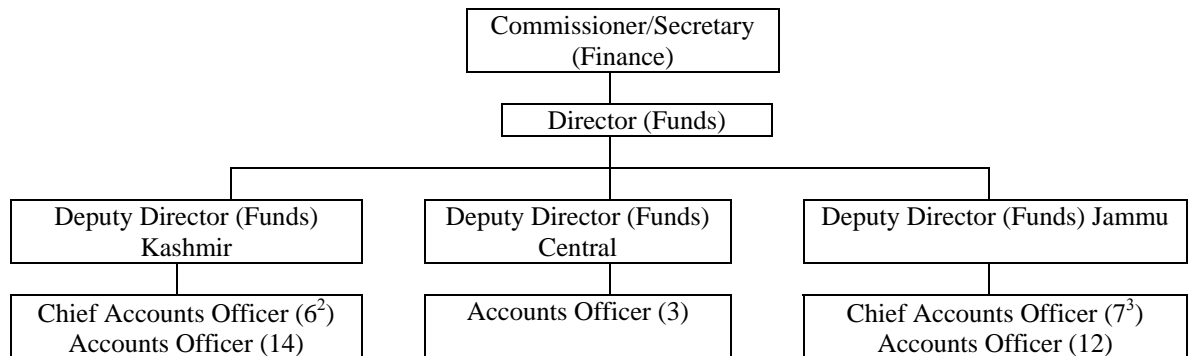
The State Government ordered (March 1984) the transfer of work relating to the maintenance of individual General Provident Fund Ledger Accounts of State Government employees from the Office of the Accountant General, Jammu and Kashmir, Srinagar to the State Government for being maintained at respective district headquarters from April 1986. For this purpose, 14 District Fund Offices (DFO) were established at District Headquarters, while a General Provident (GP)

Fund, Migrant Cell, Jammu was established in the year 1991 for maintenance of G.P. Fund Accounts of migrant employees. A GP Fund Move Cell, Civil Secretariat was created in the year 1992 for maintenance of the GP Fund Accounts of employees moving with *Darbar*¹ and a GP Fund Cell for police personnel was established in June 2006.

5.2 Organisational Set up

The organisational structure of the Department is shown in Chart-I below:

Chart 5.1



5.3 Scope of Audit

The performance review of the GPFO for the period 2002-03 to 2006-07 was conducted during June 2005 to December 2005 and January/February 2007. Records of GP Fund subscribers in 14 Fund Offices were test checked based on simple random sampling method.

5.4 Audit Objectives

The audit objectives were to assess the adequacy and effectiveness of the internal controls of the Department in respect of the following aspects:

- Whether GP Fund accounts were maintained efficiently and correctly.
- Whether Transfer Advices are adjusted timely.
- Whether Final Refund cases are settled timely.
- Effectiveness of Financial, Budgetary and Administrative controls.

5.5 Audit Criteria

The audit findings were benchmarked against the following criteria:

- Jammu and Kashmir State Provident Fund Manual.
- Jammu and Kashmir State Financial Code.
- Jammu and Kashmir State Budget Manual.
- Rules, regulations and instructions issued by State Government from time to time.

¹ Shift of Capital from Srinagar to Jammu and vice-versa

² Anantnag, Baramulla, Budgam, Kupwara, Pulwama and Srinagar

³ Doda, Jammu, Kathua, Poonch, Rajouri, Udhampur, Migrant Cell Jammu

5.6 Audit Methodology

Before taking up the review, an entry conference was held with the Director (Funds) on 18 December 2005. The review was conducted through a test-check of relevant records relating to subscribers at Directorate level besides other subordinate offices. The selection and examination of records relating to subscribers was done on random sampling method. Exit conference was held with the Commissioner/Secretary Finance on 17 September 2007 and the views of the Department, in the light of discussions and replies were included suitably against the relevant paragraphs.

