

CHAPTER I

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) on Government of Tamil Nadu (GoTN) 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 important results of audit to the notice of the State Legislature. Auditing standards issued by the CAG 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 transactions relating to expenditure, receipts, assets and liabilities of audited entities to ascertain whether 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 objectives of an organisation, programme or scheme are achieved economically, efficiently and effectively.

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

1.2 Profile of Audited Entities

There are 37 departments in the State at the Secretariat level, headed by Additional Chief Secretary/Principal Secretaries/Secretaries who are assisted by Commissioners/Directors and Subordinate Officers. Of these, 23 departments including 16 Public Sector Undertakings and 1,550 Autonomous Bodies/Local Bodies, falling under these departments, are under the audit jurisdiction of the Principal Accountant General (General and Social Sector Audit), Tamil Nadu.

A comparative position of expenditure incurred by the Government during the year 2016-17 and in the preceding four years is given in **Table 1.1**.

Abbreviations used in this report are listed in the Glossary at Page 117

Table 1.1: Comparative position of expenditure

(₹ in crore)

Disbursements	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue expenditure	97,067	1,09,824	1,28,828	1,40,993	1,53,195
General services	31,652	35,729	41,655	45,512	51,452
Social services	38,623	45,276	50,349	54,806	55,297
Economic services	17,628	19,644	26,843	29,943	33,980
Grants-in-aid and contributions	9,164	9,175	9,981	10,732	12,466
Capital expenditure	14,568	17,173	17,803	18,995	20,709
Loans and advances	4,769	2,242	4,319	2,331	26,046
Repayment of public debt	5,015	4,977	6,488	6,605	8,200
Contingency fund	Nil	19	Nil	19	Nil
Public account	1,33,101	1,44,022	1,59,384	1,77,442	1,73,007
Total	2,54,520	2,78,257	3,16,822	3,46,385	3,81,157

(Source: Finance Accounts for the respective years)

1.3 Authority for Audit

The authority for audit by the CAG 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. The CAG conducts audit of expenditure of the departments of GoTN under Section 13¹ of the CAG's (DPC) Act, 1971. The CAG 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 CAG's (DPC) Act. In addition, the CAG conducts, under Section 14⁵ of the Act, audit of other Autonomous Bodies which are substantially funded by the State Government. The CAG also provides technical guidance and support to the Local Fund Audit for audit of Local Bodies. The principles and methodologies for various audits are prescribed in the

¹ Audit of (i) all transactions from the Consolidated Fund of the State (ii) all transactions relating to the Contingency Fund and the Public Account 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 CAG 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.

Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the CAG.

1.4 Planning and conduct of audit

Audit process starts with the risk assessment of the Departments/organisations as a whole and that of each unit based on expenditure incurred and its type, 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 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 audited entities. The entities are requested to furnish replies to the audit findings within one month of receipt of the IRs. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Important audit observations pointed out in these IRs are processed for inclusion in the CAG's Audit Reports, which are submitted to the Governor of Tamil Nadu under Article 151 of the Constitution of India for being laid before the State Legislature.

1.5 Response to Audit

1.5.1 Draft Paragraphs and Performance Audit

Ten Draft Paragraphs and one draft Performance Audit were forwarded demi-officially to Additional Chief Secretary/Principal Secretaries/Secretaries of the departments concerned between July and November 2017, requesting them to send their responses within six weeks. Departmental replies for five Draft Paragraphs have been received. The replies received have been suitably incorporated in the Report. In respect of draft Performance Audit, Exit Conferences were held with representatives of the Government in December 2017. The views expressed by the representatives of the Government during Exit Conferences were considered while finalising the Report.

1.5.2 Pendency of Inspection Reports

A review of the IRs issued up to 30 September 2016 revealed that 17,718 paragraphs relating to 4,800 IRs remained outstanding at the end of March 2017 as detailed in **Appendix 1.1**.

Large pendency of IRs was indicative of the fact that Heads of Offices and Heads of Departments did not initiate appropriate and adequate action to rectify the defects, omissions and irregularities pointed out in the IRs.

1.6 Audit observations on Performance Audit

This Report contains one Performance 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 Encroachments on Government lands

The Government and Local Bodies exercise the powers vested with them through Tamil Nadu Land Encroachment Act, 1905 and other statutes to prevent and evict encroachments on Government lands and lands vested with Local Bodies. It is the policy of Government to remove all objectionable encroachments and prevent new encroachments. The present Performance Audit on 'Encroachments on Government lands' brought out the following significant audit findings:

- A total of 2.05 lakh hectare or seven *per cent* of the Government land was under encroachment as of June 2017.
- The encroachment data was found to be unreliable due to non-booking of fresh 'B Memo', which served as the first information from Village Administrative Officer to the Tahsildar for checking encroachments.
- Rampant encroachment of road margins in Chennai, with an average of 3.4 incidences of encroachments per kilometre of road length, went largely unchecked due to inaction on the part of Greater Chennai Corporation.
- Encroachments on water bodies accounted for 49 *per cent* of the total objectionable encroachments. Jurisdictional issues and lack of coordination between Revenue and Water Resources Departments contributed to the rise in encroachments on water bodies.
- Instead of alienating or acquiring suitable land, several Government agencies took recourse to encroaching water bodies and grazing lands for constructing public buildings.
- Systems put in place to monitor clearance of encroachments did not function as the High Level Committee at the State level did not meet after February 2010.

