CHAPTER I

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) on Government of Tamil Nadu relates to matters arising from Performance Audit of selected programmes and activities and Compliance Audit of Government departments and Autonomous Bodies.

The primary purpose of the Report is to bring to the notice of the State Legislature, 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 actions as also to frame appropriate policies and directives that will lead to improved financial management of the organisations, thus contributing to better governance.

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 rules, laws, 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 organisation, programme or scheme have been achieved economically, efficiently and effectively.

This chapter provides the profile of audited entities, the planning and extent of audit and synopsis of the audit observations. Chapter II of this Report deals with the findings of Performance Audits and Chapter III deals with the findings of Compliance Audit of various departments and Autonomous Bodies.

The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2011-12 as well as those which came to light in earlier years but could not be dealt with in the previous Reports. Matters relating to the period subsequent to 2011-12 have also been included, wherever necessary .

1.2 Profile of Audited Entities

There are 37 departments in the State at the Secretariat level, headed by Principal Secretaries/Secretaries who are assisted by Commissioners/Directors

Abbreviations used in this report are listed in the Glossary at Page 160 and Subordinate officers. Of these, 22 departments including 13 Public Sector Understandings and 2,386 Autonomous Bodies/Local Bodies coming under these departments are under audit jurisdiction of the Principal Accountant General (General and Social Sector Audit).

The comparative position of expenditure incurred by the Government during the year 2011-12 and in the preceding two years is given in **Table 1**.

Table 1: Comparative position of expenditure

(₹ in crore)

Disbursements	2009-10			2010-11			2011-12		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
Revenue expenditure									
General services	22	20,275	20,297	28	25,896	25,924	52	28,889	28,941
Social services	9,690	13,267	22,957	11,258	17,651	28,909	13,728	19,534	33,262
Economic services	2,273	9,349	12,122	2,473	9,749	12,222	3,172	10,970	14,142
Grants-in-aid and contributions	288	3,711	3,999	508	5,353	5,861	624	6,869	7,493
Total	**12,773**	**46,602**	**59,375**	**14,267**	**58,649**	**72,916**	**17,576**	**66,262**	**83,838**
Capital Expenditure									
Capital outlay	8,425	148	8,573	12,219	217	12,436	16,216	120	16,336
Loans and advances disbursed	633	2,368	2,290	292	1,960	2,252	338	5,145	5,483
Repayment of public debt (including transactions under ways and means advances)	--	--	2,512	--	--	3,297	--	--	3,830
Contingency fund	..	..	..	--	--	30	--	--	--
Public account disbursements	--	--	85,256	--	--	1,04,959	--	--	1,20,953
Total			**98,631**			**1,22,974**			**1,46,602**
Grand Total			**1,58,006**			**1,95,890**			**2,30,440**

(Source: Finance Accounts for the respective years)

1.3 Authority for Audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Services) Act, 1971. C&AG conducts audit of expenditure of the departments of Government of Tamil Nadu under section 13[1] of the C&AG's (DPC) Act, 1971. C&AG is the sole auditor in respect of 33 Autonomous Bodies which are audited under Sections 19(2)[2], 19 (3)[3] and 20 (1)[4] of the said Act. Audit of Government companies is also conducted under Section 19 (1) of the DPC Act. In addition, C&AG conducts, under Section 14[5] of the Act, audit of other Autonomous Bodies which are substantially funded by the State Government. C&AG also provides Technical Guidance and Support to the Local Fund Audit for audit of ULBs and PRIs. The principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts 2007 issued by the C&AG.

1.4 Organisational structure of the Office of the Principal Accountant General (General and Social Sector Audit), Tamil Nadu and Puducherry

As a part of restructuring of State Audit Offices by the C&AG, the erstwhile office of the Principal Accountant General (Civil Audit), Tamil Nadu and Puducherry became the principal auditor of the General and Social Services Departments of the Government of Tamil Nadu and was renamed as the Principal Accountant General (General and Social Sector Audit), Tamil Nadu and Puducherry from 2 April 2012. After restructuring, audit of accounts of the State departments/agencies/Public Sector Undertakings/Autonomous Bodies falling under the Social and General Sectors along with audit of the Local Bodies remain under the purview of the Principal Accountant General (General and Social Sector Audit), Tamil Nadu and Puducherry.

1.5 Planning and conduct of audit

Audit process starts with the risk assessment of the department / organisation as a whole and that of each unit based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of internal controls, concerns of stakeholders and the likely impact of such risks. Previous audit findings are also considered in this

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1 Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets & other subsidiary accounts

2 Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations

3 Audit of the accounts of Corporations (not being Companies) established by or under law made by the State Legislature at the request of the Governor

4 Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the C&AG and the Government

5 Audit of (i) all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of the State in a financial year is not less than ₹ 1 crore

exercise. Based on this risk assessment, the frequency and extent of audit are decided. An Annual Audit Plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of units, Inspection Reports (IRs) containing audit findings are issued to the Heads of the entities. The entities are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations pointed out in these Inspection Reports are processed for inclusion in the Audit Reports which are submitted to the Governor of Tamil Nadu under Article 151 of the Constitution of India.

