

## **CHAPTER 1 INTRODUCTION**

### **About this Report**

**1.1** This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from compliance audit of transactions of Government departments and autonomous bodies and performance audit of selected programmes and activities.

Compliance audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with. Performance audit examines the extent to which the objectives of an organization, programme or scheme have been achieved economically, efficiently and effectively.

The primary purpose of the Report is to bring to the notice of the State Legislature, the important results of audit. Auditing standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The audit findings are expected to enable the executive to take corrective measures as also to frame policies and directives that will lead to improved financial management of the organisations, thus contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during the compliance audit of transactions and follow-up on previous Audit Reports. Chapter-2 of this Report contains findings arising out of performance audit of selected programmes/activities/departments. Chapter-3 contains observations on compliance audit of transactions in Government departments and autonomous bodies.

### **Organisational structure of the Office of the Principal Accountant General (Audit), Punjab and Union Territory, Chandigarh**

**1.2** Under the directions of the C&AG, the Office of the Principal Accountant General (Audit), Punjab and Union Territory, Chandigarh conducts audit of departments of the Government of Punjab (GoP) and autonomous bodies under them. There are seven<sup>1</sup> wings in the office out of which six wings deal with audit and one deals with administration of the office. The audit of civil and works departments and autonomous bodies in the State is conducted by three wings namely Inspection Civil-I, Inspection Civil-II and Works.

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<sup>1</sup> (1) Inspection Civil-I (2) Inspection Civil-II (3) Works (4) Commercial (5) State Receipts (6) Central Revenue and (7) Administration.

This Report contains the audit observations arising out of audit of the various civil departments including the Public Works departments and autonomous bodies. The Report containing the observations arising out of audit of statutory corporations, boards and government companies and the Report containing observations on revenue receipts of the State are presented separately. Similarly a separate Report on State Finances is also presented.

### **Auditee profile**

**1.3** There are 44 departments in the State, at the Secretariat level headed by Financial Commissioners/Principal Secretaries/Secretaries, who are assisted by Deputy Secretaries, Directors and subordinate officers. There are 33 autonomous bodies which are also audited by the office of the Principal Accountant General (Audit), Punjab.

The comparative position of expenditure incurred by the Government during the year 2009-10 and in the preceding two years is given in **Table 1.1**.

**Table 1.1: Comparative position of expenditure**

(₹ in crore)

Disbursement	2007-08			2008-09			2009-10		
	Non-Plan	Plan	Total	Non-Plan	Plan	Total	Non-Plan	Plan	Total
<b>Revenue Expenditure</b>									
General Services	12886.18	5.72	12891.90	14027.72	4.41	14032.13	15518.88	6.40	15525.28
Social Services	4118.58	215.00	4333.58	4427.75	1054.93	5482.68	5178.93	1038.20	6217.13
Economic Services	4535.77	942.82	5478.59	4381.39	363.10	4744.49	4838.76	379.86	5218.62
Grants-in-aid and Contributions	356.79	0.00	356.79	309.69	0.00	309.69	446.91	0.00	446.91
<b>Total</b>	<b>21897.32</b>	<b>1163.54</b>	<b>23060.86</b>	<b>23146.55</b>	<b>1422.44</b>	<b>24568.99</b>	<b>25983.48</b>	<b>1424.46</b>	<b>27407.94</b>
<b>Capital Expenditure</b>									
Capital Outlay	272.16	1919.44	2191.60	255.25	2602.68	2857.93	186.51	1979.90	2166.41
Loans and Advances Disbursed	31.33	3.52	34.85	48.83	6.24	55.07	28.84	0.00	28.84
Repayment of Public Debt (including Ways and Means Advances)	2107.65	0.00	2107.65	2288.52	0.00	2288.52	5308.36	0.00	5308.36
Contingency Fund	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Public Account Disbursements	18751.22	0.00	18751.22	22590.85	0.00	22590.85	20721.04	0.00	20721.04
<b>Total</b>	<b>21162.36</b>	<b>1922.96</b>	<b>23085.32</b>	<b>25183.45</b>	<b>2608.92</b>	<b>27792.37</b>	<b>26244.75</b>	<b>1979.90</b>	<b>28224.65</b>
<b>Grand Total</b>	<b>43059.68</b>	<b>3086.50</b>	<b>46146.18</b>	<b>48330.00</b>	<b>4031.36</b>	<b>52361.36</b>	<b>52228.23</b>	<b>3404.36</b>	<b>55632.59</b>

*Source: Finance Accounts*

### Authority for audit

1.4 The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the C&AG's (Duties, Powers and Conditions of Service) Act, 1971. The Principal Accountant General (Audit), Punjab conducted audit of expenditure of civil and works departments and autonomous bodies of the GoP under Sections 13, 14, 15, 17, 19(2) and 20 and audit of receipts of the State under section 16 of the C&AG's (DPC) Act. The principles and methodologies for various audits are prescribed in the Regulations on Audit and Accounts, 2007 and the manuals issued by the C&AG.