5.7 Audit Findings

The inadequacies in the internal controls of the Department are brought out in the succeeding paragraphs:

5.7.1 Financial and budgetary controls

5.7.1.1 Allocation and expenditure

The position of funds allocated/released mainly for pay and allowances of the employees of the Organisation and expenditure thereagainst for the period 2002-03 to 2006-07 is tabulated below:

Table 5.1

(Rupees in crore)

Year	Allocation	Release	Expenditure	Savings (per cent)
2002-03	11.78	11.69	10.37	1.32 (11)
2003-04	12.14	11.83	10.86	0.97 (8)
2004-05	12.56	11.80	11.38	0.42 (4)
2005-06	14.77	14.58	13.95	0.63(4)
2006-07	16.12	15.33	14.57	0.76 (5)
Grand Total	67.37	65.23	61.13	

(Source: Records of Director Funds)

As is clear from the above table, against the allocation of Rs. 67.37 crore, Rs. 65.23 crore was released to the Department between 2002-03 and 2006-07. Test check (January 2007) revealed that non-operation of some⁴ of the object heads led to persistent savings under these heads indicating framing of un-realistic proposals at district/divisional level and lack of scrutiny in the Directorate Office.

The Deputy Director (Funds) Central, stated (January 2007) that savings occurred due to late release of funds by the Finance Department and that, steps would be taken for utilisation of allotted funds in future. It was further stated that demand for grants in respect of non-operative object heads shall not be projected in future.

5.7.2 Operational controls

The position of credits (subscriptions), debits (withdrawals and advances), interest accrued and balances of GP Fund for the years 2002-03 to 2006-07 was as under:

⁴ Incentives, advertisement and publicity, training, etc.

Table 5.2

(Rupees in crore)

Year	Opening balance	Additions during the year (credits)	Withdrawals/ Advances during the year (debits)	Interest	Closing balance
2002-03	1735.78	431.55	396.61	157.62	1928.64
2003-04	1858.40	474.31	417.34	208.13	2123.50
2004-05	2123.50	503.81	433.72	168.32	2361.91
2005-06	2361.91	752.06	458.01	197.06	2853.02
2006-07	2853.02	731.74	546.61	231.67	3269.82

(Source: Position made available by the Directorate)

The figures supplied by the department were based on the Divisional Fund Offices Jammu and Srinagar and were tentative as the general squaring of the broadsheets at District and Divisional levels had not been completed.

Against a balance of Rs. 1928.64 crore ending March 2003 the Department had carried forward Rs. 1858.40 crore as opening balance for the year 2003-04. Though the discrepancy was detected by the department after the figure for 2003-04 had been received by it, no action had been taken to reconcile the figure as of November 2007.

5.7.2.1 Non-maintenance of Unit Broad Sheets and Consolidated District Broad Sheets

As per J&K GP Fund Manual, credits/debits posted in the ledger account of individual subscribers are to be posted in the Unit Broad Sheet (poster-wise) on the basis of the monthly accounts received from the treasuries. All entries in the Unit Broad Sheets are thereafter, required to be cross-checked with the monthly schedules/debit vouchers received from treasuries to ascertain correctness of the figures entered in the Ledger Accounts of individual subscribers. Thus, the figures of Unit Broad Sheets become the basis for maintenance of Broad sheets at District and Directorate level.

Test check of records of 14 Fund Offices and Directorate Office revealed that two offices⁵ had not maintained the Unit Broad Sheet at all, while in ten⁶ offices the Broad sheets were maintained without complete posting and squaring, without which, it cannot be ensured that the ledger figures were correctly posted from the accounts and agreed with the District compiler's figures. Incomplete/non-maintenance of Broad sheets may lead to excess/short credits/debits remaining undetected in the ledger accounts of the subscribers and incorrect furnishing of interest figures to the Accountant General for adoption in the accounts.

The Director intimated (November 2006 and April 2007) that maintenance of some Unit Broad Sheets had been dispensed with due to shortage of staff and that units concerned have been directed to ensure its proper maintenance. The reply regarding non-maintenance of the Broad sheets is not tenable as no permission for dispensing with the Broad sheet had been obtained from the Finance Department.