1.6 Audit observations of Performance Audits

This report contains four Performance Audits including one on Information Technology Audit. The focus has been on auditing the specific programmes / schemes and offering suitable recommendations, with the intention to assist the Executive in taking corrective action and improving service delivery to the citizens. Significant audit observations are discussed below:

1.6.1 Scheduled Castes Sub Plan

The Scheduled Castes Sub Plan (SCSP) is a plan under the Five Year/Annual Plans of the State Governments. The concept of SCSP is a strategy contemplated by the governments in their planning process to ensure that outlays and benefits flow for the development of Scheduled Castes are at least in proportion to their population. As per 2001 Census, the Scheduled Castes (Adi Dravidar) population in Tamil Nadu was 19 *per cent* of the State's total population and accordingly the fund flow to SCSP from the State Annual Plan Outlay was to be at least 19 *per cent.* A Performance Audit of SCSP was conducted during April to August 2012 covering the period from 2007 to 2012. Some of the audit findings are given below:-

- As against the minimum required allocation of ₹ 17,310 crore for SCSP *i.e.,* 19 *per cent* of the total State Plan outlays for the XI Five Year Plan period of 2007-08 to 2011-12, the actual allocation made was ₹ 16,329 crore (17.9 *per cent*). The budget provisions and actual expenditure were ₹ 16,602 crore (18.2 *per cent*) and ₹ 14,962 crore (16.4 *per cent*) respectively.

- Allocations under SCSP for the vital sector of 'agriculture and allied activities' during 2007-12 ranged from 1.5 to 5.7 *per cent* of the total annual allocations for SCSP, and it was meagre when compared to 32.9 *per cent* of the Adi Dravidars in the State being cultivators and agricultural labourers.

- No major schemes were formulated and implemented exclusively for the Adi Dravidars by the departments other than the Department of Adi Dravidar and Tribal Welfare and the Department of Labour and Employment. The remaining eight selected departments generally allocated a portion of the funds for SCSP in *ad hoc* manner in common schemes that were aimed at providing benefits to all.

- In most of the common schemes meant for all people in the State, expenditure was booked under SCSP disproportionately without any basis. In schemes where there was no system to ascertain the communities of the beneficiaries, the expenditure booked was high. There was no system to note the community of the beneficiaries under the health insurance scheme, but about 34 *per cent* of the total expenditure of the scheme was debited to SCSP.

- There were delays and shortfalls in executing the schemes meant for exclusive benefit of Adi Dravidars such as distribution of scholarship, incentive to girls, construction of hostels for the Adi Dravidar students, scheme for economic development etc.

- There were cases of under-utilisation of SCSP funds during 2007-12. For example, out of ₹ 124.44 crore released to Tamil Nadu Adi Dravidar Housing and Development Corporation (TAHDCO) for economic development of the Adi Dravidars, ₹ 38.82 crore relating to 2008-12 remained unutilised. Out of ₹ 12.08 crore provided during 2007-12 for developing skills of the unemployed Adi Dravidars so as to make them employable, the Department of Labour and Employment did not spend ₹ 6.63 crore (55 *per cent)*. Similarly, during 2007-12, the Agriculture Department surrendered ₹ 165.46 crore (23 *per cent*) out of the total provision of ₹ 717.36 crore earmarked for schemes like National Agricultural Insurance Scheme and Integrated Cereals Development Programme.

- The literacy rate of the people in the State has increased from 73.45 *per cent* in 2001 to 80.33 *per cent* in 2011, whereas that of the Adi Dravidars has increased from 63.19 to 69.11 *per cent* indicating the persistent wide gap between the Adi Dravidars and others. The percentage of Adi Dravidars registered with the Employment Offices to the total registrants remained more or less at the same level (23 *per cent*) during 2007-12.

(Paragraph 2.1)

1.6.2 Mahatma Gandhi National Rural Employment Guarantee Scheme

The National Rural Employment Guarantee Act, 2005 was enacted with the objective of enhancing livelihood security in rural areas by providing at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work. The

Act came into force with effect from 2 February 2006. The Act was renamed as Mahatma Gandhi National Rural Employment Guarantee Act in December 2009. According to the Act, rural households have a right to register themselves with the local Gram Panchayats and seek employment. Work is to be provided within 15 days from the date of demand, failing which the State Government have to pay unemployment allowance. Government of Tamil Nadu (GoTN) implemented the employment guarantee scheme from February 2006 initially in six districts and extended it to four more districts during 2007-08 and further to 21 districts during 2008-09. Performance Audit of implementation of the scheme in the State disclosed, *inter alia,* the following:

- During 2007-12, the State provided 101.30 crore persondays of employment by incurring expenditure of ₹ 8,510.44 crore. In 2011-12, out of 76.49 lakh households registered under the scheme, jobs were provided to 58.16 lakh households (76 *per cent*) who demanded job. But minimum guaranteed 100 days of employment was given only to 14.08 lakh households (24 *per cent*) and rest of the households were given employment for less than 100 days in a year.