(Paragraph 2.1)

1.7 Audit observations on Compliance Audit

We observed several deficiencies in critical areas, which had adverse impact on effective functioning of Government departments/organisations. Key audit findings of compliance issues are as under:-

Construction of Godowns and their utilisation

The Government sanctioned construction of godowns in rural areas through Primary Agricultural Cooperative Credit Societies (PACCS) and Agricultural Producers Cooperative Marketing Societies to help farmers in avoiding distress sale of produces during peak harvest seasons.

Planning for construction of godowns was not comprehensive, leading to creation of inadequate capacity in rural areas for storing agricultural produce. Delayed release of funds led to Godowns remaining incomplete after more than two years of sanction. Deficiencies in design and execution of works were noticed in construction of godowns. Constructed godowns were not utilised optimally. The performance of PACCS in terms of issuing Produce Pledge Loan was dismal, defeating the very objective of the scheme.

(Paragraph 3.1)

Imparting education through Kallar Reclamation Schools

Kallar Reclamation Schools were established by the Government for upliftment of Piramalai Kallars, a de-notified community. The quality of education in Kallar Reclamation Schools, suffered due to inadequate staff and infrastructure, leading to poor performance in comparison with the Government aided schools. In the absence of proactive action by Joint Director, Kallar Reclamation, hostels lacked adequate infrastructure. Despite earlier audit findings and clear proposal by the Commissioner, Most Backward Classes and De-notified Community Welfare, the Government of Tamil Nadu did not take a final decision on the proposal of merging these schools with School Education Department.

(Paragraph 3.2)

Social Security Pension Schemes

The Government implements various social security pension schemes. Audit noticed huge disparity amongst districts in the number of beneficiaries as a proportion to the targetted population, indicating excess coverage due to inclusion of ineligible pensioners and also possible under-coverage of eligible pensioners. The scheme guidelines were substantially stringent and impractical in comparison with the norms stipulated by GoI. Despite a 100 *per cent* verification of pension eligibility in 2014, Audit came across 118 ineligible beneficiaries receiving pension and 934 eligible beneficiaries not receiving pension, indicating the need for continuing periodical verifications.

(Paragraph 3.3)

Inflated requirement of medicines by Rajiv Gandhi Government General Hospital, Chennai and failure to exercise control by Director of Medical Education and Tamil Nadu Medical Services Corporation Limited resulted in excess procurement of medicines and consequent loss of ₹ 16.17 crore due to expiry of these medicines.

(Paragraph 3.4.1)

Deficiencies in planning and contract management in executing the interior works of the Stem Cell Research Centre and failure to provide required basic infrastructure in time resulted in wasteful expenditure of ₹ 2.70 crore, besides non-availing of research grant of ₹ 5.77 crore and an additional committed liability of ₹ 5.49 crore.

(Paragraph 3.4.2)

Failure to ensure financial resources before commencement of construction of a multi-storeyed building resulted in stoppage of work by the contractor due to non-payment of bills, rendering ₹ 22.79 crore spent on the construction of the building unfruitful.

(Paragraph 3.5.1)

Undue priority given to Tamil Nadu Small Industries Corporation Limited for procurement of furniture resulted in avoidable extra expenditure of ₹ 13.92 crore.

(Paragraph 3.5.2)

Inordinate delay in procurement of jammers for central prisons led to avoidable additional expenditure of ₹ 81.36 lakh. Besides, the number of jammers was restricted to 12 instead of the required 15, making it potentially ineffective to disable usage of cell phones in prisons.

(Paragraph 3.5.3)

Failure of the Government and the Director General of Police to revise the police guard/escort/bandobust charges as and when they became due resulted in short collection of revenue of ₹ 97.92 crore.

(Paragraph 3.6.1)

Even after three years of implementation of “Chief Minister’s Comprehensive Health Insurance Scheme”, Government hospitals across the State did not perfect a system to file the insurance claims free of deficiencies, resulting in rejection of insurance claim of ₹ 17.94 crore during January 2015 to July 2017 and a consequent avoidable additional burden of ₹ 10.82 crore on Government towards expenditure on drugs, consumables and hospital infrastructure.

(Paragraph 3.6.2)

1.8 Recommendations

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