⁵ District Fund Offices Baramulla and Srinagar

⁶ District Fund Offices: Anantnag, Class-IV Jammu, Jammu, Kathua, Kupwara, Migrant Cell Jammu, Poonch, Pulwama, Rajouri and Udhampur

Further, due to non-maintenance of Broad Sheets with apprehension of incorrect posting, the DFOs are insisting that the retired persons produce all the debit/credit statements for the period from 1 April 1986 to the date of retirement from the respective DDOs for settlement of their final claims, which is not only contrary to the provisions of the GP Fund rules, but is also resulting in hardship to the retired employees.

5.7.2.2 Unposted Treasury vouchers/schedules

Paragraphs 5.13 and 5.15 of GP Fund Manual provide that District Fund Offices while compiling the fund accounts received from the treasuries should ensure that no credit schedule/debit voucher in support of the monthly account is missing. In case a schedule/voucher is missing, the District Fund Officer shall immediately take up the case with the Treasury Officer concerned to obtain a written confirmation and details about the same. Further, in case of any missing schedule/voucher, duplicate copies thereof shall be obtained from the Drawing and Disbursing Officers concerned to avoid non-accountal of any credits/debits in the individual GPF accounts.

Scrutiny (January 2007) of records revealed that accounts submitted by Treasury Officers were incomplete due to missing vouchers, supporting details, etc. which resulted in the progressive accumulation of unposted debits of Rs. 28.97 lakh and credits of Rs. 10.93 crore between April 1986 and March 2007 and consequent missing credits/debits in the accounts of subscribers. The required written confirmation was neither insisted upon nor were the details of missing schedules/vouchers obtained by District Fund Officers which was indicative of non-observance of procedures envisaged in GP Fund Manual.

The Deputy Director (Central) intimated (July 2007) that respective treasuries have been asked to render the missing vouchers which are pending against them. Efforts were on to get the details from Treasury/Drawing and Disbursing Officers concerned.

5.7.2.3 Non- reconciliation of Accounts

Paragraph 1.06 of GP Fund Manual provides for the account head wise and treasury wise reconciliation of accounts by the District Fund Office with District compiling treasuries and timely submission of reconciled monthly statement of Accounts to the Divisional offices. The Divisional offices are responsible for conducting reconciliation of accounts with the Office of the Accountant General. A test check of the records of Director (Funds) revealed (April 2007) that no reconciliation of accounts was conducted either at District or at Divisional level during the period under review making accounts susceptible to less/excess debits/credits. The Deputy Director (Central) stated (July 2007) that necessary instructions will be issued with regard to reconciliation of debit/credit figures by the Divisional Fund Offices as well as by the units. Further action was awaited (September 2007).

5.7.2.4 Non-maintenance of District O. B. Items Register

Paragraph 5.16 of GP Fund Manual provides that in the event of variations found in the covering list of schedules sent by the treasury with the totals worked out in District Fund Office and where reconciliation is likely to take time, the variation be recorded in the District O.B. items register (OB register). A test check (February 2007) of the District Fund Office Jammu revealed that no such register was maintained either for receipts or for payments. Non-maintenance of the register was indicative of non-observance of internal control mechanism which may lead to under/over account of receipts and payments remaining undetected. On this being pointed out in audit, Director stated (September 2007) that the subordinate offices have been directed to maintain the said register.

5.7.2.5 Departmental un-posted Debits/Credits

According to paragraph 7.02 of GP Fund Manual, District Fund Officers are required to make every effort to post all the accounts of subscribers relating to their credits/debits in their individual ledger accounts. It has, however, been observed in audit that such unposted amount has accumulated progressively to Rs. 64.21 lakh (debits) and Rs. 14.10 crore (credit) as of March 2007 in the Department. The Deputy Director (Central) assured (July 2007) that efforts would be made to reduce the unposted accounts to zero level, for which instructions were being issued repeatedly. Further, it was intimated (April 2007) that slow pace in adjustments was due to receipt of incomplete information/accounts from the DDOs concerned.