- The average daily wages paid ranged from ₹ 72 to ₹ 87 against the prescribed minimum wages of ₹ 90 to ₹ 119 during 2009-12.

- Nearly 60 *per cent* of the workers benefited under the scheme belonged to the Scheduled Castes and 83 *per cent* of the total workers were women. Thus, the scheme was very popular among the women and marginalised sections of the society.

- The system of making formal application for employment by the persons registered for job, issuing dated receipts to the applicants, formal allotment of work and its communication to the applicants by the Gram Panchayats as envisaged in the Act were not documented. In the absence of such documentation, the Government's claim that, there were no instances of payment of unemployment allowance in lieu of non-provision of employment to the job seekers could not be verified in audit.

- Forty eight *per cent* of the total works executed under the scheme fell under the category of desilting of ponds, minor irrigation tanks, supply channels, etc., which had not resulted in creation of durable community assets, one of the auxiliary objectives of the scheme.

- As the works taken-up under the scheme were only labour oriented ones and had no material component, the objective of creation of durable and usable assets could not be ensured.

- In test check, inclusion of bogus workers in the muster rolls and cases of misappropriation of scheme funds were noticed. There were large number of incomplete works and completion reports were not prepared for the works completed.

(Paragraph 2.2)

1.6.3 Information Technology Audit of the Health Management Information System

As a part of the World Bank aided Tamil Nadu Health Systems Project (TNHSP) implemented from January 2005, the Government decided (August 2005) to implement the Health Management Information System (HMIS) at a cost of ₹ 114.35 crore to improve the healthcare services provided in the Government hospitals and primary health centres. HMIS was to focus on computerisation of the clinical services and referral related services in the hospitals and generate MIS reports, besides creating 'Patient Electronic Data Record System' to track the health profiles of patients. HMIS was scheduled to be implemented in three phases, commencing from March 2007 and was to be rolled out in all the 269 secondary care hospitals in the State by October 2011. Though an amount of ₹ 63.16 crore was spent upto March 2012 for implementing HMIS, due to frequent disruptions in the network connectivity, delay in execution and deficiencies and incomplete capture of data relating to the patients, the envisaged objectives of HMIS were yet to be achieved in full, even after 12 months from the scheduled date of completion. An Information Technology audit of HMIS covering the period 2007-12 brought out the following audit findings :-

- Selection of multiple server technology and improper assessment of the requirement of servers led to idle investment of ₹ 1.04 crore. There was avoidable expenditure of ₹ 49.68 lakh on arranging support service for the database system.

- HMIS was not implemented (May 2012) in 31 secondary care hospitals due to belated supply of hardware etc., on account of lack of co-ordination among the suppliers, power supply issues, buildings under construction etc., resulting in idle investment of ₹ 6.64 crore on hardware and networking components. Frequent breakdown of the network connectivity and hardware failures led to large scale disruptions in operation of HMIS in the test-checked hospitals. There were no alternative arrangements to capture the data during the periods of network disruption.

- In the test-checked 20 hospitals where HMIS was implemented, out of 13 functions for which modules were prepared, five modules were being used regularly, six were used partially and two were not used at all.

- There were shortfalls in capturing the details of outpatients (64 *per cent*) and inpatients (78 *per cent*) in the HMIS database during the period October 2011 to April 2012 in the test checked hospitals, due to frequent failure of network connectivity, non-capturing of the missed out data during system failures, inadequate training to the staff etc. Even in the case of data captured, the information was incomplete and unreliable, which rendered HMIS helpless in ensuring the objective of retrieval of health profile of the patients.

- The application software had deficiencies such as lack of validation controls and non segregation of duties among the hospital staff.

(Paragraph 2.3)

1.6.4 Disaster Preparedness

With a view to manage various disasters in the country, Government of India enacted the Disaster Management Act, 2005, framed (October 2009) a National Policy on Disaster Management and issued various guidelines on the subject to the States. The Act, besides outlining the policy, legal and institutional framework, provides for continuous and integrated process of planning and implementation of the policies and plans in a holistic and sustainable manner. A Performance Audit of Disaster Preparedness of the State brought out the following important issues:

- The State Disaster Management Authority (SDMA) was constituted in September 2008 and the District Disaster Management Authorities (DDMA) were established in January 2012, but the SDMA and DDMAs in five out of six test-checked districts did not meet even once and therefore could not perform their statutory duties. The State Executive Committee formed in January 2009 met only once.