### Planning and conduct of audit

1.5 The Audit process starts with the risk assessment of the various departments, autonomous bodies, schemes/projects etc. based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided and an Annual Audit Plan is formulated to conduct audit. The audit plan covers those offices/entities which are vulnerable to significant risks as per our assessment.

After completion of audit of each office, Inspection Reports (IRs) containing audit findings are issued to the heads of the offices. The offices audited are requested to furnish replies to the audit findings within one month of receipt of the IR. Whenever replies are received, audit findings are either settled if the replies are found satisfactory or further action for compliance is advised. The important audit observations pointed out in these IRs are processed for inclusion in the Reports of the C&AG which are submitted to the Governor of Punjab under Article 151 of the Constitution of India.

During 2009-10, the Civil Audit wings conducted compliance audit in 2518 offices and Performance Audit of National Rural Health Mission and Secondary Education.

### Significant audit observations

1.6 In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities as well as on the quality of internal controls in selected departments, which impact on the success of programmes and functioning of the departments. The focus was on auditing the specific programmes/schemes and to offer suitable recommendations, with the intention to provide an aid to the executives in taking corrective action and improving service delivery to the citizens.

#### Performance Audits

1.6.1 Performance audits of programmes/activities/departments were undertaken to ensure whether the desired objectives of the Government

programmes have been achieved at the minimum cost and given the intended benefits.

The present Report contains two performance audits. Significant audit observations are given in the following paragraphs.

### ***National Rural Health Mission***

The Mission activities suffered due to poor utilization of the available funds, inadequate survey of available/required infrastructure, shortage of manpower (against Indian Public Health Standards norms) and inadequate community participation.

Majority of the health centres in rural areas functioned without adequate manpower, essential infrastructure and basic necessities such as labour room, operation theatre, toilet etc. The position of availability of telephone, computer, vehicle and alternate source of power back up in the centres was far from the requirement. The manpower was not only short but was also not deployed rationally.

Non/delayed procurement of drug kits adversely affected administration of iron folic acid to the pregnant women and Vitamin A to the children.

Though there was increase in institutional deliveries, the deliveries in the Government health centres remained almost stagnant during 2005-10 and the domestic deliveries continued to be high in the State reflecting little impact of NRHM among the rural masses as far as institutional deliveries are concerned.

Despite implementation of NRHM, the maternal mortality rate and infant mortality rate in the State during the Mission period did not improve and were nowhere near the targets to be achieved by NRHM.

The monitoring of the Mission activities by the top level bodies was not satisfactory.

***(Paragraph 2.1)***

### ***Secondary Education***

The Performance Audit of secondary education in the State revealed that funds released for various schemes during 2005-10 were far below the budgetary provisions and were grossly under utilised. The State Government did not utilize ₹ 124.58 crore of Government of India funds released during the said period, which adversely affected the programmes. There were large scale vacancies (23 *per cent*) in the teaching staff and deployment of teachers in commerce and mathematics streams in the schools was irrational.

Twenty two *per cent* of the schools in the six test-checked districts had shortage of desks and 27 *per cent* of the schools did not have enough class rooms besides, other basic requirements such as play grounds, toilets etc. The objective of imparting vocational training to the students of classes 11<sup>th</sup> and 12<sup>th</sup> was broadly not achieved.

The pass percentage in the 12<sup>th</sup> class was stagnating around 72 *per cent* during 2005-10 implying scope for improvement in the standard of education. On account of considerable number of vacancies of teachers, irrational deployment of the available staff, shortage of basic educational infrastructure and lack of appropriate learning environment, enrollment at the secondary school level decreased in some schools.

The students of Scheduled Castes and Other Backward Classes were denied cash incentive, encouragement award and distribution of free text books.

*(Paragraph 2.2)*

### **Compliance Audit of Transactions**

**1.6.2** Audit has also observed significant deficiencies in critical areas, which impact on effective functioning of the Government departments/organizations adversely. These are broadly categorised and grouped as under:

- Non-compliance with rules and regulations.
- Failure of oversight/governance.
- Persistent and pervasive irregularities.

#### ***Non-compliance with rules and regulations***

For sound financial management, it is essential that expenditure conforms to financial rules, regulations and orders issued by the competent authorities. This helps in maintaining financial discipline and prevents irregularities, misappropriations and frauds. This Report contains instances of non-compliance with rules and regulations involving transactions of ₹ 12.57 crore as under:

Fictitious project proposals and inspection reports for contractual farming of medicinal plants resulted in fraudulent disbursement of financial assistance of ₹ 86.23 lakh.

*(Paragraph 3.1.1)*

Non-fixing of time schedule for payment led to loss of interest of ₹ 5.15 crore.

*(Paragraph 3.1.2)*

Avoidable delay in finalization of the land acquisition award resulted in payment of interest of ₹ 3.46 crore to the land owners.