5.7.2.6 Allotment of multiple account numbers

Paragraph 5.125 of GP Fund Manual provides that in case of transfer of account of a subscriber from one District to another, his account should not be opened unless it has formally been transferred by the Officer Incharge, District Fund Office who was previously maintaining the same and that the balances of the transferred subscribers should be transferred within 2-3 months. It was, however, noticed in audit that the Department resorted to indiscriminate allotment of new account numbers resulting in increase of inoperative accounts from 21 *per cent* (one lakh) to 25 *per cent* (1.29 lakh⁷) during the period from April 2004 to March 2007 in the State. Director however, intimated (September 2007) that all the fund offices have been instructed to take suitable measures to bring down the number of multiple accounts. A test check of four DFOs further revealed that negative balances in respect of 1,357 subscribers amounting to Rs. 2.95 crore⁸ remained un-adjusted (January 2007) as more than one account number was allotted to some of the subscribers. The Director (Fund) stated (January 2007) that progress regarding clearance of negative balances was awaited from District Fund Offices concerned.

⁷ Total GPF Accounts are 5,15,784 as on March 2007

⁸ District Fund Offices: Class IV: Rs. 67.13 lakh (498 cases); Doda: Rs. 131 lakh (479 cases); Poonch: Rs. 28 lakh (106 cases); Udhampur: Rs. 69.28 lakh (274 cases)

5.7.2.7 Pendency in Final Refunds

Test check (January 2007) of records of Chief Accounts Officer, Migrant Cell, Jammu revealed that 296 Final Refund cases were pending (December 2006) for settlement from 1991-92 onwards. The Chief Accounts Officer, Migrant cell, Jammu attributed (February 2007) the delay in the finalisation of the cases to non-receipt of transfer entries from sister Fund Offices and debit/credit statements from DDOs concerned. Thus, lack of coordination between District Fund Offices and Migrant Cell, Jammu/DDOs and non-observance of the procedure by them to transfer the available balances led to delay in the final refunds ranging from one to 15 years. Director assured (September 2007) that final refund cases in migrant cell shall be scrutinised and got settled at the earliest.

5.7.2.8 Non-adjustment of Transfer Advices

Consequent upon transfer of work relating to the maintenance of GPF accounts of employees of the State Government from the Office of the Accountant General to the Finance Department of the State Government at District level, the GPF balances of the subscribers (ending 31 March 1986) were transferred by issuance of individual Transfer Advices to the concerned DFOs from time to time for incorporation in the ledger account of the subscribers concerned. Test check of the records of 15 DFOs revealed that out of 57,843 advices sent upto March 2007, only 19,159 (33 *per cent*) were adjusted. Thus, 67 *per cent* of the Transfer Advices remained unincorporated in the ledger accounts of subscribers resulting in denial of benefits of GPF to its subscribers during the intervening period.

5.7.2.9 Delay in submission of Final Refund Cases

According to the provisions of GP Fund Manual, the Heads of office/DDOs are required to forward the case of GPF subscribers on their retirement, discharge, dismissal, etc. to the concerned Fund office, complete in all respects expeditiously so that there is no delay in finalisation and payment of the GPF. No provisions however existed in the Manual relating to fixation of time limit for submission of final refund case by the DDOs. Audit scrutiny of the records of five test checked DFOs revealed that there was a delay of upto 8 years in forwarding GPF cases by the DDOs to Fund offices, resulting in hardship to the subscribers and also payment of avoidable interest of Rs. 16.28 lakh (33 cases) to the subscribers. The Director, (Fund) stated that there is no harm in allowing interest to the subscribers whose final payments were delayed. He further stated that the balances transferred with interest work out equivalent to the amount payable by the subscribers on account of loan equivalent to GPF amount (and interest thereon) taken by the subscriber due to non-settlement of his GPF dues. The Finance Department has, however, issued instruction (February 2006) to all Fund Offices that where the delay in finalisation is attributed to an employee or where the amount remains unclaimed for six months, such GPF amount should be transferred to Deposit head not attracting any interest.