- A draft State Disaster Management Plan prepared in May 2010 is yet to be approved by the State Disaster Management Authority. Disaster Management Rules have not been framed by the State Government. There was no dedicated manpower for the State Disaster Management Authority.

- The vulnerability profile of geographical areas located within the districts has not been prepared and efforts to reduce the risk by disaster preparedness measures have not been spelt out.

- Emergency Operation Centres which are the nerve centres of early warning system were non-functional and not in the state of operational readiness in the test-checked districts.

- Fourteen out of 59 early warning systems in Cuddalore district and all the 30 early warning systems in Nagapattinam district were not in working condition.

- The State has not constituted the Disaster Mitigation Funds at the State and District levels and has also not constituted the District Disaster Response Funds.

- Vulnerability assessment of structures, prioritization and retrofitting of the lifeline structures and infrastructure were not done in Chennai city, which is in seismic zone III.

(Paragraph 2.4)

1.7 Audit observations of Compliance Audit

Audit observed several deficiencies in critical areas which had adverse impact on effective functioning of the Government Departments/ Organisations. Key audit findings of compliance issues are as under:-

Release of interest subsidy on *adhoc* basis by Government to the Tamil Nadu Co-operative Housing Federation Limited during the years 1983 to 2008 without ascertaining the actual interest subsidy payable in respect of Scheduled Caste beneficiaries resulted in excess release of subsidy of ₹ 7.71 crore to the Federation.

(Paragraph 3.1.1)

Injudicious decision of the Tamil Nadu Water Supply and Drainage Board to revise the pre-qualification criteria for the tenderers led to re-invitation of tender and avoidable expenditure of ₹ 1.88 crore.

(Paragraph 3.2.1)

Non-settlement of the claims in time by the Revenue Department resulted in denial of the intended benefits to the agricultural labourers and idling of funds to the tune of ₹ 53.39 crore for one to six years.

(Paragraph 3.3.1)

Delay in taking decision on distribution of 95,725 colour television sets procured at a cost of ₹ 22.82 crore for free distribution scheme resulted in idling of television sets for 16 to 29 months.

(Paragraph 3.3.2)

Release of funds by Government to the Tamil Nadu Open University without ensuring the scope of spending in time and delays led to shelving of a scheme and loss of interest of ₹ 42.89 lakh.

(Paragraph 3.3.3)

Delay in finalising estimates/according administrative sanction for carrying out the balance work of construction of court buildings at Kakkathope in Udagamandalam resulted in increase in the latest estimated cost of construction by ₹ 62 lakh, besides idling of the basic building structure constructed at a cost of ₹ 41 lakh in April 1999.

(Paragraph 3.3.4)

Interest earned on scheme funds required to be spent on schemes were utilised on contingent and other items of expenditure of District Rural Development Agencies.

(Paragraph 3.3.5)

Due to lack of proper assessment and coordination, the newly constructed 500 bedded medical college hospital at Thoothukudi, has not been provided with the required equipment, staff, etc., for its full-fledged functioning, even after two years of its inauguration.

(Paragraph 3.3.7)

The scheme guidelines on construction of kitchen-*cum*-stores regarding construction of the Kitchen-*cum*-stores in convergence with the other development programmes were not followed, which resulted in poor utilisation of funds and poor progress of works. Only 3,688 out of the targeted 14,482 kitchen-*cum*-stores were constructed in the State and ₹ 184.77 crore out of ₹ 230.65 crore released during 2006-10 remained unutilised. There were misreporting of progress of the scheme and utilisation of the kitchen-*cum*-stores for purposes other than the intended one. There was lack of coordination between the departments of Social Welfare and Nutritious Meal Programme and Rural Development and Panchayat Raj.

(Paragraph 3.3.9)

Due to poor monitoring and lack of community participation, the targets set for some of the components of Total Sanitation Campaign in Tiruvallur District *viz.,* Community Sanitary complexes, Rural Sanitary marts etc., were not achieved resulting in huge unspent amount of ₹ 21.27 crore out of ₹ 36.32 crore made available to the Tiruvallur District during 2003-12. Information, Education and Communication activities were not carried out on regular basis to create awareness among the individuals and community for their participation. Funds of ₹ 6.50 crore earmarked for solid and liquid waste management in rural areas was not utilised.

(Paragraph 3.3.10)

1.8 Recommendations

This report contains specific recommendations on a number of issues involving non-observance of the prescribed internal procedure and systems, compliance of which would help in promoting good governance and better oversight on implementation of departmental programmes and objectives at large. The State Government is impressed upon to take cognizance of these recommendations and ensure appropriate action in a time bound manner.