*(Paragraph 3.1.3)*

Delayed transfer of the grants to the Local Bodies and Panchayati Raj Institutions resulted in avoidable payment of interest of ₹ 73.09 lakh.

*(Paragraph 3.1.4)*

Drawal of funds without immediate requirement resulted in loss of interest of ₹ 63.62 lakh.

*(Paragraph 3.1.5)*

Excess payment of ₹ 60 lakh was made to the contractors due to non-enforcement of price adjustment on account of fall in the price of bitumen.

*(Paragraph 3.1.6)*

Superintendents of Central Jail, Patiala and District Jail, Sangrur failed to avail the rebates on electricity consumption resulting in avoidable payment of ₹ 57.44 lakh.

*(Paragraph 3.1.7)*

Labour cess of ₹ 55.64 lakh was not deducted from the contractors' bills.

*(Paragraph 3.1.8)*

### ***Failure of oversight/governance***

Government has an obligation to improve the quality of life of the people in the area of health, education, development and upgradation of infrastructure, public services etc. Audit noticed instances where the funds released by the Government for creating public assets remained unutilized/blocked or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. Audit findings related to failure of oversight involving ₹ 6.31 crore are as under:

Construction of a canal syphon designed on the basis of incorrect data led to loss of ₹ 2.79 crore.

*(Paragraph 3.2.1)*

Release of funds to the Cantonment Boards without any demand resulted in blocking of funds of ₹ 2.42 crore.

*(Paragraph 3.2.2)*

Boundary pillars and distance marks costing ₹ 1.10 crore remained unused for the last four years.

*(Paragraph 3.2.3)*

There was inordinate delay of 10 years on the part of department to procure the medical equipment.

*(Paragraph 3.2.4)*

### ***Persistent and pervasive irregularities***

An irregularity is considered persistent if it occurs year after year. It is deemed pervasive when it is prevalent in the entire system. Recurrence of irregularities, despite being pointed out in earlier audits, is indicative of slackness on the part of the executive and lack of effective monitoring. This in turn encourages willful deviations from observance of rules/regulations and results in weakening of administrative structure. Audit observed some instances of persistent and pervasive irregularities of ₹ 2.64 crore in payments of investment incentive to ineligible industrial units.

*(Paragraph 3.3.1)*

**Response of the departments to draft performance audit reports and draft paragraphs**

1.7 As per the instructions issued (August 1992) by the Finance Department, Government of Punjab and provision of C&AG's Regulations on Audit and Accounts, 2007, the departments are required to send their response to draft performance audit reports/draft paragraphs proposed to be included in the C&AG's Audit Reports within six weeks. It was brought to their personal attention that in view of likely inclusion of such paragraphs in the Reports of the C&AG, which will be placed before the Punjab Legislature, it would be desirable to include their comments in the matter. They were also advised to have meetings with the Principal Accountant General to discuss the draft performance audit reports/draft audit paragraphs proposed for the Audit Reports. The draft performance audit reports and draft paragraphs proposed for inclusion in this Report were also forwarded to the Principal Secretaries/ Secretaries concerned between March 2009 and July 2010 demi-officially seeking their replies. But no reply was received.

**Follow-up action on Audit Reports**

1.8 At the instance of the Public Accounts Committee (PAC), Finance Department issued (August 1992) instructions to all the departments to initiate suo moto positive and concrete action on all paragraphs and reviews figuring in the Audit Reports irrespective of whether the cases were taken up for examination by PAC or not. The departments were also required to furnish to the PAC detailed notes duly vetted by Audit indicating the remedial action taken or proposed to be taken by them within a period of three months of the presentation of the Reports to the State Legislature.

Out of 119 paragraphs and 23 reviews included in the Audit Reports relating to the period 2003-2004 to 2007-08, which had already been laid before the State Legislature, detailed notes in respect of 62 paragraphs and 11 reviews (*Appendices 1.1 and 1.2*) had not been received in the Audit Office as of March 2010, even after the lapse of prescribed period of three months. The departments largely responsible for non-submission of detailed notes were General Administration, Public Works (B&R), Irrigation & Power, Health and Family Welfare, Rural Development and Panchayats Department and Water Supply and Sanitation Department (Public Health). Some of these paragraphs/reviews dealt with important and repetitive issues such as avoidable payments, excess expenditure, blocking of funds, system failures, mismanagement and misappropriation of the Government money to which the Government did not respond.

**Paragraphs pending for discussion by the Public Accounts Committee**

1.9 Eighteen reviews/111 paragraphs for the period from 1993-94 to 2007-08 were pending for discussion by the PAC as on 31 March 2010 as detailed in *Appendix 1.3*.

## **Recommendations**

**1.10** The Report contains specific recommendations on a number of issues involving non-observance of the prescribed procedures and systems, compliance of which would help in promoting good governance and better oversight on implementation of developmental programmes. The State Government is impressed upon to take cognizance of these recommendations in a time bound manner.