5.7.2.10 Delay in computerisation of Fund Accounts

For computerisation of DFOs an expenditure of Rs. 41.62 lakh was incurred during the month of March 2006 and March 2007 on purchase of 37 computers.

Two Fund Offices were computerised fully while computerisation in five offices was under process as of September 2007. Delay in computerisation of organisation was attributed by Deputy Director (Central) to meagre allocation of funds.

5.7.3 Administrative Control

5.7.3.1 Manpower Management

Against the sanctioned strength of 1,066 persons in various cadres as on 1 January 2007, the Department maintained an effective strength of 973 employees. 93 posts were lying vacant, which comprised about 9 *per cent* of the sanctioned posts. The Department had not framed any policy for training of the existing staff and development of human resources.

5.7.3.2 Administrative Inspection

In order to exercise control over resources and functioning of the Department, administrative inspection was required to be conducted annually in all the subordinate offices. It was noticed that out of 22 units in 14 Districts administrative inspection of only 13⁹ offices was conducted by the controlling officers during 2006-07 indicating slackness in monitoring the lower formations of the Department.

5.7.3.3 Non-settlement of audit paragraphs

Audit observations of the Accountant General (Audit) are required to be attended to within one month from the date of receipt of Inspection Reports (IRs). It was however, noticed that 27 IRs containing 86 Paras in respect of GP Fund Organisation were pending settlement as of March 2007 and only one IR containing five paragraphs was settled during the last 5 years ending March 2007 indicating lack of proper follow up by the Department in settling the outstanding paragraphs.

The Director intimated (September 2007) that subordinate offices would be asked to furnish the latest position of the outstanding paras and take steps for their settlement by furnishing satisfactory replies to audit.

5.7.3.4 Non-maintenance of control records

Important control records such as Register of Appropriations and Liability Registers though required to be maintained under the Budget Manual, were not maintained at the Directorate level. The position of pending liabilities of rent of hired accommodations, etc. could thus not be monitored at Directorate level. The Director stated (January 2007) that the control records would be maintained in future and instructions were issued to subordinate offices to this effect in September 2007.

⁹ Deputy Director Funds Jammu/Kashmir, District Fund Office Kathua, Rajouri, Accounts Officer (SLI) Jammu, Account Officer Class-IV Cell Jammu, District Fund Office Jammu, Chief Accounts Officer Migrant Cell Jammu, District Fund Office Budgam, District Fund Office Anantnag, District Fund Office Pulwama, District Fund Office Srinagar, Accounts Officer SLI Srinagar

5.7.4 Internal Audit

To ensure that DFOs adhere to various processes of GPF accounting, follow relevant procedures, rules and regulations envisaged in GPF Manual, maintain and update various records, the Organisation was required to establish an internal Audit Wing directly under the control of Directorate of Fund Organisation. No such Wing had been established so far (April 2007).

On being pointed out in audit the Director constituted (September 2007) an internal audit party at Srinagar and Jammu to look into above issues.

5.7.5 Conclusion

The basic records of the Department were rendered unreliable on account of non-maintenance of Unit and Consolidated Broad Sheets. In the absence of administrative controls, adherence to manualised procedures was found deficient. This resulted in slow pace in adjustment of unposted debits and credits, non-adjustment of transfer advices issued by the office of the Accountant General (A&E), non consolidation of split balances, delay in inter district transfer of balances and non-finalisation of final refund cases. Besides, lax internal controls like non-conducting of administrative inspections and internal audit of various District Fund Offices also contributed to the dilution of effectiveness and efficiency of the General Provident Fund Organisation.

5.7.6 Recommendations

Effective steps are required to be taken for

- Maintenance of Unit and Consolidated Broad Sheets
- Clearance of missing debits/credits
- Reconciliation of accounts with the books of the office of the Accountant General and compiling treasuries.
- Establishment of internal Audit Wing to provide concurrent feed back to management.
- Computerisation of the Provident Fund accounts.

The matter was first referred to Government in October 2006. Substantial decrease in unposted debits/credits was noticed (February 2007) as a result thereof.